INTERNATIONAL INVESTMENT BANK

International Investment Bank

RON 300,000,000 aggregate maximum principal amount Bonds due 27 September 2019

International Investment Bank (the "**Issuer**"), an international organisation operating on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank of 10 July 1970 and the Statutes of the International Investment Bank attached to the Establishment Agreement, registered with the Secretariat of the United Nations on 1 December 1971 under number 11417, is offering RON-denominated fixed-rate bonds, with a 3-year maturity, due 27 September 2019, each with a nominal value of RON 10,000, and in the aggregate maximum principal amount of RON 300,000,000 (the "**Bonds**"), in a public offering (the "**Offering**") to investors in Romania who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive, and to such other investors in Romania or such other jurisdictions where it is possible to do so, in reliance of Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") and without the need to publish a prospectus or undertake any other formalities whatsoever under applicable law in reliance on article 3(2) of the Prospectus Directive, to the extent, and only provided that an investment in the Bonds does not constitute a violation of any applicable law by such investors. Each Bond has a nominal value of RON 10,000 (the "**Nominal Value**"). The Bonds are issued at their Nominal Value. The Bonds shall bear the interest rate established by the Issuer in agreement with the Co-Lead Managers and notified to investors through a pricing notification published on the Issuer's web site https://www.iib.int/en/, on each Co-Lead Manager's website, http://www.btcapitalpartners.ro/ and https://www.bcr.ro, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 23 September 2016. The interest on the Bonds shall be paid in annual arrears. The Bonds and any payments thereunder are governed by the relevant provisions of the "*Terms and conditions of the Bonds*" section of this Offering Circular.

The Bonds are issued in registered form and evidenced by book-entry (in Romanian: *obligatiuni nominative in forma dematerializata*). The entity in charge of keeping the records of the Bonds is the Romanian Central Depository, a Romanian joint stock company having its registered office at 34-36 Carol I Blvd., 3rd, 8th and 9th floors, Bucharest, 020922, Romania (the "**Central Depository**"). The Bonds shall be registered in the system of the Central Depository in accordance with the regulations thereof, by the crediting of the accounts of the Bondholders opened with the Central Depository, directly or through a Participant.

The Bonds may also be made available to be held through International Central Securities Depositories (the "**ICSDs**") such as Clearstream Banking, societe anonyme ("**Clearstream**"), provided that a link between the respective ICSD and the Central Depository is available and utilised for such purpose. The Issuer makes no representation and provides no warranties as to the availability and utilisation of any such link and disclaims any responsibility to ensure that any such link is available and utilised. For further information please see the "*Settlement*" section of this Offering Circular.

An application shall be made for the Bonds to be admitted to trading on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange. The Regulated Market of the Bucharest Stock Exchange is a regulated market in the European Economic Area for the purposes of Directive 2004/39/EC, as amended. The first day of trading of the Bonds on the Regulated Spot Market of the Bucharest Stock Exchange is expected to occur on or about 29 September 2016. At the discretion of the Issuer, an application may also be made for the Bonds to be admitted to trading on any other regulated market in the European Union.

The Issuer has been rated Baa1 with stable outlook by Moody's Deutschland GmbH ("**Moody's**"), BBB- with stable outlook by Fitch Ratings CIS Ltd ("**Fitch**"), BBB with stable outlook by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and A with stable outlook by Dagong Global Credit Rating Co., Ltd ("**Dagong**"). Moody's and Fitch are established in the European Union and registered under the Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**") and are included in the list of registered credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation, whereas S&P is a leading market intelligence services provider based in the United States and Dagong is a notable credit rating agency based in the People's Republic of China. Bonds issued under this Offering Circular are expected to be rated by at least two of the international rating agencies above under the terms of the Issuer's agreements with such agencies. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

This offering circular (the "**Offering Circular**") constitutes neither a prospectus nor a base prospectus for the purposes of the Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements set forth under the Prospectus Directive and Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive, as amended, and it has not been and will not be submitted for approval to any competent authority within the meaning of the Prospectus Directive.

An investment in the Bonds involves risks. See "*Risk factors*" for a discussion of certain matters that investors should consider prior to making an investment in the Bonds.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Bonds have not been and will not be registered under the U.S. Securities Act of 1933 or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States. For a discussion of certain further restrictions on offers, sales and transfers of the Bonds and the distribution of this Offering Circular, see "*General information – Selling and transfer restrictions*".

CO-LEAD MANAGERS

BT CAPITAL PARTNERS S.A. **BANCA COMERCIALA ROMANA S.A.**

Offering Circular dated 20 September 2016

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IMPORTANT NOTICES

General notices to investors

This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Bonds. Distribution of this Offering Circular to any person other than the prospective investor and any person retained to advise such prospective investor with respect to the purchase of Bonds is unauthorized, and any disclosure of any of the contents of this Offering Circular, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

This Offering Circular contains information provided by the Issuer in connection with the issue of the Bonds. The Issuer accepts responsibility for the information contained in this Offering Circular.

The Issuer confirms that this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect, that to the best of the Issuer's knowledge and belief this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the issue, offering and sale of the Bonds) not misleading in any material respect, and that all reasonable enquiries have been made to verify the foregoing. However, the information set out under the section "*Description of the Issuer – Relevant geographic markets*" includes extracts from information and data released by publicly available sources in Europe and elsewhere. While we accept responsibility for the accurate extraction and summarization of such information and data, we have not independently verified the accuracy of such information and data and we accept no further responsibility in respect thereof. In addition, this Offering Circular contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. However, as far as we are aware, no information or data has been omitted which would render reproduced information inaccurate or misleading.

Pursuant to a mandate letter dated 24 August 2015, as subsequently amended by the Addendum dated 17 March 2016, the Issuer has appointed BT Capital Partners S.A. (formerly, BT Securities S.A.) as lead manager, bookrunner and calculation agent ("**BTCP**"), and Banca Transilvania S.A. as paying agent (the "**Paying Agent**"), in connection with the issuance of the Bonds, subject to terms of the contractual arrangements entered into by the foregoing parties. Pursuant to a mandate letter dated 7 September 2016, BTCP has engaged Banca Comerciala Romana S.A. as co-lead manager (BT Capital Partners S.A and Banca Comerciala Romana S.A. are hereinafter each referred to as a "**Co-Lead Manager**", and collectively referred to as the "**Co-Lead Managers**").

Neither the Co-Lead Managers nor any of their affiliates make any representation, warranty or undertaking, express or implied, or accept any responsibility or liability, as to the accuracy or completeness at any time of the information contained in this Offering Circular. No person has been authorised by the Issuer or any of the Co-Lead Managers to give any information or to make any representation not contained herein, and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Co-Lead Managers. Neither the delivery of this Offering Circular, nor the offering, sale or delivery of any Bonds shall, under any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no change in the financial situation of the Issuer or the information presented herein since the date hereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Bonds is correct at any time subsequent to the date on which it is supplied or, if different, to the date indicated in the document containing the same.

Neither this Offering Circular, nor any other information supplied in connection with issue of the Bonds: (i) is intended to provide the basis for any credit or other evaluation; or (ii) should be considered as a recommendation by the Issuer or any Co-Lead Manager that any recipient of this Offering Circular, or any other information supplied relating to the issue of the Bonds, should purchase any Bonds. Each investor contemplating the purchase of any Bonds should make its own independent investigation of its financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, as well as the risks involved, as it deems necessary. Neither this Offering Circular, nor any other information supplied in connection with the issue of any Bonds, constitutes an offer or invitation by or on behalf of the Issuer or any Co-Lead Manager to any person to subscribe to or purchase any Bonds. In addition, neither the Issuer nor the Co-Lead Managers or any of their affiliates are making any representation regarding the legality of an investment in the Bonds, and investors should not construe anything in this Offering Circular as legal, business or tax advice. Investors should consult their own advisors as to legal, tax, business, financial and related aspects of an investment in the Bonds. Investors must comply with all laws applicable in any jurisdiction in which they buy, offer or sell the Bonds or possess or distribute this Offering Circular, and must obtain all applicable consents and approvals; neither the Issuer nor any Co-Lead Manager shall have any responsibility for any of the foregoing legal requirements.

The distribution of this Offering Circular and the offering, sale and delivery of the Bonds in certain jurisdictions may be restricted by law. Persons who come into possession of this Offering Circular are required to inform themselves of and observe any such restrictions. In particular, such persons are required to comply with the restrictions on the offer or sale of Bonds and on the distribution of this Offering Circular and other information in relation to the Bonds set out under "*General information – Selling and transfer restrictions*" section below.

By receiving this Offering Circular, investors acknowledge that they have had an opportunity to request from the Issuer for review, and that they have received, all additional information they deem necessary to verify the accuracy and completeness of the information contained in this Offering Circular. Investors also acknowledge that they have not relied on any Co-Lead Manager in connection with their investigation of the accuracy of this information or their decision whether to invest in the Bonds.

NOTHING IN THIS OFFERING CIRCULAR CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES ("U.S.") OR OTHER JURISDICTION AND SUCH BONDS MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT). NONE OF THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER U.S. REGULATORY AUTHORITY, HAS APPROVED OR DISAPPROVED THE BONDS NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Issuer and the Co-Lead Managers reserve the right to reject any offer to purchase the Bonds, in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the Bonds sought by it. The Co-Lead Managers and certain of its affiliates may acquire a portion of the Bonds for their own accounts.

Neither the Issuer nor the Co-Lead Managers can guarantee that the application made to the Bucharest Stock Exchange for the Bonds to be listed and admitted to trading on the Regulated Spot Market thereof will be approved as of the settlement date for the Bonds or at any time thereafter, and settlement of the Bonds is not conditional on obtaining this admission to trading.

Each purchaser of the Bonds will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Circular under the "*Important notices*" section of this Offering Circular.

The Offering is only addressed to investors in Romania who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive, and to such other investors in Romania or such other jurisdictions where it is possible to do so, in reliance of Regulation S and without the need to publish a prospectus or undertake any other formalities whatsoever under applicable law in reliance on article 3(2) of the Prospectus Directive, to the extent, and only provided that, an investment in the Bonds does not constitute a violation of any applicable law by such investors.

This document is not a prospectus and this Offering Circular has not been approved by the Romanian Financial Supervisory Authority or any other competent Romanian authority. This Offering Circular and any document or advertisement in connection with the Bonds may not be distributed or published in Romania, except in circumstances which (i) do not constitute a public offering of securities which requires the approval of a prospectus, public offer announcement or any other document in Romania or by Romanian authorities and (ii) comply with all applicable laws and regulations, including the Law no. 297/2004 on the capital market, as amended (the "**Capital Market Law**"), Regulation no. 1/2006 on issuers and operations with securities ("**Regulation 1/2006**"), as amended, implementing norms issued or approved by the Romanian National Securities Commission, the Romanian Financial Supervisory Authority or any other competent Romanian authority and applicable European Union ("**EU**") legislation. The Bonds can be acquired by investors only in such a manner that no approval from the Romanian Financial Supervisory Authority or any other competent Romanian authority is needed. The Bonds may be offered in Romania on the basis of the exemptions from the obligation to prepare and publish a prospectus provided by the Capital Market Law and the Regulation 1/2006.

Presentation of financial and other information

The unaudited reviewed interim condensed consolidated financial statements of the Issuer's group for the six-month period ended 30 June 2015 and, respectively, 30 June 2016 (the "**Interim Unaudited Financial Statements**") and the audited consolidated financial statements of the Issuer's group for the years ended 31 December 2013, 31 December 2014 and, respectively, 31 December 2015 (the "**Audited Financial Statements**" collectively with the Interim Unaudited Financial Statements, the "**Financial Statements**") are attached to this Offering Circular.

The Audited Financial Statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"). Presentation of financial information in accordance with IFRS requires management to make various estimates and assumptions which may impact the values shown in the financial statements and bonds thereto. The actual values may differ from such assumptions. The Interim Unaudited Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34.

The Financial Statements are presented in EUR, the functional and presentation currency of the Issuer. Furthermore, unless otherwise indicated, financial and statistical data included in this Offering Circular is expressed in EUR million. All financial data on the Issuer are presented on a consolidated basis, unless indicated otherwise.

Unless otherwise stated, all annual information is based on calendar years. Statistical data appearing in this Offering Circular has, unless otherwise stated, been principally obtained from the Eurostat, European Commission, International Monetary Fund, World Bank, Standard and Poor's, Moody's and Fitch. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Certain statistical information relating to 2016 and future periods should be treated as preliminary and any statistical information may be subject to future adjustment.

Certain financial measures presented in this Offering Circular, including some of the measures presented in "*Description of the Issuer – Risk management*". Because these measures are not standardized, companies can define and calculate these measures differently and therefore investors are advised not to use these measures for comparing the Issuer's results with those of other companies or issuers.

Certain figures included in this Offering Circular have been subject to rounding adjustments and presented in EUR million or EUR billion (not in EUR thousand as in the Financial Statements). Accordingly, in certain instances the sum of numbers in a column or a row in tables contained in this Offering Circular may not conform exactly to the total figure given for that column or row. Some percentages in the tables and/or text in this Offering Circular have also been rounded, and accordingly the totals in these tables and/or may not exactly add up to 100%. Percentage changes during the compared periods were computed on the basis of the original amounts.

Documents incorporated by reference. Website

This Offering Circular should be read and construed in conjunction with the Financial Statements of the Issuer which shall be incorporated in, and form part of, this Offering Circular. Any documents themselves incorporated by reference in the documents incorporated by reference shall not form part of this Offering Circular.

The contents of the Issuer's websites does not form any part of this Offering Circular. The website is mainly addressed to potential clients of the Issuer's services and, therefore, information available on the Issuer's website may differ in content or may be organized differently than information in this Offering Circular. For the purposes of making an investment decision regarding the Bonds, you should not rely on the information on the Issuer's website.

Cautionary note regarding forward-looking statements

Certain statements in this Offering Circular are not historical facts and are forward-looking. The Issuer may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this Offering Circular includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include statements concerning the Issuer's plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to business, competitive strengths and weaknesses, strategy, and the trends the Issuer anticipates in the industries and the political and legal environments in which the Issuer operates and other information that is not historical information.

Words such as "believe", "anticipate", "estimate", "target", "potential", "expect", "intend", "predict", "project", "could", "should", "may", "will", "plan", "aim", "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this Offering Circular are largely based on the Issuer's expectations, which reflect estimates and assumptions made by its management. These estimates and assumptions reflect the Issuer's management best judgment based on currently known market conditions and other factors, some of which are discussed below. Although the Issuer believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond the Issuer's control. In addition, management's assumptions about future events may prove to be inaccurate. The Issuer cautions all readers that the forward-looking statements contained in this Offering Circular are not guarantees of future performance, and the Issuer does not undertake any obligation and cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond the Issuer's control, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Offering Circular. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

This list of important factors and the other factors discussed in "*Risk Factors*" is not exhaustive. Other sections of this Offering Circular describe additional factors that could adversely affect the Issuer's results of operations, financial condition, liquidity and the development of the industry in which the Issuer operates. New risks can emerge from time to time, and it is not possible for the Issuer to predict all such risks, nor can the Issuer assess the impact of all such risks on its business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this Offering Circular. Accordingly, the Issuer does not intend, and does not undertake any obligation, to update forward-looking statements set forth in this Offering Circular. Investors should interpret all subsequent written or oral forward-looking statements attributable to the Issuer or to persons acting on its behalf as being qualified by the cautionary statements in this Offering Circular. As a result, investors should not place undue reliance on such forward-looking statements.

Currencies

In this Offering Circular, references to "euro," "EUR," "€" or "eurocents" are to the currency of the member states of the European Union participating in the European Monetary Union, references to "U.S. dollar" or "USD" are to the currency of the United States, references to "Romanian leu," "RON," "leu" (singular) or "lei" (plural) are to the currency of Romania, and references to "RUB" are to the currency of the Russian Federation.

No representation is made that any specific currency amount in this Offering Circular could have been converted into any of the other currencies presented in this Offering Circular at any particular rate or at all. There are limited markets for the Romanian leu outside Romania and for the RUB outside the Russian Federation. The limited availability of such currencies may lead to volatility of exchange rates.

Unless otherwise indicated herein and unless such amounts are derived from the Financial Statements, the EUR equivalent of amounts denominated in RUB, USD and other currencies has been computed based on the average and rounded exchange rate applicable as of 30 June 2016. The above rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this Offering Circular.

OVERVIEW OF THE BONDS

The following is only a brief summary of key features of the issue of the Bonds, does not purport to be complete description of the Bonds or the Offering and should be read in conjunction with the rest of this Offering Circular. Certain of the terms and conditions described below are subject to important limitations and exceptions. In particular, prospective investors are advised to consult the "Terms and conditions of the Bonds" section of this Offering Circular for a more detailed description of the terms and conditions governing the Bonds, including definitions of certain terms used in this overview.

Issuer	International Investment Bank *7 Mashi Poryvaevoy St.,* *Moscow, 107078, Russian Federation*
Co-Lead Managers	BT Capital Partners S.A. (formerly, BT Securities S.A.) *74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca,* *Cluj county, Romania* *(performing the functions of co-lead manager, bookrunner and calculation agent in connection with the Offering)* Banca Comerciala Romana S.A. *5 Regina Elisabeta Blvd., 3rd district,* *Bucharest, Romania* *(performing the functions of co-lead manager and bookrunner in connection with the Offering)*
Paying Agent	Banca Transilvania S.A. *8 George Baritiu Street, Cluj-Napoca,* *Cluj county, Romania*
Registrar and depository	Depozitarul Central S.A. *34-36 Carol I Blvd., 3rd, 8th and 9th floors* *Bucharest, Romania*
Aggregate maximum principal value of the Bonds offered	The aggregate maximum principal amount of the Bonds under the Offering is of RON 300,000,000.
Form of the Bonds	The Bonds are issued in registered form and evidenced by book-entry (in Romanian: *obligatiuni nominative in forma dematerializata*).
Nominal Value	RON 10,000
Transaction Date	23 September 2016
Issue Date	27 September 2016
Maturity Date	The Bonds shall mature on 27 September 2019.
Issue price per Bond	RON 10,000 *i.e.*, the Nominal Value.
Interest Rate	The Bonds shall bear the fixed interest rate established by the Issuer in agreement with the Co-Lead Managers, and announced to investors through the Pricing Notification which shall be published on the Issuer's web site https://www.iib.int/en/, on each Co-Lead Manager's website http://www.btcapitalpartners.ro/ and https://www.bcr.ro, respectively,

	and on the website of the Bucharest Stock Exchange www.bvb.ro, on 23 September 2016 (see "*Subscription and sale – Establishment of the Interest Rate*").
Interest Payment Date	Interest will be payable in annual arrears on 27 September of each year from and excluding the Issue Date and until and including the relevant Maturity Date. The first Interest Payment Date is 27 September 2017.
Status and ranking of the Bonds	The obligations under the Bonds will constitute direct, unsecured, unconditional and unsubordinated obligations of the Issuer ranking *pari passu* among themselves and as to the order of their satisfaction and at least *pari passu* to all other current and future direct, unsecured, unconditional and unsubordinated obligations of the Issuer, except for those obligations of the Issuer so identified by the mandatory provisions of law and provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other obligations and, in particular, the Issuer shall have no obligation to pay other obligations at the same time or as a condition of paying sums due on the Bonds and/or applicable interest and *vice versa*.
Redemption	The Bonds shall be redeemed at par on their respective Maturity Date.
Early redemption at the Issuer's option	The Bonds may not be redeemed by the Issuer before their respective Maturity Date. However, the Issuer may at any time purchase any Bonds on the secondary market, under any conditions and for any market price. The Bonds thus purchased by the Issuer shall not cease to exist and may be kept, resold or cancelled by the Issuer, at its sole discretion. The rights and obligations under the Bonds purchased by the Issuer shall cease to exist due to their amalgamation in a single person at the earlier of: (i) cancellation by the Issuer and (ii) their respective Maturity Date
Early redemption upon and Event of Default	Each Bondholder will have the right to declare all Bonds (but not some only) held by that Bondholder immediately due and payable and require the Issuer to pay the Nominal Value of each Bond held by that Bondholder together with any accrued interest, by a written notification to the Issuer, if an Event of Default occurs and is continuing (see "*Terms and conditions of the Bonds – 13. Early repayment of the Bonds on default*").
Covenant	Each Bondholder will have the right to require the Issuer to repurchase each Bond (but not some only) held by that Bondholder at the Nominal Value together with an amount equal to accrued interest, subject to, and pursuant to, the procedure described in "*Terms and conditions of the Bonds – 14. Covenant*", if a Covenant Triggering Event occurs and is continuing.
Gross-up	All payments in respect of Bonds will be made free and clear of withholding taxes of Romania, unless the withholding is required by law. In that event, the Issuer will (subject to, and save as provided in, Condition 12.5 "*Gross-up*") pay such additional amounts as will result in the Bondholders receiving such amounts as they would have received in respect of such Bonds had no such withholding been required.
Taxation	For certain considerations regarding the taxation of payments related to the Bonds see "*Taxation*".
Governing law and jurisdiction	Any rights and obligations arising under or in connection with the Bonds will be governed and construed in accordance with the laws of Romania. Any disputes between the Issuer and the Bondholders regarding the

	Bonds will be resolved by the relevant competent court of Romania. The Issuer irrevocably waives any objection which it might now or hereafter have (for reasons of its status, immunity or otherwise) to the Romanian courts being nominated as the forum to hear and determine any proceedings and to settle any disputes regarding the Bonds.
Listing	Application has been made to the Bucharest Stock Exchange for the Bonds to be admitted to trading on the Regulated Spot Market thereof (see "*Subscription and sale – Listing on the Bucharest Stock Exchange*"). The Issuer may apply for admission of the Bonds to trading on other regulated markets in the European Union.
Use of proceeds	The net proceeds of the Bonds issue shall be used by the Issuer to expand its existing loan portfolio and finance activities in Romania, in accordance with its mission and development strategy (see "*Description of the Issuer – Mission*" and "*Description of the Issuer – Strategy*").
Risk factors	Investing in the Bonds involves risk. See the "*Risk factors*" section for a description of certain of the risks investors should carefully consider before investing in the Bonds.
Selling and transfer restrictions	The Bonds are subject to certain restrictions on sale and transfer. For a description of certain restrictions on offers, sales and deliveries of Bonds and on the distribution of offering materials see "*General information – Selling and transfer restrictions*".

RISK FACTORS

An investment in the Bonds involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with the information contained elsewhere in this Offering Circular, before deciding whether to invest in the Bonds. Any of the following risks, individually or together, could have a material adverse effect on the Issuer's or the Issuer's group's (the "Group") business, financial condition and results of operations or prospects, which could impair the Issuer's ability to fulfil its obligations under the Bonds or the trading price of the Bonds, potentially causing a loss of all or part of the investment made when purchasing the Bonds.

The Issuer has described below certain risks and uncertainties that it believes are material as at the date of this Offering Circular, but these risks and uncertainties may not be the only ones the Issuer or the Group faces. Additional risks and uncertainties relating to the Issuer or the Group may also have adverse effects on the Issuer or the Group's business, financial condition, results of operations and future prospects and, consequently, on the trading price of the Bonds. Any of such risks could impair the Issuer's ability to fulfil its obligations under the Bonds or the trading price of the Bonds, and investors could lose all or part of their investment.

The following risks relate to the Issuer's and the Group's business and the environment in which the Issuer and the Group operate. The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Issuer's or the Group's business, financial condition, results of operations, future prospects or the trading price of the Bonds.

In particular, the Issuer's operations are carried out across a wide region. As an international organisation composed of its Member States, its results of operations are significantly affected by economic conditions in its Member State countries which may be, in turn, adversely affected by the global financial and European sovereign debt crises and remain vulnerable to further external shocks.

Investors should consider carefully whether an investment in the Bonds is suitable for them and determine for themselves the relevance of the information contained in this Offering Circular. Any investment in the Bonds should be based upon individual investigation, assessment of the risks involved and determination of the suitability of an investment in the Bonds, by each prospective investor, with particular reference to its own investment objectives and experience and any other factors that may be relevant to such investor in connection with the investment in the Bonds.

Risk factors related to the Issuer and its Group

Risks related to global events in financial and economic markets

In response to the global economic and financial crisis emerged in 2008, legislators and financial regulators in various jurisdictions worldwide, including Romania, the Russian Federation, Mongolia, Vietnam, Bulgaria and other states, undertook unprecedented intervention designed to counteract declining levels of economic activity, stabilise the global and local financial sectors, stimulate new lending and support systemically important institutions at risk of failing.

However, recent developments, particularly in the Eurozone, have demonstrated that there continues to be significant uncertainty. From April 2010 to date, financial markets have been periodically negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe (primarily Cyprus, Greece, Ireland, Italy, Portugal and Spain) and the possibility of one or more defaults on sovereign debt. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the ongoing economic crisis, potentially adversely impacting Member States and, consequently, the Issuer.

In May 2012 and March 2013, the uncertainty surrounding Greece's possible exit from the Eurozone and a levy on certain bank deposits in Cyprus, respectively, further weakened already strained market conditions. Fears that some countries in the Eurozone might default on their obligations, were rekindled during 2014 and 2015 when doubts as to Greece's ability to find a long-term solution to its funding needs gave rise to speculation around its potential exit from the Eurozone. Negotiations between Greece and its creditors have been re-opened as of beginning 2016, are still pending and no long-term solution has been yet agreed upon.

Also, the recent vote cast in the United Kingdom referendum in favour of United Kingdom's exit from the European Union has spurred significant volatility in the global financial markets. Concerns that other member states of the European Union may express their intention to leave the European Union have also been amplified by the results of the United Kingdom referendum. Until the legal, political and economic terms and consequences of United Kingdom's exit from the European Union are settled, it is likely that the situation is likely to continue to adversely affect European and worldwide economic conditions.

Social and economic disruptions stemming from the crises in Europe have affected, and may continue to affect the geographic market in which the Issuer operates (see *"Description of the Issuer – Relevant Geographic Markets"*). Such crises may result in a downturn and decrease in spending and investment in the relevant markets, potentially leading to an increase in costs due to currency fluctuations and legal and regulatory changes. These factors could increase the Issuer's operating costs or otherwise adversely affect the Issuer's business, prospects, results of operations and financial condition.

Prospective investors should ensure that they have sufficient knowledge and awareness of global financial and economic developments, the crises faced by the European Union and the economic situation and outlook in the states in which the Issuer operates, or whose economical or financial situation may otherwise impact the Issuer, as they consider necessary to enable them to make their own evaluation (including in consultation with any tax, legal and financial advisors as it deems necessary) of the risks and merits of an investment in the Bonds. In particular, prospective investors should take into account the current uncertainty as to how the crises faced by the European Union and the wider global economic situation will develop over time and how they will affect the Issuer's financial condition, as well as its business, prospects and results of operations.

Deterioration of Russia's relations with other countries may adversely impact the Issuer's operations and financial condition

The recent crisis in Ukraine and responses by the EU, the United States, and other countries to the Russian Federation's actions relating to Ukraine create significant political and economic uncertainty which could adversely impact the Group's business and financial condition.

The significant civil unrest and political instability in Ukraine has affected the relations between the Russian Federation and other countries. The civil unrest and armed conflict in Ukraine have resulted in opprobrium from the United States, the EU and other countries against the Russian Federation. Amongst other measures, the United States, the EU and other jurisdictions have imposed sanctions on a number of former Ukrainian governmental officials, Russian government officials and Russian individuals, Russian companies and banks, and non-Russian companies holding assets in Russia. These sanctions include limitation on trading in financial instruments, asset freezes and the blocking of funds, property and interests of such persons and entities and entities controlled by them, as well as travel limitations.

Although the Issuer is an international organisation which is, in principle, exempt from the sanctions imposed by the Council Regulation (EU) 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, the foregoing events have resulted, and may result in future, in significant volatility on Russian stock exchanges and the securities of Russian issuers traded on foreign exchanges, significant overall price declines and capital outflow, and significant volatility in the exchange rate of the RUB against the USD and the EUR. In addition, a number of governments have suspended cooperation on intergovernmental initiatives and agreements with the Russian Federation. These and other sanctions, restrictions or other measures may result in a further deterioration of economic conditions in the Russian Federation. Partly in response, credit rating agencies have also downgraded or placed on negative watch their ratings of the Russian Federation and a number of Russian banks.

Another recent point of tension and debate between Russia and Western governments has been the Russian role in the Syrian crisis and its support for the Bashar al-Assad-led Syrian Government. In September 2015, direct Russian military support for the Syrian government increased, with recent reports also indicating Russian aircraft presence in Turkish airspace. U.S. and EU officials have repeatedly expressed concerns that increased Russian military support of the Syrian government would not help towards a solution of the Syrian civil conflict. The events took a different turn however, in mid-March 2016, when Russia's President stated that Russia would begin to withdraw the majority of its troops from Syria. In their attempt to manage the conflict and in response to the ongoing Syrian crisis, the U.S., the European Union and a number of other states have imposed economic sanctions against various Syrian government officials and other Syrian nationals. Potentially, an increasing Russian role in the Syrian conflict might lead to similar sanctions being imposed against Russia, resulting in a deepened drift in relationships between Russia and Western countries.

Low oil prices, renewed RUB depreciation, inflation and capital flight have also caused the Russian economy to face recession, as of 2015. The weakening of the Russian economy and the deterioration of Government finances (which rely significantly on taxes on oil revenues) has also led to international rating agencies to lower Russia's credit ratings, some of which below investment grade. The cost of capital in Russia has also recently increased as a result of several Russian banks and companies having faced downgrade of their credit rating.

To the extent the Issuer (although being a self-standing international organisation) is perceived as having a strong connection to the Russian Federation and since the Issuer is directly and indirectly financially exposed to entities in the Russian Federation, a downturn in general economic conditions in the Russian Federation and other Member States as a result of the Ukraine-related sanctions and/or the ongoing conflict between the Russian Federation and Ukraine could have a material adverse effect on the Group's business, results of operations, financial condition or prospects. Ongoing or heightened tensions between Russia and the United States, member states of the EU, Ukraine or other countries, the imposition of further sanctions on Russian persons and entities, or the impact of actions taken by the Russian government in response to actions by the United States, EU and other governments, as well as the prolongation of the ongoing Russian recession, could have a further adverse effect on the Russian economy and economy of the Member States and consequently, a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Risk related to the operations in emerging markets in general

An investment in emerging markets, such as the Russian Federation, Mongolia, Vietnam and to some extent the "new" EU Member States such as Bulgaria, Czech Republic, Romania, Slovakia and Hungary, being the respective jurisdictions of the Issuer's Member States in which a significant part of its business is undertaken and its customers and assets are located, is subject to greater risks, including in some cases significant legal, economic and political risks, than an investment in more developed markets. Investors should be aware that these risks may be applicable to the Issuer notwithstanding that its status as an international organisation affords it certain privileges, immunities and political protection. Investors should also note that emerging markets are subject to rapid change and that the information set out in this Offering Circular may become outdated relatively quickly.

In addition, international investors' reactions to events occurring in one country sometimes demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors. Therefore, investment in the Bonds, as in any other comparable security, could be adversely affected by negative economic or financial developments in other countries, particularly its Member States. There can be no assurance that conditions resulting from any crises similar to the global financial and economic crisis that started in 2008, the European sovereign debt crisis or the recent social and political turmoil in Europe, the Middle East and Africa and disruption in European financial markets caused by the results of the United Kingdom referendum for leaving the European Union will not negatively affect the economic performance of, or investor confidence in, developing markets, including the Member States and, hence, the Bonds.

Credit risk faced by the Issuer in general

The Issuer's business exposes it to credit risk. The quality of the Issuer's credit exposures will have a significant impact on its earnings. While the Issuer estimates and establishes allowances for losses resulting from credit risks and potential credit losses inherent in its credit exposure, in accordance with IFRS, there is no assurance that the models and techniques used by the Issuer prove accurate in their predictions of future behaviour, valuations or estimates, particularly considering the uncertainty associated with current financial and economic market conditions. Any failure by the Issuer to accurately assess the creditworthiness of its clients or to estimate the value of potential losses for which allowances should be established could result in increased default rates of the Issuer's clients, adversely impacting the Issuer's cash flow and, potentially, its ability to comply with the obligations under its own borrowings.

As a result of the current economic uncertainty, the demand for borrowing from creditworthy customers may decline. In addition, there is a greater likelihood that more of the Issuer's customers or counterparties (including other financial institutions) could become delinquent on their loans or other obligations to the Issuer, which, in turn, could result in a higher level of write-offs and provisions for credit losses or requirements that the Issuer purchase assets or provide other funding, any of which could adversely affect the Issuer's and its customers' business, prospects, financial condition, cash flows and results of operations.

Credit risk due to lending concentration

For the purpose of achieving the Issuer's mission, which is to promote development of economies of the Member States, the Issuer's loan and trading portfolio includes, and is likely to continue to include, concentrations in particular Member States. As at 30 June 2016, the Issuer had a corporate gross loan portfolio in the amount of EUR 302.9 million, out of which 38% was provided to corporate clients based in the Republic of Bulgaria, 11% to corporate clients based in Romania, 10% to corporate clients based in the Russian Federation, 7% to corporate clients based in Mongolia, 7% to corporate clients based in the Czech Republic, 3% to corporate clients based in Slovak Republic, and 25% to corporate clients based in other states.

In terms of sector concentration, as at 30 June 2016, 28% out of the Issuer's gross loan portfolio to corporate clients was provided to corporate clients active in production and transmission of electrical energy, 18%was provided to clients active in the leasing industry, 10% to building construction companies, 7% to clients active in the chemical production industry, 7% to clients active in manufacturing of electrical equipment industry, 7% metalworking industry, 7% to food and beverage companies, 5% to transportation companies and 11% to clients active in other industries.

The Issuer's portfolio of loans extended to banks is also considerably concentrated. As at 30 June 2016, the outstanding value of each of the loans extended by the Issuer to its top five bank clients exceeded 10% of the aggregate gross value of the Issuer's portfolio of loans extended to banks. As at 30 June 2016, the Issuer's exposure to such major bank clients amounted to EUR 82.2 million, out of the total EUR 123.2 million long-term loans extended by the Issuer to banks. As at 30 June 2016, 41% of the long-term loans provided to banks were extended to banks based in Mongolia, 32% to banks based in the Russian Federation and 27% to banks based in Vietnam.

The concentration may result in an adverse impact on the business, prospects, financial condition, cash flows and results of operations of the Issuer if short-term economic changes particularly affect its largest customers, or its customers in the countries or business sectors to which its loan portfolio is concentrated and exposed. As a result, the Issuer is potentially subject to high credit risk concentration and earnings volatility.

Foreign exchange rate risk and interest rate risk

The Group conducts its business in various currencies including EUR, USD and RUB. As a financial institution, the Issuer is exposed to foreign exchange rate risk. Movements in foreign exchange rates may adversely impact the Issuer's borrowers, which may in turn adversely impact the nature of its exposure to these borrowers.

The Issuer manages its currency risk by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within the limits established by the Board. The limit for a single currency position is set at 10% of the capital and the limit for cumulative currency positions is set at 15% of the capital.

The performances of the Issuer are influenced by the trend and by the fluctuation in interest rates in the markets in which the Issuer carries out its activities. Any misalignment between interest income accrued by the Issuer and interest expense payable by the same (in the absence of suitable instruments for protecting against this misalignment), could have significant effects on the financial position and the Issuer's operating results.

Even though the Issuer has implemented certain hedging strategies, the hedging arrangements entered into by the Issuer may not adequately offset the risks of foreign exchange rate fluctuations and may result in losses. Volatility in foreign exchange rates and interest rates could adversely affect the Issuer's ability to meet its obligations under the Bonds and its business, financial condition and results of operations. Movements in interest rates may also affect the trading prices of the Bonds. Furthermore, increases in the strength of the EUR against other currencies could markedly reduce the Issuer's financial results as reported in EUR.

Market risk in connection with the investment portfolio

As of 30 June 2016, consolidated available-for-sale investment securities balance of the Group was EUR 163.8 million. The majority of the portfolio is composed of sovereign bonds denominated in EUR. Corporate bonds, mainly issued by state-owned entities, account for 1% of the portfolio. As a significant part of the Group's business is generated by trading activities relating to this portfolio, which is susceptible to market fluctuation and price volatility, prospects of the Group may be impaired by its ability to further finance this portfolio or to regain its investments. Market price fluctuations in the large investment security portfolio may therefore materially and adversely affect the Group's business, financial condition, results of operations and prospects. As of 30 June 2016, investment grade bonds represented 25% of the Issuer's total available-for-sale portfolio.

The Issuer has limited operational history

Although the Issuer was founded in 1970, its post-Soviet operating history is relatively limited. The Issuer has adopted a new development strategy at the end of 2012 with an overall objective of transforming it into a modern international development bank. Most of the loans extended before 2012 were impaired and written off or sold in 2013. New risk management system and policies, as well as international standards such as the IFRS and Basel II were approved by the Council of the Issuer (consisting of representatives of the Member States) and implemented only recently at the level of the Issuer. As a result of the Issuer's renewed strategy implemented as of 2013 and the reinvigoration of the Issuer's activity, during the past two financial years (as at 31 December 2015 compared to 31 December 2013), the Issuer's net loan portfolio grew by 218%, whereas the Issuer's investment securities portfolio stroke a 76% increase.

Prospective investors may therefore base their evaluation of an investment in the Bonds on a limited operating history of the Issuer. There can be no assurance that the Issuer will be successful in implementing its business strategy in the future or that its business will continue to grow at a similar or comparable rate, and any failure to do so could have a material adverse effect on its business, prospects, financial condition, cash flows and results of operations.

Profitability is not a key driver for the Issuer

The Issuer's lending and investment activities are aimed at supporting development projects in the Member States. As for other multilateral development banks, profitability is not the key driver for Issuer. Also, operations in some of the Member States in some type of projects may involve lower rate of returns than other purely commercial lending entities would expect or demand. Profitability of the investment projects does not, therefore, represent the Issuer's main objective and may remain low despite the expected rise in the interest income as the loan portfolio grows. As a result, although the Issuer has implemented robust risk management and credit approval systems, future profitability may be restrained owing to the nature of the Issuer's development lending business, which in turn may have a negative impact on the financial conditions and prospects of the Issuer.

Withdrawal of a Member State may adversely affect the Issuer's financial condition and operations

The Issuer's Statutes provide that any Member State may withdraw its membership by giving the Issuer a written six months' notice to that effect. The outstanding rights and obligations including with regard to withdrawal of contributed capital are subject to and shall be governed by the provisions of the Regulation on Withdrawal of Member States from the International Investment Bank approved by the Council in 2012. Poland and Hungary withdrew from the Issuer in 1999 and 2000 respectively, but due to the absence of a clear procedure of a Member State's withdrawal that would apply then, a final decision concerning the settlement of their rights and obligations with the Issuer was delayed and made by the Issuer's Council only in 2012. The existing withdrawal procedure provides that mutual obligations of the withdrawn Member States and the Issuer are settled based on a "fair value" evaluation thereof.

The withdrawal of a Member State may adversely affect the Issuer's capital and financial condition, as well as its business, prospects and results of operations.

Hungary re-joined the Issuer in 2015, after having previously decided to terminate its membership in the Issuer in 2000. The Issuer's Council approved Hungary's request to re-join the Issuer in November 2014 and Hungary ratified its membership in the Issuer and finalized all necessary procedures to obtain full voting rights in the Issuer in May 2015.

Withdrawal of Romania from the Issuer would also constitute a Covenant Triggering Event under the Terms and Conditions of the Bonds (see *"Terms and Conditions of the Bonds - 14. Covenant"*).

Conditions and actions of Member States may affect the Issuer

Although the Issuer is an international organisation having a legal personality separate from its Member States, the Issuer and its business operations may be affected by decisions of the Member States in their relations with other nations. The Issuer's operations are also subject to risks resulting from political and economic uncertainties in, default under obligations and downturns in the economies of, Member States, as well policies (such as monetary and financial) approved or pursued by Member States. The currently ongoing migrant crisis faced particularly, as of 2015, by European Member States of the Issuer also adds to civil tensions and political uncertainty within certain Member States of the Issuer. These decisions and circumstances may result in adverse effects on the Issuer and the business environment in which the Issuer and its counterparties operate, including the reduction or cessation of commercial activity by private counterparties as the result of perceived increases in operational risk, or more formal actions by countries or international organisations to limit or preclude business activity by their nationals or organisational participants with the Issuer or in the areas in which the Issuer operates.

No assurance can be given that such decisions and circumstances will not adversely affect the creditworthiness of borrowers and increase the Issuer's funding costs, and accordingly, adversely affect the Issuer's business, prospects, financial condition, cash flows and results of operations.

The Issuer's decision making process may hamper the adoption of decisions and the Issuer's governance model is subject to changes

The Establishment Agreement and Statute provide that decision-making in the Council, the supreme governance body of the Issuer, is based on the "one country - one vote" principle. While this principle ensures equality of the Member States irrespective of their relative contribution to the paid-in capital of the Issuer, it also means that a single Member State can block certain key decisions which may be necessary for further development of the Issuer. A delay in the adoption of such decisions may adversely affect the Issuer's business, prospects, financial condition, cash flows and results of operations.

At the Issuer's Council 101st meeting of May 2014 held in Havana, Cuba, the Member States have adopted a protocol amending the Establishment Agreement and the Statutes, pending ratification by all Member States. Among the most important changes proposed by the protocol is the transition from the current two-tier (*i.e.*, Council and Board) to a three-tier governance system (*i.e.*, Board of Governors, Board of Directors and Management Board), as well as from the "one country – one vote" to a qualified majority voting system (see "*Description of the Issuer – Management and governance – Proposed management changes*"). The implementation of the voting system based on qualified majorities may facilitate the control by one member or a group of members of the decision-making process at the level of the Issuer, a situation which may, in turn, render the Issuer less attractive for potential partners, clients and investors and hence affect the business prospects, results of operations and financial condition of the Issuer and consequently, the trading price of the Bonds.

The Bonds are not guaranteed by any sovereign

The Issuer currently has nine members, namely: Czech Republic, Hungary, Mongolia, Republic of Bulgaria, Republic of Cuba, Romania, Russian Federation, Slovak Republic and Socialist Republic of Vietnam (the "**Member States**").

Although the Member States are sovereign states, the Issuer is a legal entity which is separate from the governments of its Member States and the agencies of such governments. The Bonds, interest or other amounts due or to become due in respect of the Bonds, constitute obligations solely of the Issuer and do not constitute the obligation of, nor are they guaranteed or insured by, the Russian Federation, Romania or any other Member State or sovereign entity or agency thereof.

The Issuer is not subject to external regulatory oversight and, therefore, may choose to discontinue the application of international standards

The Issuer is an international organisation established and operating on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank of 10 July 1970 (the "**Establishment Agreement**") and the Statutes of the International Investment Bank attached to the Establishment Agreement (the

"**Statutes**", together with the Establishment Agreement, the "**Constitutive Documents**"), registered with the Secretariat of the United Nations on 1 December 1971 under number 11417.

The Issuer is an entity under, and subject to, public international law. The Issuer's existence, powers, privileges, immunities, liabilities and operations are subject to and governed by the Constitutive Documents. In principle, due to its status as international organisation, the Issuer is not subject to regulation by any Member State and, therefore, exempt from the external regulatory oversight to which similar domestic financial institutions established in its Member States are subject. All policies and procedures approved by the Council and other management bodies to govern the Issuer's internal operations in accordance with international standards, such as Basel II standards and International Financial Reporting Standards (IFRS), have been adopted by the Issuer on a voluntary basis and the Issuer has no obligation to continue to apply such standards, undergo a verification of the application of such standards or update its policies or practices in line with any amendments to such international standards. There is no assurance that, if the Issuer chooses to discontinue the application of such standards in order to pursue its mission and objectives in a different manner or by reference to other standards, the operations, business or prospects of the Issuer would remain unaffected.

The Group's ability to raise additional financing is in part dependent on the Issuer's credit ratings

The Group's ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on the Issuer's credit ratings. As at the date of this Offering Circular, the Issuer has a long-term foreign currency issuer default rating of Baa1 with stable outlook by Moody's, BBB- with a stable outlook by Fitch, BBB with a stable outlook by S&P and A with a stable outlook by Dagong.

The Issuer's ability to maintain its current rating is dependent on a number of factors, some of which may be beyond its control, such as credit ratings and soundness of policies of its Member States. Particularly in the event that the Issuer's credit rating is lowered by Fitch, Moody's and/or S&P and falls into the sub-investment grade range or such rating is withdrawn, the Issuer's ability to access credit and bond markets and other forms of financing (or refinancing) could be limited. This could have an adverse effect on its business, results of operations and financial condition, as well as the trading price of the Bonds.

Rating downgrade to the sub-investment grade or withdrawal of the credit ratings by at least two international rating agencies would also constitute a Covenant Triggering Event under the Terms and Conditions of the Bonds (see *"Terms and Conditions of the Bonds - 14. Covenant"*).

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

A malfunction, disruption or insufficient maintenance of the Group's IT systems may have material negative consequences for the Group

The Group is routinely exposed to IT risks in connection with the development, implementation and application of its IT systems. In addition, there is a risk that there might be unauthorised access to the Group's sensitive data by third parties and improper use of such data, which may lead to the loss of company secrets and may result in a breach of applicable data protection regulations. As a result, any malfunction, breach or unauthorised use of the Group's IT systems may have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

The Issuer is reliant upon skilled managers and personnel and may not be able to recruit and retain qualified personnel

Although the Issuer believes it has highly qualified personnel, there is generally a considerable shortage of adequately qualified personnel in the banking sectors of Russia (as the country of residence of the Issuer) and other Member States, particularly in such areas as risk management and credit assessment. If the shortage of adequately qualified banking personnel persists, the Issuer's ability to conduct its business may be affected which could, in turn, affect the Issuer's financial results. In addition, the shortage of adequately qualified banking personnel may cause the Issuer to increase expenditures to implement additional financial and other incentives in order to retain its existing personnel and recruit additional personnel.

The legal infrastructure and the law enforcement systems in the Member States are less developed compared to Western Europe

The legal infrastructure and the law enforcement systems in Romania, the Russian Federation, Mongolia, Bulgaria, Vietnam and other Member States are less developed when compared to western European countries. In some circumstances, it may not be possible to obtain legal remedies to enforce contractual or other rights in a timely manner or at all. Although institutions and legal and regulatory systems characteristic of parliamentary democracies are developed or have begun to develop in the Member States, the lack of an institutional history remains a problem. As a result, shifts in government policies and regulations tend to be less predictable than in countries with more developed democracies. A lack of legal certainty or the inability to obtain effective legal remedies *vis-a-vis* its borrowers or other counterparties in each Member State in a timely manner or at all may have a material adverse effect on the Group's business, results of operations or financial condition.

In addition, in Romania, the courts of which shall have jurisdiction over the disputes in connection with the Bonds, there may be fewer judges specialised and experienced in complex matters involving investments in securities when compared to judges in western European countries. The risk may be more significant in cases which needs to be brought before courts of certain other Member States, *e.g.* in connection with enforcement proceedings in the local jurisdiction of a Member State. Investors should therefore be aware that matters brought before the Romanian courts or the courts of other Member States may be subject to delays and may not be conducted in a manner similar to more developed legal systems and may, as a result, lead to delays in proceedings or losses on the Bonds.

The enforcement of judgments against the Issuer and its assets is subject to limitations and procedural rules

The Bonds are governed by the Romanian law and any disputes arising out of or in connection with this Offering Circular are subject to jurisdiction of the Romanian courts. Romania is a member state of the EU and judgments rendered by Romanian courts are generally enforceable in other member states of the EU. Claims brought by investors in a different EU Member State will be subject, *inter alia*, to the European Union conflict of laws rules included in the Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters and shall be enforceable in accordance with it.

Assets of the Issuer are, however, located in several of its Member States, mainly the Russian Federation and other non-EU Member States. Presence of the financial and other assets outside of the EU may limit an investor's legal recourse against the Issuer. Enforcement of Romanian and other EU Member States' civil judgments in the territory of non-EU Member States may be subject to existence of relevant international treaties and international law and, mainly, their respective observance by the relevant state authorities and local procedural rules.

In addition, although the Issuer has waived its immunity against legal proceedings in the terms and conditions of the Bonds, any legal actions against the Issuer may be limited by the relevant international treaties on diplomatic and intergovernmental protection as well as principles of public international law. Several of the Issuer's assets, such as its headquarters which enjoys diplomatic privileges of an embassy may therefore be considered outside of the reach of civil courts' jurisdiction.

Furthermore, Romanian courts are not familiar with the concept of insolvency of institutions of public international law, and consequently the procedure for, and enforcement of payment under, the Bonds in such circumstances is uncertain.

Risk factors related to the Bonds and market in general

The Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, particularly where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

There may not be an active trading market for the Bonds

The Bonds are rather new securities which may not be widely distributed and for which there may not be an active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application was made for the Bonds to be admitted to trading on the regulated spot market of the Bucharest Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development, maintenance or liquidity of any trading market for the Bonds. Illiquidity may have a severely adverse effect on the market value of Bonds.

As a result of the above factors, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Inability to admit the Bonds to trading on the Bucharest Stock Exchange

The admission of the Bonds to trading on the Regulated Spot Market of the Bucharest Stock Exchange requires the approval of the Bucharest Stock Exchange for such purpose. Admission of the Bonds to trading on the Regulated Spot Market of the Bucharest Stock Exchange is subject to certain requirements. The Issuer intends to take all necessary steps to ensure that the Notes are admitted to trading on the Regulated Spot Market of the Bucharest Stock Exchange as soon as possible after the closing of the Offering. There is no guarantee that, should the admission conditions for the approval by the Bucharest Stock Exchange change, all such trading conditions will be met. Consequently there is no assurance that the Bonds will be admitted to trading on the Regulated Spot Market of the Bucharest Stock Exchange on the estimated date or at all.

The Bonds do not limit incurrence of additional indebtedness

The Terms and Conditions of the Bonds do not restrict the ability of the Issuer to incur additional indebtedness or require the Issuer to maintain financial ratios or specified levels of net worth or liquidity. In fact, the Issuer intends to raise funds and thus incur addition indebtedness including by way of issuing other debt instruments. If the Issuer incurs additional indebtedness in the future, these higher levels of indebtedness may adversely affect the Issuer's creditworthiness generally and its ability to pay principal of and interest on the Bonds.

Taxation

Potential investors should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Bonds.

Potential investors are advised not to rely upon the tax summary contained in this Offering Circular but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Bonds. Only these advisors are in a position to duly consider the specific situation of the potential investor. The aforementioned individual tax treatment of the Bonds with regard to any potential investor may have an adverse impact on the return which any such potential investor may receive under the Bonds.

Change of law

The Terms and Conditions of the Bonds are governed by the laws of Romania in effect as at the date of issue of the Bonds. No assurance can be given as to the impact of any possible judicial decision or change to the laws of Romania, or administrative practice after the date of this Offering Circular.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in RON. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in other currency. These include the risk that exchange rates may change significantly (including changes due to devaluation of RON or revaluation of the investor's currency) and the risk that authorities with jurisdiction over the investor's currency may impose or modify exchange controls. An appreciation in the value of the investor's currency relative to RON would decrease (i) the investor's currency-equivalent yield on the Bonds, (ii) the investor's currency-equivalent value of the principal payable on the Bonds and (iii) the investor's currency-equivalent market value of the Bonds.

Government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Currently there are no exchange control restrictions in place in Romania. However, it may be mentioned in the context of bonds with a maturity of less than one year that, if significant short term foreign currency inflows were to exercise sufficient pressure on the foreign exchange market and significantly affect the central bank's monetary and foreign exchange policies, with resulting impact on internal liquidity and material deterioration of the payments balance, under the Regulation of the National Bank of Romania ("**NBR**") no. 4/2005 on foreign exchange operations, the NBR may activate certain safeguard measures. These safeguard measures may consist of: obliging residents and non-residents to notify the NBR of their intention to enter into short-term capital foreign exchange transactions; setting thresholds and other limitations for short-term capital foreign exchange transactions which generate capital inflows and outflows by residents and non-residents; temporarily withholding, in an account domiciled with the NBR, certain incoming/outgoing amounts denominated in RON or foreign currency resulting from short-term capital foreign exchange transactions and which generate capital inflows and outflows by residents and non-residents; applying a fee on transactions made on the foreign exchange market; increasing minimum reserve requirements for amounts representing short-term capital inflows, held by residents or non-residents with credit institutions; setting maturity restrictions for certain short-term capital foreign exchange transactions; restricting the introduction of new short-term capital foreign exchange transactions; and introducing additional monitoring measures concerning capital foreign exchange transactions and/or currency control measures. Nevertheless, by virtue of NBR Regulation no. 4/2005, the enforcement of such measures cannot extend beyond a period of six months and should be notified to the EC (and stopped, if so requested by the EC). They must also apply without discrimination and may not be directed solely against a particular transaction or entity.

Fixed rate Bonds are subject to interest rate risks

The Bonds will bear fixed rate interest. Investment in fixed rate Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed rate Bonds.

Credit ratings may not reflect all risks

As of the date of this Offering Circular, the Issuer is rated Baa1 with stable outlook by Moody's, BBB- with stable outlook by Fitch, BBB with a stable outlook by S&P and A with stable outlook by Dagong. The Issuer may apply for the assignation of a credit rating by one or more independent credit rating agencies. These credit rating agen cies may assign other credit ratings to the Issuer or to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors which may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Transferability of the Bonds may be limited under applicable securities laws

The Bonds have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction (other than Romania). The Bonds may be subject to restrictions on transfer in certain jurisdictions. Each purchaser of Bonds will be deemed, by its acceptance of such Bonds, to have made certain representations and agreements intended by the Issuer to restrict transfers of Bonds as described under "*Subscription and sale*". It is the obligation of each purchaser of Bonds to ensure that its offers and sales of Bonds comply with all applicable securities laws.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Bonds are legal investments for it, (ii) Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

EU Savings Directive and automatic exchange of information

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria instead applies a withholding system unless during such period it elects otherwise.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entities established in one of those territories.

The Council of the European Union formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements and the range of payments described above. Member States have had until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive which legislation must apply from 1 January 2017.

In November 2015, the European Commission repealed the Savings Directive, effective from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation, as amended by Council Directive 2014/107/EU, pursuant to which Member States are required to apply other new measures on mandatory automatic exchange of information from 1 January 2016, except for Austria that is allowed to start applying these measures up to one year later. The foregoing Directives extended automatic exchange of information to a full range of income (interest, dividends, and other income as well as account balances and sales proceeds from financial assets) in accordance with the Global Standard released by the OECD Council in July 2014 and ensured a coherent, consistent and comprehensive Union-wide approach to the automatic exchange of financial account information in the Internal Market.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Bonds as a result of the imposition of such withholding tax.

Investors who are in any doubt as to their position should consult their professional advisers.

USE OF PROCEEDS

The net proceeds of the Bonds issue shall be used by the Issuer to consolidate and to expand its existing loan portfolio and finance activities in Romania, in accordance with its mission and development strategy (see "*Description of the Issuer – Mission*" and "*Description of the Issuer – Strategy*").

DESCRIPTION OF THE ISSUER

INTRODUCTION AND HISTORY

The Issuer is a multilateral financial institution (a public international body within the meaning of Directive 2003/71/EC, as subsequently amended (the "**Prospectus Directive**")), operating on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank of 10 July 1970 and the Statutes of the International Investment Bank attached to the Establishment Agreement. The Constitutive Documents came into force provisionally on 1 January 1971, when the Issuer commenced operations, and definitively on 5 February 1971, and were registered with the Secretariat of the United Nations on 1 December 1971 under number 11417.

The Issuer currently has nine Member States, namely: Czech Republic, Hungary, Mongolia, Republic of Bulgaria, Republic of Cuba, Romania, Russian Federation, Slovak Republic and Socialist Republic of Vietnam. Membership in the Issuer is open to other states, as well as intergovernmental banking, financial and economic, organisations.

Due to objective reasons, starting from 1991, the Issuer temporarily reduced its activity. As of 2012, the Issuer has undergone a complex reformation and major modernization process, re-launching its activity under a new management structure and on the basis of renewed development strategy and lending policy (see "*Strategy - Re-launch Programme and 2013-2017 Strategy*").

The Issuer's authorized capital is of EUR 1,300 million. As at 30 June 2016, the Issuer's paid-in capital amounted to EUR 313.05 million whereas the combined share of the Czech Republic, Slovakia, Hungary, Romania and Bulgaria – the Issuer's member countries within the European Union – to the Issuer's capital reached 48.72%. As at the same reference date, Cuba's share in the Issuer's paid-in capital is at 1.71% and the share of Asian members of the Issuer (Vietnam and Mongolia) is at 1.65%. Russia's share in the Issuer's paid-in capital is 47.92%, representing a decrease of more than 1.5 percentage points compared to its share as of 31 December 2015.

The Issuer's principal office is located at 7 Mashi Poryvaevoy str., Moscow, 107078, Russian Federation. Although based in the Russian Federation, the Issuer is exempt from the sector specific sanctions against certain state-owned Russian financial and credit institutions, imposed by the Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine. As per paragraph 5 of the Regulation's preamble, Russian-based institutions with international status established by intergovernmental agreements with Russia as one of the members, such as the Issuer, are not subject to the sanctions thereunder.

The Issuer's general telephone number is +7 (495) 604-73-00. For investors inquiries, please use +7 (495) 604-76-00 and/or ir@iibbank.com.

THE CONSTITUTIVE DOCUMENTS

The Establishment Agreement and the Statutes represent the Issuer's constitutive documents. They set forth, among others, the Issuer's mission and purposes, its governance structure, the scope of operations which may be undertaken by the Issuer, as well as the rules regarding the withdrawal of members and the admission of new members.

The Constitutive Documents specifically provide that the Issuer benefits from distinct legal personality. They also set forth several privileges and immunities of the Issuer and the Issuer's officials, and, in particular, of the representatives of the Member States in the Issuer's Council, on the territories of the Member States. Such privileges and immunities, which include immunity from judicial and administrative proceedings, are aimed at enabling the Issuer and its officials to carry out their functions and attain the purposes set forth in the Constitutive Documents. Privileges and immunities granted to officials of the Issuer (including representatives of the Member States in the Issuer's Council) are applicable to such persons while in official capacity and are vested therewith only to serve the interests of the Issuer. Member States, the Issuer's Council and the Chairman of the Board, as the case may be, have the right, and are under the obligation, to waive the immunity of the respective representative or official if, in their opinion, such immunity would prevent the administration of justice.

Certain amendments to the Constitutive Documents, mainly aiming at aligning the Issuer's governance structure with the best governance practices adopted by modern multilateral development banks, have been adopted and the according Protocol amending the Establishment Agreement and the Statutes (the "**Amending Protocol**") was opened for signing at the Issuer's Council 101st meeting of May 2014 held in Havana, Cuba. As of the date hereof, the Amending Protocol was signed by all the Member States. The entry into force of the Protocol is currently subject to ratification being conducted by all Member States.

Certain matters related to the residence of the International Investment Bank in the Russian Federation are set forth in the agreement dated 23 December 1977 concluded between the Issuer and the former USSR (the "**Host State Agreement**"). Among others, the Host State Agreement provides for the inviolability of the Issuer's premises in the USSR (and, consequently, the Russian Federation as a successor state after the USSR dissolution) and the exemption of the Issuer's operations from the supervision of central or local authorities of the Russian Federation.

MISSION

The mission of the Issuer is to promote social and economic development, growth of well-being of the population, and economic cooperation, between the Member States, with a particular focus on the support of small and medium sized enterprises ("**SMEs**") extended by increasing access to sustainable and constant sources of funding, and export-import operations of Member States particularly aimed at securing the further integration of the Member States in international trade flows.

The Issuer is primarily engaged in lending activities with the participation of leading national financial institutions (partly owned by Member States) and development banks, export-import banks/agencies or in partnership with other international development institutions, mainly targeting investment projects on the territories of its Member States. Complementary to its main lending activities, the Issuer invests in, and is involved in transactions with, securities and foreign currency, as an alternative method to manage surplus liquidity.

The Issuer is determined to extend its activity within Member States through diversified and in-depth cooperation with export credit agencies, national organisations for development, multilateral development banks and other international finance institutions with a high rate of credibility. A first step towards achieving this aim has been made in April 2014, when the Issuer executed a Multilateral Memorandum on Cooperation (the "**Memorandum**") with a number of export credit agencies ("**ECAs**") in Member States, including EXIAR, EXIMBANKA SR, EGAP, BAEZ and EximBank Romania. Pursuant to the Memorandum, the Issuer will act as a bridging financing institution, while the ECAs will provide insurance coverage in relation to projects carried out in cooperation by Member States. The Memorandum has been subsequently joined by other ECAs.

SUBSIDIARY AND REGIONAL OFFICE

The Group currently consists of the Issuer and one subsidiary, JSC "IIB Capital" (the "**Subsidiary**"). The Subsidiary is established in the form of a non-public joint stock company, being 100% owned by the Issuer. The Subsidiary's principal office is located at 107078 Moscow, Skornyazhny lane 6, building 1.

The Subsidiary was established in 2012, in order to take over several non-core activities of the Issuer, including settling the non-performing loans granted by the Issuer, and to enable the Issuer to focus on its core objective, that is to expand its lending activities and evolve into a prominent development institution in the Member States. The Subsidiary's core activity now primarily consists of managing the Issuer's buildings complex. This separation of activities between the Subsidiary and the Issuer enables a more efficient management of the Issuer's property, with minimum administrative and maintenance costs and enhanced personnel structure.

The authorized capital of the Subsidiary upon its establishment amounted to RUB 10,000 (the equivalent of EUR 250 at the original exchange rate). In 2013, the Issuer made an additional contribution to the authorized capital of the Subsidiary in the amount of RUB 445.5 million (approx. EUR 11.2 million at the applicable exchange rate) to enable the settling of certain non-performing loans. As this objective has been fulfilled, the share capital of the Subsidiary was decreased initially in June 2015 to RUB 267.3 million (approx. EUR 4.5 million) and finally to RUB 44 550 (approx. EUR 550) in December 2015.

On 14 April 2015, the Issuer opened its first regional office, based in Slovakia, with the particular aim to qualitatively increase the Issuer's activity in the EU Member States and facilitate contact with EU-based financial institutions. The IIB European Regional Office has been developing contacts with local partners and potential clients, leading to a number of possible transactions currently in an early stage of discussions. The office also hosts an additional back-up server of the Issuer and secures its business continuity.

STRATEGY

Planning system

Strategic planning is at the core of the Issuer's operations enabling it to increase efficiency and pursue its mission as a multilateral development institution.

The Issuer's planning system is structured on the following levels:

- *Strategic level*, including planning instruments applicable to a 3-5 years' time horizon; the strategic level comprises the **Issuer's development strategy**, the main documents of the planning system which includes a financial forecast model and sets out key directions for the Issuer's development and its main targets and objectives, **country strategies** for each of the Member States, which complement the Issuer's development strategy and focus on the specificities of the development of the Issuer's operations within each Member State, while also setting forth priorities and objectives which correlate with national development priorities, and **medium-term business plan**, which details key financial parameters and stages in the process of meeting the targets and objectives set out in the Issuer's development and country strategies;

- *Tactical level*, including planning instruments reviewed and adopted on an annual basis; the tactical level comprises the **annual business plan**, the instrument that defines financial and non-financial goals for successful development and efficient allocation of the Issuer's efforts and resources to reach targets defined by strategic level documents, and the **budget,** which is based on the annual business plan and communicates financial targets by transforming strategic indicators into planned values;

- *Operational level*, including planning instruments applicable to periods of up to one year; the operations level comprises **plans at the level of business units** (*i.e.*, lending and treasury units), setting out specific measures to meet strategic and tactical goals and objectives.

Re-launch Programme and 2013-2017 Strategy

The Issuer's strategic development goals are currently outlined in the 2013-2017 Development Strategy (adopted in June 2012 at the Issuer's Council 97th meeting held in Hanoi, Vietnam on 6 June 2012) and Re-launch Programme, approved with the unanimity of the Member States' votes in November 2012, at the Issuer's Council 98th meeting held in Moscow on 28-30 November (the "**Re-launch Documents**"). These documents are aimed at transforming the Issuer into a full-service multilateral development institution.

Based on the Re-launch Programme, the main strategic objective of the Issuer is to enhance the Issuer's role within the Member States, by promoting steady growth of mutual trade and investment activities in particular. This is mainly to be achieved by supporting SMEs and socially important projects in the Member States.

Key specific strategic goals under the Re-launch Programme are as follows:

- **Creating and expanding a sustainable and risk-adequate loan portfolio** in accordance with the principles of the renewed credit policy, by focusing on offering credit products with a low risk level, focusing on lending *via* partner banks (for example, by providing special purpose credit facilities for the development of the SME sector in the Member States and participating in syndicated lending) and extending the geographical diversification of investments;

- **Completing the existing loan portfolio rehabilitation programme** by building a steady client base, as well as attracting new reliable borrowers; to this end, the Issuer is currently implementing a number of measures, and participating in a series of meetings and events involving trade missions, investment funds and consulting companies, international financial institutions, as well as development banks operating in the Member States, aimed at developing and establishing new business relations between the Issuer and the representatives of the business circles of its Member States, as well as involving the Issuer in diverse forms of lending, including syndicated lending;

- **Capitalizing on the Issuer's potential as a modern multilateral development bank** by aligning the Issuer's internal regulations, particularly its credit policy and its strategic and current planning, with best practices of modern international development institutions, introducing a new system of risk management consistent with recommendations of the Basel Committee on Banking Supervision, completing KYC and compliance procedures, and operating a full-service compliance control;

- **Introducing a new organisational structure** (with front, middle and back office divisions) and employee incentive scheme consistent with best practices of leading multilateral development banks;

- **Strategic focus on the strengthening of existing partnership relations with financial institutions and other entities and further expansion of the Issuer's global partnership network** through the identification of new potential partners. Until the date hereof, the Issuer concluded more than 20 cooperation agreements with various financial institutions and other entities, including the World Bank, the International Finance Corporation (IFC), the Eurasian Development Bank (EDB), the Bulgarian Development Bank (BDB), CJSC "Bank Credit Suisse (Moscow)" as well as with other major banks operating in the Member States and with their key ministries responsible for economic affairs. The Issuer also participated as an observer or special guest at the annual meetings of the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the Black Sea Trade and Development Bank (BSTDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB) and the World Bank and granted observer status at the Issuer's meetings and activities, thus enhancing networking and regular contacts aimed at exploring cooperation opportunities in agreed areas, to a number of development finance institutions and the VTB Group. In 2016, the Issuer started working with two new major IFIs – the Asian Infrastructure Investment Bank and BRICS' New Development Bank, having also concluded certain financial arrangements with the latter.

- In recent years, the following leading development institutions have invited the Issuer to participate in syndicated lending: IFC (three syndicates), BSTDB (one syndicate), EBRD (one syndicate), EDB (one syndicate under preparation), FMO (two syndicates) and BDB (three syndicates). In particular, accession of the Issuer to the IFC Master Cooperation Agreement on 31 January 2014 allowed the Issuer to streamline the relevant co-financing procedures, thus obtaining the opportunity to participate in syndicated lending projects on a regular basis. The Issuer has also recently joined the Uniform Framework for Preventing and Combatting Fraud and Corruption set up by leading multilateral development institutions, and the Global Emerging Markets (GEMs) Risk Database Consortium, a cooperation forum aimed at sharing expertise, analysing information and creating a comprehensive database on credit risks for multilateral development banks and international financial institutions. The Issuer has joined the United Nations Global Compact and is a member of the Banking Association for Central and Eastern Europe (BACEE) and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and the International Trade and Forfaiting Association (ITFA);

- **Improving the Issuer's brand recognition**, by developing relationships with international and local media, participating in and organising specialised events, becoming a member of relevant associations, further developing its promotional materials and building overall online presence. Relevant activities have already led to significant results – local media in its Member States started covering the Issuer's activities and plans; the Issuer has also been presented in international English-language media; BACEE and ADFIAP awarded the Issuer for the impact of its operations in its Member States, while the Romanian Stockbrokers' Association awarded the Issuer for its local bond placement on the Bucharest Stock Exchange in October 2015; newly developed website of the Issuer has seen almost a three-fold increase since 2014 in the number of unique visitors, continually expanding; the Issuer started organising business events attracting a sizeable audience; and it continues to develop new instruments for its promotion;

- **Expanding the trade finance operations** of the Issuer, based on the Issuer's internal regulations adopted in March 2015 further to the decisions taken during the Issuer's Council 102nd meeting of November

2014 held in Sofia, Bulgaria. The main trade finance products of the Issuer are irrevocable reimbursement undertakings, banking guarantees, counter-guarantees and standby letters of credit and ECA-covered finance, in relation to export activities from the Member States;

- **Maintaining and improving investment grade rating**. The Issuer was rated BBB- with stable outlook by Fitch in December 2013 and A3 with stable outlook by Moody's in August 2014. The outlook by Fitch was changed from stable to negative in March 2014 mainly due to the downgrade of the Russian sovereign rating. In February 2015, the outlook by Fitch was changed to stable, the rating agency having cited a partial insulation of the Issuer from the recent Russian turmoil mainly due to the EUR being the Issuer's functional currency and the Issuer being exempted from EU sanctions against Russian credit institutions due to its supranational status. The rating by Moody's was changed to Baa1 with stable outlook in March 2015. Moody's cited as the main rationale behind this decision the worsening growth prospects of Russia, downgraded by the agency three times between August 2014 and March 2015 (in October 2014, January 2015 and February 2015), as well as of other countries in which the Bank operates. As of 27 October 2015, the Issuer is also rated A with stable outlook by Dagong. Further to the recent re-affirmation of the ratings and outlook by Fitch and Moody's on 5 February 2016 and 24 March 2016, respectively, the Issuer was also assigned a BBB rating with stable outlook by S&P on 9 June 2016. The strategy of the Issuer includes obtaining ratings from other international rating agencies and either maintaining or improving the assigned ratings, in order to build a broad financial recourse base of the Issuer.

Key objectives for 2016 and 2017

For the remaining period of 2016, the Issuer's objectives with respect to its main lending activity are to foster sustainable growth of its loan portfolio using existing, as well as new lending tools, consolidation of the borrowing history, expanding and diversifying liabilities structure, and building and expanding partnership networks, as well as to continue the dynamic growth registered during 2015 (*i.e.*, the total assets of the Issuer at the end of 2015 reached approx. EUR 810 million, exceeding the target by more than EUR 150 million, with raised funds having allowed the Issuer to significantly increase investments in eight of the nine Member States, while at the same time maintaining profitability of its operations).

Within the short-time horizon, the Issuer also intends to continue the reformation and modernization of the management system, as well as the reformation of human resources in order to increase overall professional skills and efficiency of the Issuer's employees.

The Issuer's plans for 2016 and 2017 include the diversification of the product line, including by participating in, or establishing, investment funds, the continuation of development of the range of lending activities, from providing financial resources *via* specialised financial intermediaries to project financing, as well as the diversification of the funding structure through a mix of debt raising operations, including raising capital from the capital markets.

The Issuer also plans to continue to strengthen and expand its relations with financial institutions and to develop financing products in cooperation with such partners.

After 2017, the Issuer intends to renew its long-term development strategy and country strategies for all Member States to continue the fulfilment of its mission and to foster the sustainable growth of its business within the Member States.

Strategic Planning

With 2017 being a transition period between the current and the upcoming 5-year strategy period, the Issuer has started to prepare a new strategic vision for the coming 2018-2022 period. The new strategic vision is aligned and consistent with the Issuer's mission and mandate and further tailored in strategic directions to support and enhance the Issuer's long-term development. The basic concepts underlying the 2018-2022 development strategy of the Issuer were presented at the Issuer's Council 105th meeting in June 2016 held in Budapest, Hungary. The strategic vision for the Issuer's development within the next mid-term period is based on the growth of the effect of the Issuer's operations for the economies of the Member States. It provides the basic approach for the issues of direct/intermediated financing, portfolio diversification, cross-border financing and sustainable development of Shareholder`s economies.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

The Issuer intends to operate as a socially and environmentally responsible development institution. For this purpose, it has joined the United Nations Global Compact – the largest international initiative in the field of sustainable development, having voluntarily submitted to observe the fundamental principles of the United Nations Global Compact on human rights protection, labour relations, environment and corruption fight, in its activities.

The Issuer has been gradually incorporating such principles into its activities, including by adopting its Corporate Social Responsibility Policy and, more recently, its Environmental and Social Impact Assessment Guidelines for the investments it makes, in line with best practices across multilateral development institutions. In 2015, the Issuer started supporting environmental initiatives directly, having provided financial grants for programmes aimed at protecting and preserving rare or endangered species of animals in Mongolia and Vietnam. The commitment to environmental initiatives was reinforced in 2016, with a recent grant having been awarded by the Issuer to WWF Hungary for assessing and mapping water resource risks.

At the end of April 2016, the Issuer set up the SR-IIB Technical Assistance Fund (TAF), with a 1-million EUR contribution by Ministry of Finance of the Slovak Republic. The fund, operating under the Issuer's management, will be used to finance advisory services supporting the Issuer's investment activities in developing countries among its Member States (by OECD classification – Vietnam, Mongolia and Cuba) or supporting these countries' own activities in relation to reforms and modernisation. In order to increase the pool of available resources, the Issuer intends to co-finance assignments under the TAF by up to 25% of the initial contribution by the Slovak Republic, and to actively manage temporarily unallocated resources in order to grow this amount further.

Overall, the Issuer aims to expand non-financial cooperation with various entities, including think tanks and educational establishments, and in doing so to promote and contribute to social and economic development of its Member States.

KEY BUSINESS STRENGTHS

The Issuer believes that its potential for future growth of its business are primarily due to the following strengths:

Status, privileges and immunities

The Issuer is a supranational intergovernmental organisation, benefitting of immunity from the application of all direct taxes and charges (with the exception of charges for public utilities and other services), whether national or local, as well as from the application of customs duties and restrictions on the import and export of articles destined for official use, in the Member States. In particular, no tax is levied by Member States on the profits received from the Issuer's banking activities.

Furthermore, according to the Constitutive Documents, the Issuer itself, representatives of the Member States in the Issuer's Council and officials of the Issuer enjoy such privileges and immunities on the territories of the Member States as are necessary to carry out their functions and attain the purposes set forth in the Constitutive Documents.

As it is generally the case with supranational financial organizations acting on the basis of international treaties, the Issuer is not subject to local regulation by the Central Banks of the Member States, while also being exempt from the general legal treatment applicable to other legal entities operating within the same business as the Issuer on the territory of the Member States. In particular, the Issuer is not subject to regulatory requirements under the Member States' legislation, including with respect to licensing, capital adequacy and information disclosure requirements.

Based on the Constitutive Documents, the Issuer also enjoys privileges which are similar to those granted to diplomatic representations in the Member States with respect to priorities, tariffs and rates applicable to postal, telegraphic, and telephone communication.

The Issuer is not subject to the sector specific sanctions against certain state-owned Russian financial and credit institutions, imposed by the Council Regulation (EU) No 833/2014 of 31 July 2014. Based on a special reservation in the fifth recital of the Council Regulation (EU) No 833/2014 of 31 July 2014, Russian-based institutions with international status established by intergovernmental agreements with Russia as one of the members (such as the Issuer) are not subject to the sanctions set forth thereunder.[1]

Strong capital base

The authorised capital of the Issuer is of EUR 1.3 billion, out of which EUR 313.05 million represent the paid-in capital of the Issuer (following the contribution by Hungary of 9 March 2016).

Out of the unpaid amount of EUR 986.9 million, EUR 811.4 million represent callable capital divided between the Member States and payable by the Member States on call, in the unlikely case that the Issuer fails to meet its obligations, and EUR 175.5 million represent unsubscribed quota, namely the amount which is open for contribution by the actual or new members of the Issuer.

The recent amendments to the Constitutive Documents, adopted at the Issuer's Council 101st meeting of May 2014 held in Havana, Cuba, currently pending ratification by all Member States, provide for an increase of the authorized capital up to the amount of EUR 2 billion. This increase of the Issuer's authorized capital is intended to provide room for potential contributions by new members of the Issuer or for increasing shares both in paid-in and callable capital of the current Member States.

The total equity of the Issuer (including retained profits and other equity funds) amounted to EUR 397.7 million as of 31 December 2015 compared to EUR 389.4 million as of 31 December 2014 and EUR 415 million as of 30 June 2016 compared to EUR 399.5 million as of 30 June 2015.

The key objectives of the Issuer for the years 2016 and 2017 also include the continuation of the diversification of the funding structure through a mix of debt funding operations, including through capital markets operations (see "*Strategy - Key objectives for 2016 and 2017*").

Strong support from Member States

Starting with 2013, the Member States have become increasingly more active in the Issuer's activities, including by adopting, and commencing the implementation of a number of support measures. At the Issuer's Council 99th meeting of June 2013, held in Bratislava, the Member States agreed to inject an additional amount of at least EUR 100 million in the Issuer's paid-in capital, in order to enable the Issuer to finance the key objectives under the Re-launch Documents, thus re-affirming the Member States' common commitment to support the mission-driven status of the Issuer. As of 30 June 2016, all the Member States except Czech Republic and Romania (whose aggregate *pro rata* allocation of the EUR 100 million commitment is of EUR 20.2) have participated in the above capitalization programme..

The Member States have also expressly stated their high level of support for the Issuer's activity through comfort letters issued during the process of obtaining the first Issuer's investment grade rating. By these comfort letters – although not assuming under legally enforceable guarantees – the Member States declared their support with respect to the goals and objectives of the Issuer, primarily consisting of the promotion of the development of economies of Member States, the cooperation among them, and the facilitation of their deeper integration into the world economy. Several heads of delegations of the Member States in the Issuer's Council have also confirmed the support of the Member State which they represented, during their meetings with the rating agencies.

During the past approx. 20 years, Member States have not required any distribution of dividends. Based on a decision of the Issuer's Council, undistributed dividends for a period of more than 20 years were kept as retained earnings. Moreover, as a sign of unanimous recognition of the Issuer's mission and support of its re-launch efforts, at the Issuer's Council 99th meeting of June 2013, held in Bratislava, the Member States decided to transfer a significant portion of the Issuer's retained earnings in the amount of approx. EUR 76 million into the paid-in capital of the Issuer, thus strengthening the capital position of the Issuer. The above amount increased the nominal value of the participation of the Member States *pro rata* to their respective shares in the paid-in capital of the Issuer as at the date of such decision.

[1] Recital 5 of the Council Regulation (EU) No 833/2014 of 31 July 2014 reads: *In this context, it is appropriate to prohibit transactions in or the provision of financing or investment services or dealing in new bonds or equity or similar financial instruments with a maturity exceeding 90 days issued by state-owned Russian financial institutions,* ***excluding Russia-based institutions with international status*** *established by intergovernmental agreements with Russia as one of the shareholders.*

In May 2014, during the Issuer's Council 101st meeting held in Havana, Cuba, the Member States approved a programme containing specific support measures with respect to the Issuer's activity. The basic points included in the support programme are the following:

- The Member States agree to actively promote the Issuer's mission and activities, and affirm that recognising the Issuer in the international community as a multilateral development bank with a supra-national status, benefitting of immunities and privileges similar to those of other multilateral development banks plays a crucial role in the expansion of the Issuer's activity; during meetings with rating agencies, several heads of official Delegations of the Member States have expressed their support for the further development of the Issuer's activity;

- The Member States confirm their support for the Issuer in identifying projects on their territories. Part of the Issuer's ongoing and prospective projects have been identified in cooperation with its Member States;

- The Member States undertake to facilitate the Issuer's access to national capital markets and other sources of funding. Such access may require the adoption of relevant laws or regulations in certain jurisdictions, inclusion of the Issuer in the appropriate lists of multilateral financial institutions that are allowed to make placements on the relevant Member State's market, as well as in the lists of multilateral financial institutions in which pension and other funds and private investors are allowed to invest. The Central Bank of the Russian Federation included the Issuer's bonds on its Lombard list and, pursuant to the Decree of the Government of the Russian Federation No. 852 dated 23 August 2014, the Issuer was added to the list of international financial institutions whose securities can be invested into with pension savings of the state management companies, with the payment reserve resources of the state management companies, and with temporary surplus funds of state corporations and state companies. Other Member States who have also acted towards the facilitation of the Issuer's access to their national capital markets include the Slovak Republic, in which the Issuer has already successfully closed its debut issue of EUR 30,000,000 bonds in October 2014, and the Czech Republic, Bulgaria and Hungary, who have expressed their openness to support bond issuances by the Issuer on their territory. During 2015, the Issuer also successfully placed RON 111,000,000 (approx. EUR 25 million) bonds on the Romanian market – the largest issue by an international financial institution during the past six years in Romania. The RON-denominated bonds were admitted to trading on the Bucharest Stock Exchange in October 2015. In March 2016, the Issuer registered a RUB 100 billion programme of exchange-traded bonds with the Moscow Exchange – the first of its kind by an international financial institution in the Russian Federation.

During 2015 and beginning 2016, the Issuer continued to strengthen its relationships with its Member States and their institutions, including by attending various meetings of inter-governmental commissions, delivering presentations to investors and companies in the Member States, with support from central authorities of the Member States, and hosting a series of events and liaison groups among institutions of the Member States and other countries. The Issuer has also signed and is implementing Memoranda on Cooperation with foreign affairs and/or economic ministries of Hungary, the Slovak Republic, Mongolia and the Russian Federation, and is currently in the process of signing such cooperation documents with the relevant authorities in Romania and Bulgaria. In order to enhance the contacts with its shareholders, the Issuer has also set-up a new platform of cooperation between Member States representatives, namely the Club of International Investment Bank Ambassadors, under which Ambassadors of the Issuer's Member States meet regularly to discuss matters of interest on the Issuer's agenda.

Robust capital adequacy and potential for attraction of funding

The Issuer's capital adequacy ratio established by the Council stands high at minimum 25%, 21 percentage points above the Basel II 4% requirement applicable to tier I capital and 17 percentage points above the Basel II 8% requirement applicable when accounting tier II capital also. As of 30 June 2016, the Issuer's capital adequacy ratio, calculated in accordance with the Basel II methodology stood at 47.2% (for tier I capital) and 51.2% (for total capital *i.e.*, including tier II capital).

As of 30 June 2016, the Issuer attracted short-term funds from financial institutions in the form of deposits amounting to EUR 106.7 million representing 21% of the Issuer's total liabilities as of the same date.

During the past two year, the Issuer has successfully completed a 30 million issue of EUR-denominated bonds on the Slovak market and four issues of RUB-denominated bonds in the aggregate amount of RUB 14 billion on the Russian market. As of 30 June 2016, the outstanding debt for RUB-denominated bonds amounted to EUR 178.5 million. In October 2015, the Issuer placed RON 111 million (approx. EUR 25 million) of 3-year maturity bonds on the Bucharest Stock Exchange. The issue is the largest concluded in Romania by any international financial institution in the past six years, including the most recent issues by the EBRD, the EIB and the BSTDB of RON 100 million, RON 88 million and RON 22 million respectively. Other Member States have expressed their openness for potential issues of bonds by the Issuer on their domestic capital markets.

From mid-2014 and until the date of this Offering Circular, the Issuer had also concluded more than 70 different agreements, including bilateral loan agreements, ISDA, long-term REPO, GMRA and trade finance agreements with financial institutions such as Bulgarian Development Bank, Credit Suisse International, EXIMBANKA SR, Eximbank Hungary, OTP Bank, JP Morgan Securities, International Asset Bank, Raiffeisen Bank International, Tatra Banka, Trade&Development Bank of Mongolia, VTB Bank (France), VTB Capital London, Česká exportní banka, Bank for Investment and Development of Vietnam (BIDV), Industrial and Commercial Bank of China, Eurasian Development Bank, ING, Rosbank, Banca Transilvania, Sberbank Europe etc., and more than 40 such agreements are currently pending negotiation between the Issuer and other current or potential financial partners, including KBC, JP Morgan Securities, Eximbank Hungary, VTB Deutschland, K&H Bank, OTP Bank, Golomt bank and ICBC Standard Bank.

Solid investment grade ratings from rating agencies

The international credit rating agency Fitch assessed the Issuer's reliability by assigning a debut credit rating (BBB- with stable outlook) in December 2013. In February 2015, Fitch re-affirmed the Issuer's stable outlook after having assigned a negative outlook to the Issuer's rating in March 2014 due to the downgrade of the Russian sovereign rating. During the rating process, the agency has also given a positive assessment of the Issuer's business plan and the consistency of its implementation. In February 2016, Fitch maintained the Issuer's BBB- rating with stable outlook citing the Issuer's strong capital, geographic diversification and improved risk management.

Moody's assigned the Issuer an even stronger investment grade rating (A3 with stable outlook) in August 2014. Moody's re-assessed the Issuer's rating to Baa1 in March 2015. Moody's cited as the main rationale behind this decision the worsening growth prospects of Russia, downgraded by the agency three times between August 2014 and March 2015 (in October 2014, January 2015 and February 2015), as well as of other countries in which the Issuer operates. The rating agency also decided to maintain the Issuer's stable outlook, citing the strength of several intrinsic factors of the Issuer. In September 2016, Moody's updated its credit opinion on the Issuer, having confirmed the assigned Baa1 rating and stable outlook of the Issuer. Moody's gave four main reasons for the rating, namely the very high usable equity in relation to development assets, the very low leverage, the sizeable liquid assets to cover debt service and the very large amount of callable capital of the Issuer.

In October 2015, Chinese rating agency Dagong assigned the Issuer an A rating with a stable outlook citing the Issuer's superior capital adequacy and liquidity.

In June 2016, S&P assigned the Issuer a BBB rating with stable outlook on the basis of the Issuer's strong capitalization.

Conservative risk management policy

The Issuer's risk management policy is based on conservative assessments aimed at preventing the adverse impact of risks on the results of the Issuer. As a principle, the Issuer does not enter into potential transactions with high or undeterminable risk level, irrespective of the potential profitability of the deal.

The Issuer upgraded its risk management system in 2013, adopting Basel standards and best practices of modern development banks. The key principles of the Issuer's renewed risk management strategy are as follows:

- profitability is the result of the risk/return trade-off reflected in the bank's risk appetite;
- application of the risk management controls at all levels of internal governance and in all processes; and

- continuous improvement of the risk management eco-system (skills, tools, systems, processes), in line with best market practices.

In accordance with the Issuer's risk management strategy, the Council approves the Issuer's risk appetite, defined as a high level determination of the amount of risk (measured by reference to the allocated capital) the Issuer is willing to accept taking into account the risk characteristics of the overall Issuer's assets and liabilities, and ongoing and prospective operations.

The Issuer's risk appetite indicators generally stand at mid or low levels. For the year 2016, the Council approved a "middle level" risk appetite for credit, market, operational and other risks.

BUSINESS

The following three operating segments of the Group's activity are identified, based on the analysis of the Group's financial statements: (i) credit investment activity, which comprises lending activity including long-term corporate and interbank financing, (ii) treasury, which includes operations in financial markets, transactions with securities, derivative financial instruments, foreign currency and liquidity management and (iii) other operations, consisting mainly of the operational leasing services, credit portfolio management and other non-core operations.

The following table presents revenues from each segment in EUR million for each year ended 31 December 2013, 31 December 2014, and, respectively, 31 December 2015, as well as for the six-month period ended 30 June 2015 and, respectively, 30 June 2016:

(EUR million)	**31 December 2013**	**31 December 2014**	**31 December 2015**	**30 June 2015**	**30 June 2016**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Credit investment activity[1]	- 3.6	3.5	2.1	0.005	4.86
Treasury	12.5	12.8	-0.7	9.4	6.27
Other operations	12.5	2.9	1.7	2.2	2.08
Profit for the period[2]	2.6	4.2	2.1	1.2	5.03

Source: The Financial Statements

[1] The figure shows the interest income and other segment income net of interest expenses, loan impairments and other segment expenses.

[2] The total profit includes other elements such as unallocated income and expenses.

Operating income from the credit investment activity increased by EUR 7.1 million in 2014, from EUR -3.6 million as of 31 December 2013 to EUR 3.5 million as of 31 December 2014, decreased by EUR 1.4 million in 2015, year-on-year, to EUR 2.1 million as of 31 December 2015 and, as of 30 June 2016, increased by EUR 4.86 million on a year-on-year basis, from EUR 0.005 million as of 30 June 2015 compared to EUR 4.86 million as of 30 June 2016.

Treasury operating income amounted to EUR 12.8 million as of 31 December 2014, increasing by EUR 0.3 million compared to EUR 12.5 million as of 31 December 2013, decreasing by EUR 13.5 million year-on-year, to EUR -0.7 million as of 31 December 2015 mostly due to trading operations in foreign currencies, and to EUR 6.27 million as of 30 June 2016, decreasing by EUR 3.13 million or 33% compared to EUR 9.4 million as of 30 June 2015, due to shrinkage of net interest income from changing investment securities exposure to the higher rating range and lower income from forex operations.

Other operating income (such as income from lease of investment property, interest income from operations other than lending, investment and treasury) amounted to EUR 12.5 million as of 31 December 2013 and decreased to EUR 2.9 million or by 76.8% as of 31 December 2014 due to a decrease in the operating activity of subsidiary. In the first six months of 2016, operating income from other operations amounted to EUR 2.08 million as of 30 June 2016 decreasing by EUR 0.12 million or 5% compared to EUR 2.2 million as of 30 June 2015.

In 2014, profit increased by EUR 1.6 million or 61.54%, from EUR 2.6 million as of 31 December 2013 to EUR 4.2 million as of 31 December 2014. In the first six months of 2016, profit increased by EUR 3.83 million or 319% from EUR 1.2 million as of 30 June 2015 to EUR 5.03 million as of 30 June 2016. Decrease in 2015 as compared to 2014 was mostly due to low trading income from available-for-sale investment securities.

In terms of the Group's assets, the net value of the assets of each segment in EUR million was as follows for each year ended 31 December 2013, 31 December 2014 and, respectively, 31 December 2015, as well as for the six-month period ended 30 June 2015, and respectively 30 June 2016:

(EUR million)	**31 December 2013**	**31 December 2014**	**31 December 2015**	**30 June 2015**	**30 June 2016**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Credit investment activity..................	101.5	240.3	306.3	256.0	416.4
Treasury...	189.2	262.4	400.2	333.9	403.4
Other operations................................	120.4	108.8	102.9	112.05	101.84
Total assets.......................................	411.1	611.5	809.4	701.9	921.6

Source: The Financial Statements.

Assets allocated for credit investment activity increased by EUR 138.8 million or by 136.75% in 2014, from EUR 101.5 million as of 31 December 2013 to EUR 240.3 million as of 31 December 2014, by EUR 66 million or 27.5% as of 31 December 2015, year-on-year, to EUR 306.3 million and by EUR 160.4 million or 62.6%, from EUR 256 million as of 30 June 2015 to EUR 416.4 million as of 30 June 2016.

Assets allocated for treasury activity amounted to EUR 262.4 million as of 31 December 2014, increasing by EUR 73.2 million or 38.69% compared to EUR 189.2 as of 31 December 2013, to EUR 400.2 million as of 31 December 2015, increasing by EUR 137.8 compared to the same period of 2014 and to EUR 403.4 million as of 30 June 2016, increasing by EUR 69.5 million or 20.8% compared to EUR 333.9 million as of 30 June 2015.

In 2014, the value of other assets of the Group (such as investment property and fixed and other assets) decreased by EUR 11.6 million or 9.63%, from EUR 120.4 million as of 31 December 2013 to EUR 108.8 million as of 31 December 2014. In 2015, the other assets decreased by EUR 5.9 million or 5.4% year-on-year, to EUR 102.9. As of 30 June 2016 the total value of other assets increased by EUR 219.7 or 31.3% year-on-year, from EUR 701.9 million as of 30 June 2015 to EUR 921.6 million as of 30 June 2016.

Credit investment activity

Lending business in general

Starting with 2013, the Issuer clarified the priorities of its loan operations both in terms of its institutional and industry focus and in terms of principles of selecting partners and counterparties. The lending activity of the Issuer is mainly aimed at facilitating the development of SMEs in Member States and the support of sustainable projects in these countries. The Issuer's key strategic counterparties are national development institutions, export and import banks and agencies, international financial organisations and development banks.

The main financial instruments developed and currently offered by the Issuer are the following:

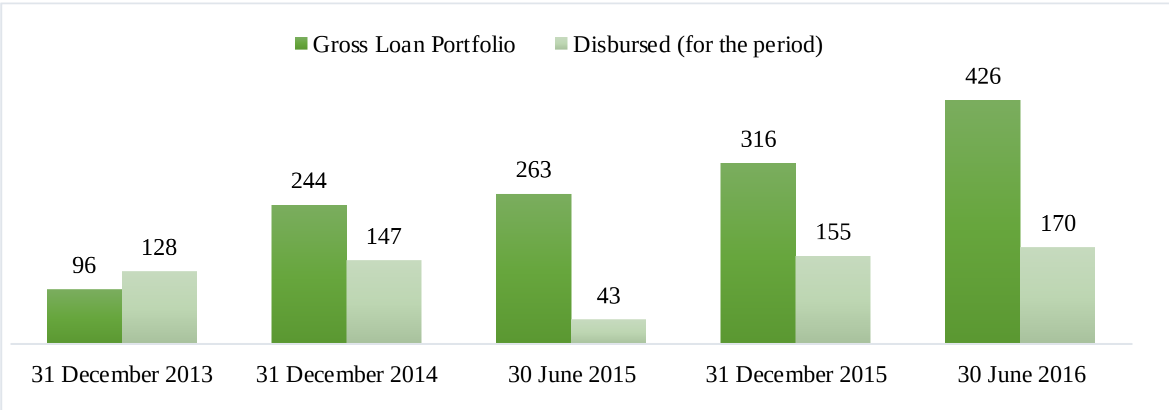
- *in the SME segment*: credit lines through selected financial institutions and syndicated loan facilities with maturity from one to seven years and loan volumes up to EUR 122 million;

- *for corporate and other borrowers (national development banks and other financial institutions)*: syndicated loans for financial institutions from the Member States with loan maturity from one to 15 years, project finance loans for financial institutions from the Member States with loan maturity from three to 15 years, and syndicated loans for investment projects with loan maturity from three to 15 years, in each case with loan volume up to EUR 50 million.

As of 30 June 2016, amounts of loans granted by the Issuer to the clients range between EUR 2.5 and EUR 50.0 million.

In line with its key objectives under the Re-launch Documents, the Issuer also intends to undertake investment in funds, as well as equity investments in SMEs with volumes up to EUR 10 million, and other equity investments with volumes up to EUR 20 million, with clear exit strategy within three to seven years.

The following chart shows the development of the Issuer's gross loan portfolio in the years ended 31 December 2012, 2013, 2014, 2015 and the period ended 30 June 2016 in EUR million:



Source: The Financial Statements.

The Issuer's net loan portfolio is 66.5% denominated in EUR. As of 30 June 2016, approx. 33.5% of the Issuer's loan portfolio net of allowance consisted of loans extended in USD. No part of the Issuer's loan portfolio is securitised.

In terms of maturity, as of 30 June 2016, 0.03% of the outstanding amounts net of allowance under long-term loans to banks are to be repaid less than one month, 14.8% are to be repaid within one to three months, 9.1% are to be repaid within three months to one year, 71.7% are to be repaid within one year to five years and 4.4% over five years.

As of 30 June 2016, 5.05% of the outstanding amounts net of allowance under loans granted to corporate clients are to be repaid within less than one month, 0.09% to be repaid within one to three months, 31.9% to be repaid within three months to one year, 41.9% to be repaid within one year to five years and 19.3% over five years.

As of 30 June 2016, non-performing loans ("**NPLs**") coverage ratio was of 65.4%.

Approach to SME lending

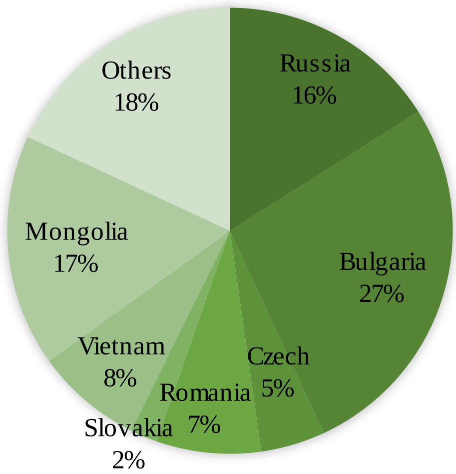
As at 30 June 2016, 22% (approx. EUR 93.1 million) of the Issuer's net loan portfolio was provided to the SME segment through financial intermediaries. The Issuer considers the financing of the SME segment as one of the main focus points of its mission, particularly due to the dynamic and growing importance of SMEs in the economy of its Member States. Under the current Issuer's SME support programme, funds are provided by the Issuer to its financial intermediaries who thereafter use such funds for the purposes of SME project financing. The Issuer supervises proper utilisation of the funds through monitoring a number of key parameters of the financing (*e.g.*, business activity, structure of shareholder/ participants, annual sales) to the ultimate SME borrowers.

The following areas are considered as priorities for the Issuer's SME financing:

- *Innovation*: this includes technology start-ups, companies with potential in the trade of new technologies based on its existing intellectual property and/or know-how, as well as acquisitions of new equipment (under five years old);
- *Modernisation*: financing the acquisition of technologies, real estate and other capacities, necessary for the expansion of production;
- *Resource and energy efficiency*: this includes the financing of equipment aimed at calculating and optimizing the use of resources;
- *Social responsibility*: financing of projects aiming to encourage mutual exchange between the Member States in terms of technology transfer, know-how and workforce, as well as projects aiming to stimulate employment and the creation of new jobs in the Member States.

Industry sectors and geographic structure of the loan portfolio

In terms of geographic distribution, the structure of the gross loan portfolio (before allowance for loan impairment) as of 30 June 2016 was the following:



Source: The Financial Statements.

As at 30 June 2016, the aggregate amounts of the long-term loans granted to the top five banks (in terms of the amount of the loans extended to them by the Issuer) amounted to EUR 82.2 million, representing 66.7% of the total amount of the long-term loans granted to banks by the Issuer. By comparison, as at 30 June 2015, the total amount of such loans was of EUR 85.1 million, representing 65.6% of the total amount of the long-term loans granted to banks by the Issuer.

Out of the total amount of the loans extended to banks by the Issuer, as of 30 June 2016, 41% were provided to the banks based in Mongolia, 32% to the banks based in the Russian Federation, 27% to the banks based in Vietnam.

Also, as at 30 June 2016, the Issuer had extended loans to corporate clients in the amount of EUR 293.2 million loans net of allowance for loan impairment, out of which 38% was provided to corporate clients based in the Republic of Bulgaria, 11% to corporate clients based in Romania, 10% to corporate clients based in Russian Federation, 7% to corporate clients based in Mongolia, 7% to corporate clients based in the Czech Republic, 3% to corporate clients based in Slovak Republic, and 25% to corporate clients based in other countries.

In terms of sector concentration, as at 30 June 2016, 28% out of the Issuer's gross loan portfolio to corporate clients was provided to corporate clients active in production and transmission of electrical energy, 18% was provided to clients active in the leasing industry, 10% to building construction companies, 7% to clients active in the chemical production industry, 7% to clients active in manufacturing of electrical equipment industry, 7%

metalworking industry, 7% to food and beverage companies, 5% to transportation companies and 11% to clients active in other industries.

Interest income and margin

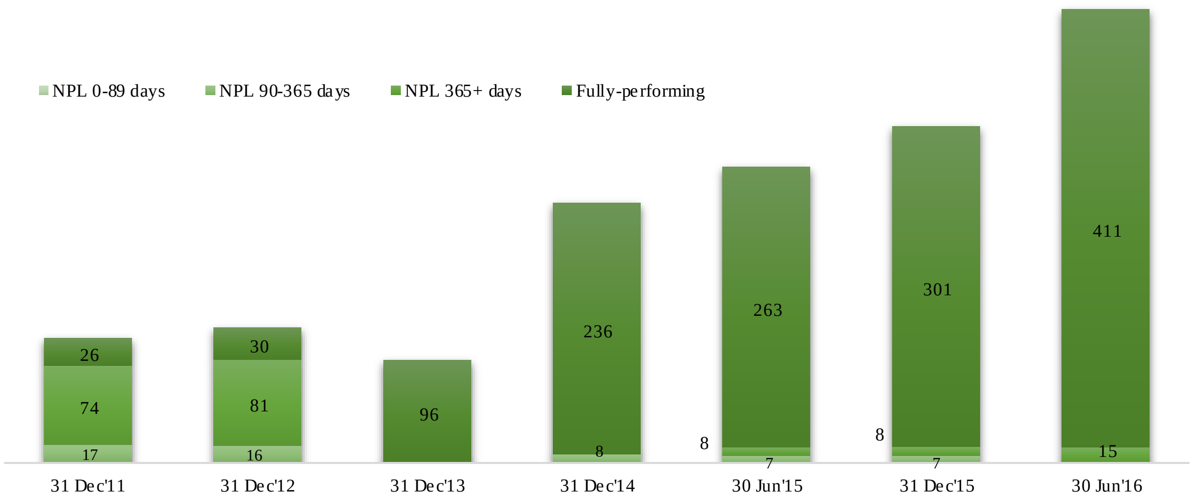
Increase in the lending activity of the Issuer during the years ended 31 December 2014 and, respectively 31 December 2015 and, respectively the six-month period ended 30 June 2016 has led to an increase in the Issuer's interest income in the same periods. Interest income increased by EUR 3.4 million or 26% during the year 2014, from EUR 13.4 million as at 31 December 2013 to EUR 16.8 million as at 31 December 2014. In 2015, the Issuer's interest income increased by EUR 10.3 million or 62% year-on-year, to EUR 27.1 million as at 31 December 2015. In the first six months of 2016, the Issuer's interest income increased by EUR 4.1 million or 34% year-on-year, from EUR 12.1 million as at 30 June 2015 to EUR 16.2 million as at 30 June 2016.

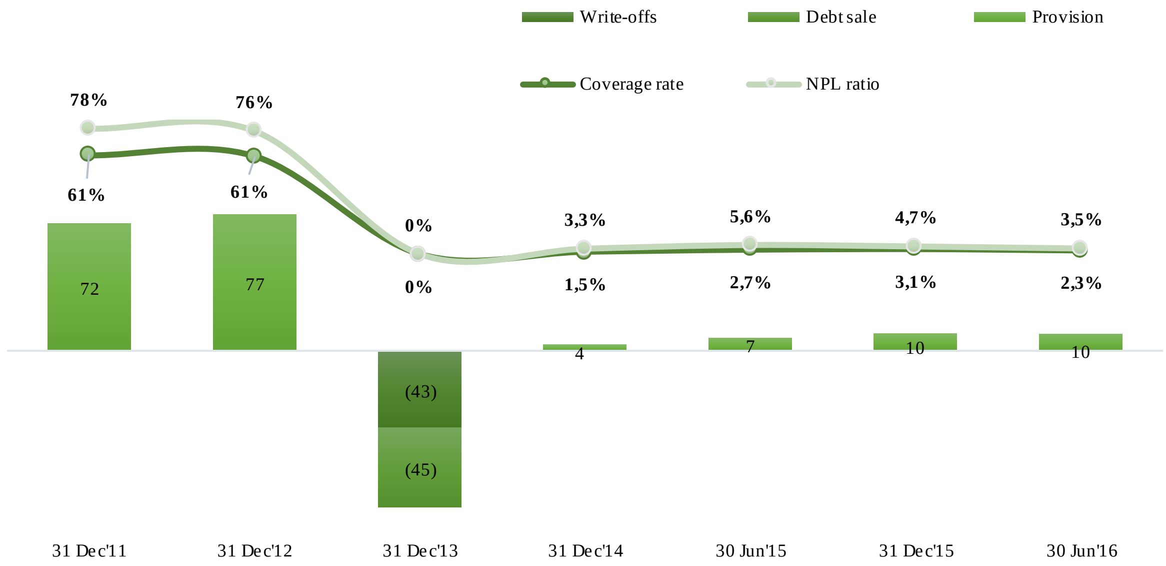
The Issuer's total net interest income before allowance for loan impairment was of EUR 9.4 million as at 31 December 2015, compared to EUR 12 million as at 31 December 2014 and EUR 12.9 million as at 31 December 2013, representing a decrease of EUR 0.9 million or 7% in 2014 and 21.6% or EUR 2.6 million in 2015. In the first six months of 2016, the Issuer's total net interest income before allowance for loan impairment was of EUR 3.05 million, having decreased by EUR 1.5 million or 33% year-on-year, compared to EUR 4.5 million as at 30 June 2015.

Net interest margin (before allowance and including hedged percentages exchange rates of cross-currency interest-rate SWAP) decreased by 0.4 percentage points in 2014, from 4.1% as at 31 December 2013, to 3.7% as at 31 December 2014 and by 0.6 percentage points in 2015, to 3.1% as at 31 December 2015 mainly due to extended borrowing activities. The Issuer's net interest margin as of 30 June 2016 was 2.7%, compared to 3.4% as of 30 June 2015, having decreased by 0.7 percentage points year-on-year.

Non-performing loans

Until 2013, the Issuer had a significant historic burden in terms of the NPLs, which it managed to settle by 31 December 2013. Total value of NPLs as of 31 December 2012 was EUR 96.6 million, whereas total number of NPLs was 11. Significant part of the NPLs portfolio, in the amount of approx. EUR 54.7 million was sold in 2013 and the Issuer's Council agreed to write off the remaining part of the NPLs by 31 December 2013. The following charts show the development of the NPLs within the Issuer's aggregate credit portfolio and loan loss provisions as at 31 December 2011, 2012, 2013, 2014, 2015 and, respectively, the first six months of 2016:





Source: The Financial Statements.

The coverage ratio is calculated as ratio between the total amount of loan loss provisions and the core oustanding amounts under the loans extended by the Issuer.

Loans to borrowers in the Republic of Cuba, 100% provisioned, are not included in the diagrams above (see "*Business - Credit investment activity – Deposits with the National Bank of the Republic of Cuba*").

Provisions for NPLs represented 2.3% (EUR 9.67 million) of the total outstanding amount under the loans granted by the Issuer as of 30 June 2016, compared to 2.7% (EUR 7.2 million) as of 30 June 2015, increasing by EUR 2.5 million or 34.5% year-on-year. As of 31 December 2015, the Issuer's total NPL exposure amounted to EUR 14.9 million, triggered by the delinquency of a Slovak company, under a 8.1 million EUR secured project financing facility signed in 2010 (prior to the adoption of the Re-launch Documents) and of a Bulgarian real estate developer with respect to a EUR 6.7 million loan extended by the Issuer.

The total amount of provisions made according to internal provisioning instructions of the Issuer represented 3.1% (EUR 9.8 million) of total outstanding amount under the loans granted by the Issuer as of 31 December 2015, compared to 1.5% (EUR 3.6 million) as of 31 December 2014 and to nil as of 31 December 2013.

The Issuer's NPLs coverage ratio was 65.4% as of 30 June 2016.

Deposits with the National Bank of the Republic of Cuba

As part of the restructuring of the Cuban debt, the Issuer's Council 100th meeting of 5-6 December 2013 held in Moscow approved the conversion in EUR of the historic debt of the Republic of Cuba towards the Issuer, as well as a partial write-off of the Issuer's receivables against borrowers in the Republic of Cuba. The Issuer and the Republic of Cuba also agreed upon the principles and terms of the settlement of the remaining debt. The debt was restructured, and an impairment allowance covering 100% of the EUR 35 million aggregate amount of the debt was established. Given the above, the Issuer believes that the exposure to borrowers in the Republic of Cuba is neutralised and it is unlikely to have any further impact on the financial condition of the Issuer.

Trade finance

As part of its re-launch strategy began in 2012 (see "*Strategy – Re-launch Programme and 2015-2017 Strategy*"), the Issuer commenced to broaden its portfolio of trade finance products to provide its customers with the full range services, including irrevocable reimbursement obligations, banking guarantees, counter-guarantees, standby letters of credit, covering trade finance operations of counterparty banks, and ECA-covered finance, covering export from the Member States.

In April 2014, the Issuer executed a Multilateral Memorandum on Cooperation with a number of ECAs from Member States, including EXIAR, EXIMBANKA SR, EGAP, BAEZ and EximBank Romania. Pursuant to the Memorandum, the Issuer will act as a bridging financing institution, while the ECAs will provide insurance coverage in relation to projects carried out in cooperation by Member States. The Memorandum has been subsequently joined by other ECAs. Thanks to its relationships with ECAs, the Issuer was also recently included in the exclusive list of currently only 10 multilateral financial institutions rated under the OECD Export Credits Arrangements.

In 2015, the Issuer launched its new trade finance products, particularly aimed at increasing exports of goods from Member States to other countries, having successfully completed multiple trade finance deals, by issuing irrevocable reimbursement undertakings by order of Russian and Belorussian issuing banks in favour of, among others, Československá obchodní banka a.s. (Czech Republic), Československá obchodní banka a.s. (Slovak Republic), K&H Bank ZRT (Hungary), Raiffeisen Bank International AG (Austria), Commerzbank AG (Germany), Sberbank CZ a.s. (Czech Republic),Aktif Yatirim Bankasi A.S. (Turkey) etc. in deals supporting export of different kinds of high-technology equipment from the Czech Republic, the Slovak Republic, Hungary to Belarus and Russia as well as support of export from People Republic of China and Turkey to Russia. In 2016, the Issuer continued to expand its trade finance activity, including by supporting export from Czech and Slovak Republics to the Republic of Belarus for a total amount of EUR 9.4 million.

Treasury - investment and trading activities

In 2014, the value of the Group's treasury assets increased by EUR 73.2 million or 38.7% from EUR 189.2 million as of 31 December 2013 to EUR 262.4 million as of 31 December 2014, whereas, in 2015, the value of such assets increased by EUR 138 million or 52.5% year-on-year to EUR 400.2 million as of 31 December 2015. As of 30 June 2016, the value of the Group's treasury assets increased by EUR 69.5 million or 20.8% year-on-year, to EUR 403.4 million. A significant part of the Group's income is generated by its investment and trading activities, having increased by EUR 0.3 million or 2% in 2014, from EUR 12.5 million as of 31 December 2013 to EUR 12.8 million as of 31 December 2014, decreased by EUR 13.5 million or 105% year-on-year in 2015 to EUR -0.7 million as of 31 December 2015, and, respectively declined by EUR 3.1 million or 33.3% year-on-year in the first six months of 2016, from EUR 9.4 million as of 30 June 2015 to EUR 6.3 million as of 30 June 2016.

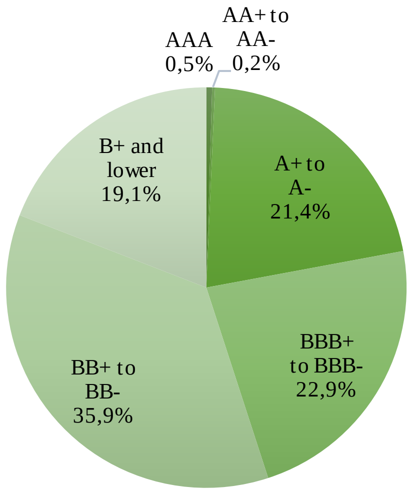
The Group's portfolio of available-for-sale investment securities decreased by EUR 91 million or 70.05% in 2014, amounting to EUR 38.9 million as at 31 December 2014, as compared to EUR 129.9 million as at 31 December 2013. As of 31 December 2015, the value of the Group's portfolio of available-for-sale investment securities increased by EUR 77.2 million or 198.5% compared to the same period of 2014, to EUR 116.1 million. As of 30 June 2016, the Issuer's available-for-sale investment securities portfolio increased by EUR 47.8 million or 41.2% to EUR 163.8 million and consisted of government bonds of the Member States *i.e.*, EUR-denominated and USD-denominated securities issued or guaranteed by the Ministries of Finance of these countries, maturing in 2018 - 2027, while the annual coupon rate for these bonds varied from 2.0% to 6.3%.

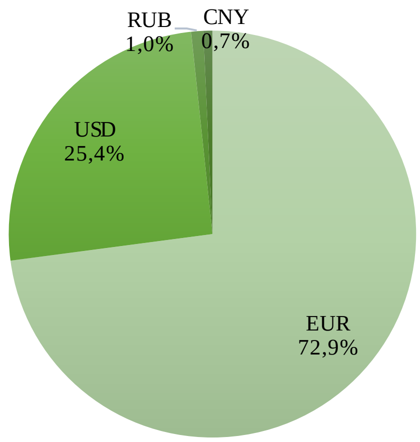
The treasury division of the Issuer conducts its operations within a comprehensive framework set forth by regulations adopted by the Council and the Board of the Issuer and the guidelines established by the Issuer's Financial Committee. The treasury operations of the Issuer include short-term money market operations, including REPO operations with the Issuer's portfolio of high-quality marketable securities The Issuer's treasury division is guided by the principles of transparency, accountability and profitability within conservative risk and limitations parameters.

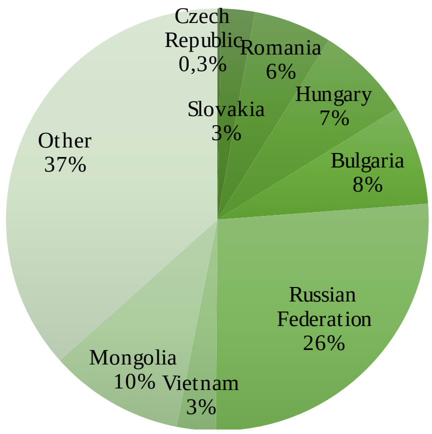
The Issuer's treasury policy is outlined in the Re-launch Documents and the Issuer's investment policy statement adopted on a yearly basis by the Issuer's Board. In line with these documents, the main objective of Issuer's treasury operations is to effectively manage the Issuer's liquid assets in order to safeguard their liquidity, protect the Issuer's capital and generate a stable financial return.

Treasury activities are regarded by the Issuer as ancillary to its main lending activities, generating return which may be further used to support the Issuer's financing operations within the Member States.

As of 30 June 2016 the diversification of assets under Treasury management by ratings, currencies and countries was as follows:





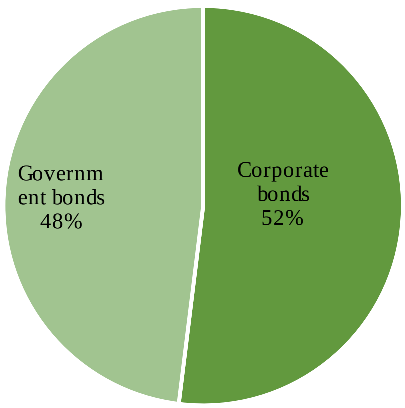


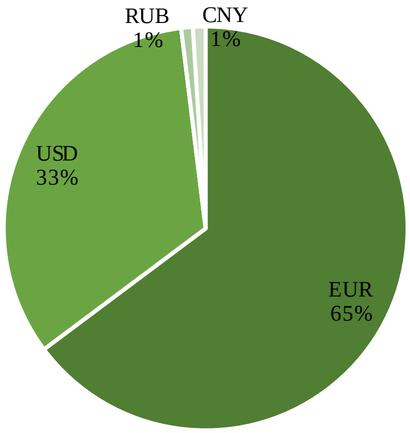
Source: The Financial Statements.

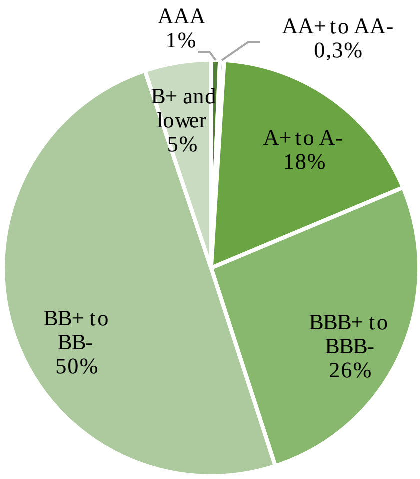
Primarily, the Issuer's investment securities portfolio is composed of high-quality marketable sovereign and corporate debt securities with the fixed income issued by Member States and entities from Member States. A part of these securities are being held to maturity.

As of 30 June 2016, the Issuer's securities portfolio also included EUR-denominated bonds issued by Romania and the Russian Federation, maturing in 2018-2025 and having an annual coupon rate ranging from 2.75% to 4.0%, as well as corporate bonds issued by major companies and banks from the Member States, maturing between 2017 and 2024 and having an annual coupon rate ranging from 3.035% to 7.75%. As at 30 June 2016, bonds issued by Member States and other governments in the region represented 78.8% of the total value of the Issuer's securities portfolio. All investments in corporate bonds were made in respect of fixed income securities. As of 30 June 2016, bonds rated BB- to AAA represented 100% of the total value of the Issuer's corporate bonds portfolio.

As of 30 June 2016, the diversification of the securities portfolio by types of instruments, currencies and ratings, was as follows:







Source: The Financial Statements.

The table below shows the break-down of the Issuer's available-for-sale securities and held-to-maturity securities, based on currency, amount and duration to maturity, as of 30 June 2016*:*

Type of securities	***Currency***	***Amount (EUR million)***	***Average Duration to Maturity***
Held-to-maturity	EUR	54.826	5.1Y
	USD	56.071	5.9Y
	RUB	2.561	1.7Y
	Total equivalent in EUR million:	113.5	
Available-for-sale	EUR	124.817	6.2Y
	USD	36.217	4.9Y
	CNY	2.815	2.8Y
	Total equivalent in EUR million:	163.9	

Source: Information in column "Amount" and "Average Duration to Maturity" is extracted from the Group's management report.

In 2014, the Issuer decided to reclassify part of the securities portfolio as held-to-maturity in line with the International Accounting Standards IAS 39. The main goal for the reclassification was to secure earnings in form of permanent and steady coupon income at a moderate level of risk, while avoiding daily volatility in mark-to-market valuations. In July 2016, the entire held-to-maturity portfolio was transferred to available-for-sale with the additional capital gain. This action allowed the Issuer to sustain and improve its liquidity position in the face of high financial market volatility as well as to enhance its portfolio investment quality by using previously unutilised liquid assets to invest in securities with higher credit ratings, namely A-rated securities.

Foreign exchange risk is mitigated by using different hedging techniques, using derivatives or currency swaps. In line with the Issuer's commitment to keep up with regulatory environment relating to derivatives, these operations are carried out based on ISDA Master Agreements concluded with partners. The Issuer also conducts its operations by observing the standards set forth in the European Market Infrastructure Regulation (EMIR) adopted at EU level.

In 2014, the Issuer adhered to ISDA 2013 EMIR NFC Representation Protocol and ISDA 2013 EMIR Portfolio Reconciliation, Dispute Resolution and Disclosure Protocol.

Other operations

The Group also carries out several non-core activities, mainly through the Subsidiary, primarily consisting of lease operations with respect to its building. The Group rents out part of its building under operating lease agreements. As of 31 December 2015, the Group's revenues from lease of property decreased by EUR 2.9 million or 35% to EUR 5.2 million, as compared to EUR 7.9 million as of 31 December 2014. As of 30 June 2016, such revenues decreased/ by EUR 1.3 million or 42% to EUR 1.8 million, as compared to the same period of 2015.

COMPETITION

The Issuer operates in a relatively competitive market for the provision of financing for development projects. At first glance, the Issuer's principal competitors are national, regional and other international development banks as well as large local commercial banks operating within the region. As the Issuer's mission is to support economic growth and development in Member States, the Issuer attempts to avoid direct competition with commercial banks to the extent possible.

The Issuer does not, however, believe that it faces significant competition from small- or medium-sized commercial banks active in the region, which generally target different industries than the Issuer and offer shorter-term financing products, at less competitive interest rates. The Issuer also believes that its clearly defined mission and lending criteria, combined with the unique part of its mandate to foster economic cooperation between its Member States, spread on three continents, and to support relevant projects, do not generally overlap with those of other development banks active in the same region as the Issuer. On the contrary, the Issuer seeks to partner with other development banks in accomplishing its objectives, having already co-financed projects with leading development institutions such as the International Finance Corporation (IFC), the Black Sea Trade and Development Bank (BSTDB), the Eurasian Development Bank (EDB), the European Bank for Reconstruction and Development (EBRD) and the Netherlands Development Finance Company (FMO), as well as having concluded cooperation agreements with other such institutions.

RELEVANT GEOGRAPHIC MARKETS

For the reasons of achieving the Issuer's mission, which is to promote development of economies of the Member States, the Issuer's loan and trading portfolio includes, and, most likely, will continue to include, concentrations in particular Member States. Accordingly, the economic situation in the Member States affects the financial conditions and prospects of the Issuer. This section of the Offering Circular sets out certain high level information about the macroeconomic situation in the Issuer's relevant geographic markets, as well as about the Issuer's main completed, pending or prospective operations in such markets.

The Issuer has developed country strategies for each Member State, which complement the Issuer's 2013-2017 development strategy, focus on the specificities of the development of the Issuer's operations within each Member State and identify potential partners and counterparties of the Issuer within the respective Member State.

Czech Republic

The Czech Republic has an open economy with strong links in supply chains and direct investments with Western Europe, in particular Germany. This is one of the reasons why the World Bank ranks the Czech Republic 36th among the world's most attractive countries for doing business (*source*: The World Bank 2016 Doing Business Report). After the discontinuation of the overly tight monetary policy following the 2008/2009 crisis, export demand has picked up, leading to a recovery during 2013. The country's economic growth reached 2% at the end of 2014 and is expected to have reached 4.5% in 2015. GDP growth in 2016 is forecasted to fall at 2.3%%, with a slight recovery to 2.7% in 2017 (source: Country Report Czech Republic 2016, European Commission). Current account balance registered a 0.6% of GDP deficit in 2014 and 1.5% in 2015 and is expected to return to positive in 2016 and 2017, at 1.0% and 0.5% of GDP, respectively (*source*: IMF). The Czech Republic is rated AA- with a stable outlook by S&P, A1 with a stable outlook by Moody's and A+ with a stable outlook by Fitch.

General government gross debt as percentage of GDP has improved in 2014, reaching 42.6% and 41.0% in 2015, and is expected to slightly fall to 40.5% in 2016 (*source*: IMF).

Trade finance products, launched by the Issuer in 2015, have been especially popular in the Czech Republic – since then Issuer has issued its 18 trade finance deals (IRUs) in favour of CESKOSLOVENSKA OBCHODNI BANKA, A.S., Commerzbank AG, Sberbank CZ A.S., CESKA SPORITELNA A.S. supporting export operations of Czech Republic for total amount of EUR 12.2 million. The Issuer has successfully covered payments under seven expired trade finance deals for the total amount of EUR 4. 0 million. Ten new trade finance deals (IRUs) were concluded by the Issuer within the first eight months of 2016, supporting export from Czech Republic, for a total amount of EUR 7.3 million. In January 2016, the Issuer also disbursed the first tranche of a EUR 35 million credit facility signed in December 2015 with a Czech manufacturer of high-quality forgings, castings and ingots from steel and cast iron – the first loan granted by the Issuer to a Czech borrower in over 20 years.

The Issuer expanded its Czech-based partnerships by concluding a Global Master Repurchase Agreement with Česká exportní banka in September 2015 and by concluding an ISDA Master Agreement with Sberbank CZ in July 2016.

The Czech Republic also expressed its support for a prospective issuance of bonds by the Issuer on the Czech capital market.

Hungary

Hungary ranks 42th among the world's most attractive countries for doing business (*source*: The World Bank 2016 Doing Business Report), being one of the most open transitional economies in Eastern Europe. GDP registered a 1.9% growth in 2013, a 3.7% growth in 2014 and a 2.7% growth in 2015, year-on-year, and is expected to continue its expansion by 2.1% and 2.5% in 2016 and 2017, respectively (*source:* Country Report Hungary 2016, European Commission).

Current account balance stood positive at 5.0% of GDP in 2015 and is expected to continue to increase at 5.6% of GDP and 6.3% of GDP in 2016 and 2017, respectively (*source:* European Commission).

General government debt as percentage of GDP was 76.9% in 2014 and 75.5% in 2015 and is expected to decrease to 74.7% and 73.9% in 2016 and 2017, respectively (*source*: IMF).

International rating agencies acknowledge the country's relatively stable financial state. Ratings levels are BB+ by S&P, Ba1 by Moody's and BBB- by Fitch.

Recent operations of the Issuer in Hungary include the issuance of irrevocable reimbursement undertakings in favour of Hungarian banks, having contributed to foreign trade operations of the country. In October 2015, the Issuer also concluded an ISDA Master Agreement with OTP Bank, followed by a Strategic Cooperation Agreement with the same party in June 2016. In June 2016 the Issuer has concluded an ISDA Master Agreement with Eximbank Hungary. Also in June 2016, the Issuer and the Ministry of Foreign Affairs and Trade of Hungary signed a Memorandum of Understanding providing a basis for coordination of activities between the Issuer and the Hungarian authority in such areas as credit support for SMEs, implementation of export-import operations, investments and sustainable development financing.

Mongolia

The country's economic growth reached a rate of 7.8% at the end of 2014 and is estimated to have reached 2.3% at the end of 2015. The Mongolian natural resources extraction sector was hit hard by the drop in commodity prices. Low commodity prices are expected to curtail Mongolia's growth sharply to 0.8% per annum in 2016 and 3% in 2017 (*source*: World Bank, IMF) as mining accounts directly for 20 percent of the economy.

Non-mineral GDP growth depends in part on the pace of Development Bank of Mongolia's disbursements for investments in public investment projects and the extent to which the Bank of Mongolia's stimulus programs are continued.

The inflation rate was 12.9% in 2014 and decreased to 7% in 2015, reaching 1.9% in December (*source*: World Bank). The overall fiscal deficit in 2014 was 11% of GDP year-on-year and is expected to decline to 8-9% of GDP in 2015 and 6-7% of GDP in 2016 (*source*: IMF).

The country's trade policies feature substantial flexibility and low tax barriers compared to the majority of other developing economies in the central Asian region. Nevertheless, Mongolia's narrow economic base has left the country highly vulnerable to external shocks—minerals account for 90 percent of all exports, and 90 percent of these are bound for China ("From Natural Resource Boom to Sustainable Economic Growth: Lessons for Mongolia" IMF Working Paper, April 15).

Under the circumstances, Mongolian government strives to strengthen and expand its external trade. At the beginning of 2015, Mongolia signed its first bilateral free trade agreement with Japan. The agreement provides for elimination of 5% export tax on imports of new Japanese-manufactured cars. Current account balance stood negative at -8.2% of GDP in 2014 and -8.4% of GDP in 2015, but significantly improved from a deficit of 25.4% of GDP in 2013 (*source*: IMF).

Mongolia is rated B with a stable outlook by S&P, B2 with a negative outlook by Moody's and B with a stable outlook by Fitch. Mongolia's long-term economic prospects are improved due to increasingly educated population and vast potential from mineral wealth. However, the economy faces significant short-term challenges, of which most important are the country's high external financing needs, falling foreign direct investments and the negative terms of trade shock (*source*: World Bank).

As of 30 June 2016, loans extended by the Issuer to clients in Mongolia amounted to more than EUR 71 million.

In 2015, the Issuer has also concluded ISDA Master Agreements and Global Master Repurchase Agreements with Trade&Development Bank of Mongolia, Khan Bank and XacBank.

Republic of Bulgaria

Bulgaria joined the European Union in 2007. This led to some immediate international trade liberalisation, without significant shock to the economy.

Bulgaria's real GDP is expected to have grown by 2.2% in 2015, driven mainly by exports and falling oil prices, before dropping to 1.5% in 2016, as the boost from factors including EU funds absorption weakens. GDP growth, however, is set to recover to 2.0% in 2017 as domestic demand strengthens (*source*: European Commission).

The current account balance registered a small surplus (0.7% of GDP) in 2014. Bulgaria's current account surplus is forecast to decrease from 2.1% of GDP in 2015 to 1.6% of GDP by 2017 (*source*: European Commission). With the objective of boosting EU funds absorption and supporting national reform programme, in September 2015, the World Bank and Bulgaria signed a new Memorandum of Understanding on partnership and support in the implementation of the European Structural and Investment Funds for 2014-2020 period (*source*: World Bank).

Bulgaria is rated BB+ with a stable outlook by S&P, Baa2 with a stable outlook by Moody's and BBB- with a stable outlook by Fitch.

The main operations of the Issuer in Bulgaria consist of the extension of loans to corporate clients, mainly active in the field of manufacturing, construction of buildings and transport and warehousing.

In June 2015, the Issuer has also concluded a Global Master Repurchase Agreement with Bulgarian Development Bank.

Republic of Cuba

As of 2011, the Cuban economy has been undergoing a wide-ranging transformation process, marked by need to loosen socialist policies and the desire for firm political control. Limited economic reforms have been incrementally implemented since then, *inter alia* to allow private ownership and sale of real estate and new vehicles and to open some retail sectors to private entrepreneurship initiatives. Since 2011, Cuba's GDP has grown at steady rates between 1-3% year-on-year (*source*: www.cia.gov). The country's prospects have been slightly reinvigorated further to the restoration of the diplomatic relations with the United States in 2015.

After writing-off the historic debt of the Republic of Cuba in 2013, the Issuer re-affirmed its support and intention to contribute to the country's economic and social development once with the execution, on 24 June 2016, of the Agreement on Cooperation in Organising Financing between the Issuer and the Central Bank of Cuba (CBC). Under the terms of the Agreement, the parties also express their intention to improve the efficiency and the level of participation in projects and sectors that are of particular interest for the Republic of Cuba.

Romania

Romania joined the European Union in 2007. As in many other countries in the region, external imbalances had been high ahead of the financial crisis of 2008/2009, which required macroeconomic adjustment and IMF/EU support in the aftermath of the crisis. During the recent years, these imbalances were adjusted and structural reforms implemented. Thus, Romania was able to improve its competiveness and export capacity over recent years. After the Euro zone crisis, Romania's GDP steadily increased by 3.4% in 2013 and by 2.8% in 2014, year-on-year, strongly relying on export dynamics. Real GDP growth in 2015 is estimated to turn out at 3.6%, its highest growth rate since 2008 (*source*: European Commission).

Robust export growth was the initial driver of economic recovery. Recently, however, the recovery has been supported by a pick-up in private consumption on the back of rising real disposable income and low interest rates (*source*: IMF Country Report, March 2015).

The fiscal budget had been under control with 2.2% of GDP general budget deficit in 2013 and 1.5% deficit in 2014 and is expected to have reached 1.1% of GDP by end of 2015. The current account also stood low at 1.2% of GDP in 2013 and 0.5% of GDP in 2014. While imports of goods and services continued to rise on the back of the domestic demand recovery, exports grew at an even faster pace supported by continued expansion in sales of machinery and transport equipment. The current account deficit is set to widen from 1.0% of GDP in 2015 to 2.1% of GDP in 2016 and 2.9% of GDP in 2017 (*source*: European Commission, IMF).

The currency had developed relatively stable during recent years, also with support by the monetary authorities. GDP is estimated to grow by 4.2% in 2016 (*source:* European Commission). Romania benefits of a limited negative impact stemming from the Ukraine-Russia conflict and Western sanctions (due to low trade and financial links and the natural gas consumption being mainly covered by domestic production). International rating agencies recognize the country's quite stable financial position, thus Romania is rated BBB- with a stable outlook by S&P, Baa3 with a positive outlook by Moody's and BBB- with a stable outlook by Fitch.

Romania is one of the Member States in which the Issuer's activity has continually increased as of its re-launch at the end of 2012 – beginning of 2013. In 2015, the Romanian direction of the Issuer's activities gained a new momentum. The Issuer has been consistently increasing the volume of investments in Romania and regularly presents its financial products and services to local businesses. Since its relaunch in 2012, and as of the date of this Offering Circular, the Issuer signed loan agreements with Romanian companies amount to more than EUR 50 million. In October 2015, the Issuer successfully placed its debut bond issue on the Bucharest Stock Exchange in the amount of RON 111 million. In relation to this placement, the Romanian Stockbrokers' Association awarded the Issuer for contribution to the development of the country's corporate bonds market.

Eximbank Romania, the export-import bank of Romania, is a party to the Multilateral Memorandum on Cooperation concluded between the Issuer and a number of export credit agencies in Member States, whereby the parties agree that the Issuer will act as a bridging financing institution, while the ECAs will provide insurance coverage in relation to projects carried out in cooperation by Member States.

In Romania, the Issuer intends to focus its investment efforts on areas that support the social sector, especially health, agriculture, tourism, manufacturing, trade, development of small and medium-sized enterprises, infrastructure, energy and other projects that may arise during the implementation of its development strategy.

Other recent activities in Romania include the execution of a ISDA Master Agreement with Banca Transilvania, in October 2015.

Russian Federation

The Russian economy has witnessed a dramatic boom in the 2000s due to the surging commodity prices and spare capacities. As a result, it became the sixth largest economy in the world by purchasing power parity. However, the sharp drop in GDP by more than 7.8% during the financial crisis of 2008/2009 showed the high vulnerability of the Russian economy to external shocks and its overly high dependency on volatile commodity prices. Resurging oil prices have been a major factor of the recovery since 2010, while low investment/weak business climate, low spare labour force and lack of free capacities have hampered growth rates to return to pre-crisis levels. Even before the current geopolitical turbulences between the West and Russia, the Russian economy has substantially cooled down, as growth rates in 2012 fell to 3.4%, in 2013 to 1.3% and in 2014 to 0.6%. In 2015, the dual external shock from oil prices and sanctions from the international community triggered the contraction of Russian economy to an expected 3.8%.

The real GDP of the Russian Federation is predicted to contract by 0.7% in 2016, followed by a growth of up to 1.3% in 2017 (*source*: World Bank) as real wages and credit growth fall, and private consumption declines. The stand-off with the West and economic sanctions from the West on Russia has led to further negative developments including higher capital outflow, weaker currency and negative investment dynamics during 2014, which have continued during 2015 – the year in which Russia started facing a recession period, with mild recovery prospects for 2016 (*source*: World Bank).

The steep decline in oil prices and international sanctions on Russia led to severe pressure on the RUB and particularly triggered a surge in the country's inflation. The authorities took steps to stabilize the financial system and the economy. The CBR allowed the exchange rate to float, tightened monetary policy significantly and expanded its FX liquidity facilities. The government introduced an anti-crisis plan, including a 2 percent of GDP bank capital support program, and revised its 2015 budget to reallocate spending to priority sectors (*source*: IMF). Russia is rated BB+ with a negative outlook by S&P, Ba1 rur by Moody's and BBB- with a negative outlook by Fitch.

On the other side, the Russian Federation is part of the consistently expanding free trade zone within the Eurasian Economic Union. After Vietnam acceded to the free trade zone in May 2015, trade activities between Russia and Vietnam gained a new impetus and are expected to increase significantly.

The Issuer's most recent activities in the Russian Federation include loans to customers active in wholesale and retail trade; repair of motor vehicles, manufacturing, transport and warehousing. During 2014 and 2015, the Issuer also successfully completed four issues of 10-year bonds (subject however, to the Issuer's put option, exercisable in accordance with the programme documentation and the relevant terms and conditions of each placement), in the aggregate amount of RUB 14 billion, admitted to trading on the Moscow Exchange. In March 2016, the Issuer registered a RUB 100 billion programme of exchange-traded bonds with the Moscow Exchange – the first of its kind by an international financial institution in the Russian Federation.

The Issuer's trade finance portfolio in the Russian Federation consist of two irrevocable reimbursement undertakings issued in 2015 by applications of Russian banks to support import of goods to Russian Federation from Turkey and People's Republic of China.

In 2015, the Issuer has also concluded various treasury agreements with banks in Russian Federation, including: ING BANK (EURASIA), Gazprombank, Credit Bank of Moscow, Transcapitalbank, Expobank, Industrial and Commercial Bank of China (Moscow), Sberbank, Bank Zenit and Rosbank.

Since March 2015, the Issuer has concluded two trade finance deals (IRUs) in favour of Chinese and Turkish beneficiaries supporting import operations in the Russian Federation for a total amount of EUR 0.3 million.

Slovak Republic

The Slovak economy remains among the best performing European economies. The Slovak Republic ranks 29th among the world's most attractive countries for doing business (*source*: The World Bank 2016 Doing Business Report). Based on solid domestic demand, fuelled by decent real wage and employment growth, GDP in the Slovak Republic is expected to grow by 3.2% in 2016 and by 3.4% in 2017. The Slovak Republic remains a regional leader in key macroeconomic indicators and political stability, although losing to its neighbours in attractiveness for doing business by such positions as fiscal system, labour market and barriers to entry and the specific market structure in certain professional services and network industries (*source:* Country Report Slovakia 2016, European Commission).

The Slovak Republic receives high credit ratings from major rating agencies which puts this country at the top of the rating ladder among comparable CEE countries. Slovak sovereign rating stands high at A + (S&P), A2 (Moody's), and A+ (Fitch).

The Slovak Republic is the first EU member state in which the Issuer completed the placement of bonds on the capital markets, with the first issue in the amount of EUR 30,000,000 having been successfully finalized in October 2014. Also, the first regional office opened by the Issuer, aiming to increase the quality of the Issuer's services in EU member states, is based in the Slovak Republic. Other recent operations of the Issuer in the Slovak Republic include support of Slovak exporters in trade finance deals with tenor up to one year. Since March 2015, the Issuer has concluded four trade finance deals (IRUs) in favour of CESKOSLOVENSKA OBCHODNI BANKA (Slovak Republic), supporting export operations of the Slovak Republic for a total amount of EUR 0.4 million. As of the date of this Offering Circular, the Issuer has concluded one such deal supporting export from Slovakia to the Republic of Belarus of high temperature power generators for spray dryers. Also, the Issuer's portfolio of loans to customers in the Slovak Republic, active in construction of buildings, operations with real estate, manufacturing of electrical equipment, transport and warehousing amounts to EUR 47.2 million.

Vietnam

Vietnam holds the position of one of the southwest Asia's leaders in economic development, outstripping South Korea (estimated GDP growth of 2.5% in 2014) and only slightly falling behind China (estimated GDP growth of 6.9% in 2015), with its estimated GDP growth reaching 6.5% at the end of 2015 (*source*: World Bank).

Growth is improving gradually, underpinned by robust exports and foreign direct investment while domestic activity remains subdued.

The average annual growth is forecasted to s slightly fall back to 6.3% by 2017 (*source*: World Bank). The Vietnamese Government has recently paid more attention to improving the business environment, having issued two resolutions in March 2014 and March 2015, setting out concrete actions to remove obstacles to doing business in Vietnam, with a goal of achieving a business environment comparable to the average of the ASEAN-6 group (*source*: World Bank).

The current account balance registered a surplus of 5.4% of GDP in 2014 and 4.8% in 2015 and is forecasted to remain positive at 4.9% of GDP in 2016 (*source*: IMF).

Vietnam is rated BB- with a stable outlook by S&P, B1 with a stable outlook by Moody's and BB- with a stable outlook by Fitch.

As of 30 June 2016, approx. 27 % of the loans (in terms of amount thereof) extended to banks by the Issuer were granted to Vietnam-based banks. No corporate loans were granted to entities from Vietnam, as of 30 June 2016.

MEMBERS

The Issuer currently has nine members, namely: Czech Republic, Hungary, Mongolia, Republic of Bulgaria, Republic of Cuba, Romania, Russian Federation, Slovak Republic and Socialist Republic of Vietnam. The Issuer benefits from the high geographical diversification of its Member States. Their territories and, therefore, the Issuer's relevant geographic market, cumulates approx. 19.6 million square km and a total population of more than 300 million people.

Hungary re-joined the Issuer in 2015, after having previously decided to terminate its membership in the Issuer in 2000. The Issuer's Council approved Hungary's request to re-join the Issuer in November 2014 and Hungary finalized all necessary procedures and ratified its membership in the Issuer in May 2015.

As of 9 March 2016, Hungarian share in paid-in capital of the Issuer increased to EUR 40 million. As a result, the total share of the EU member states in the paid-in share capital of the Issuer increased to 48.72%, while the Russian Federation's share decreased to 47.92%.

The table below shows the participations of the Member States in the paid-in capital of the Issuer as of 30 June 2016:

Member States	***Share in the Issuer´s paid-in capital***	
	(EUR million)	*%*
EU member states		
Czech Republic..	30.37	9.70
Hungary..	40.0	12.77
Republic of Bulgaria..	42.2	13.48
Romania..	18.45	5.90
Slovak Republic...	21.48	6.86
Total contribution by EU member states......................	152.5	48.72
Non-EU member states		
Mongolia	1.48	0.47
Republic of Cuba	5.36	1.71
Russian Federation	150.03	47.92
Socialist Republic of Vietnam	3.67	1.17
Total contribution by non-EU member states..	160.54	51.28
Total contribution of Member States..........................	**313.05**	**100.0**

Source: The Group's management report.

In accordance with the Constitutive Documents, all Member States of the Issuer may vote at the meetings of the Issuer's Council – this being the supreme governing body of the Issuer - and each Member State has one vote in the Council regardless of the size of its contribution to the Issuer's capital. The recent amendments to the Constitutive Documents, adopted at the Issuer's Council 101st meeting of May 2014 held in Havana, Cuba and currently pending ratification by all Member States in order to come into force, include amendments to the "one country – one vote" rule, as well as to the Issuer's corporate governance structure (see "*Management and governance – Proposed governance changes"* below).

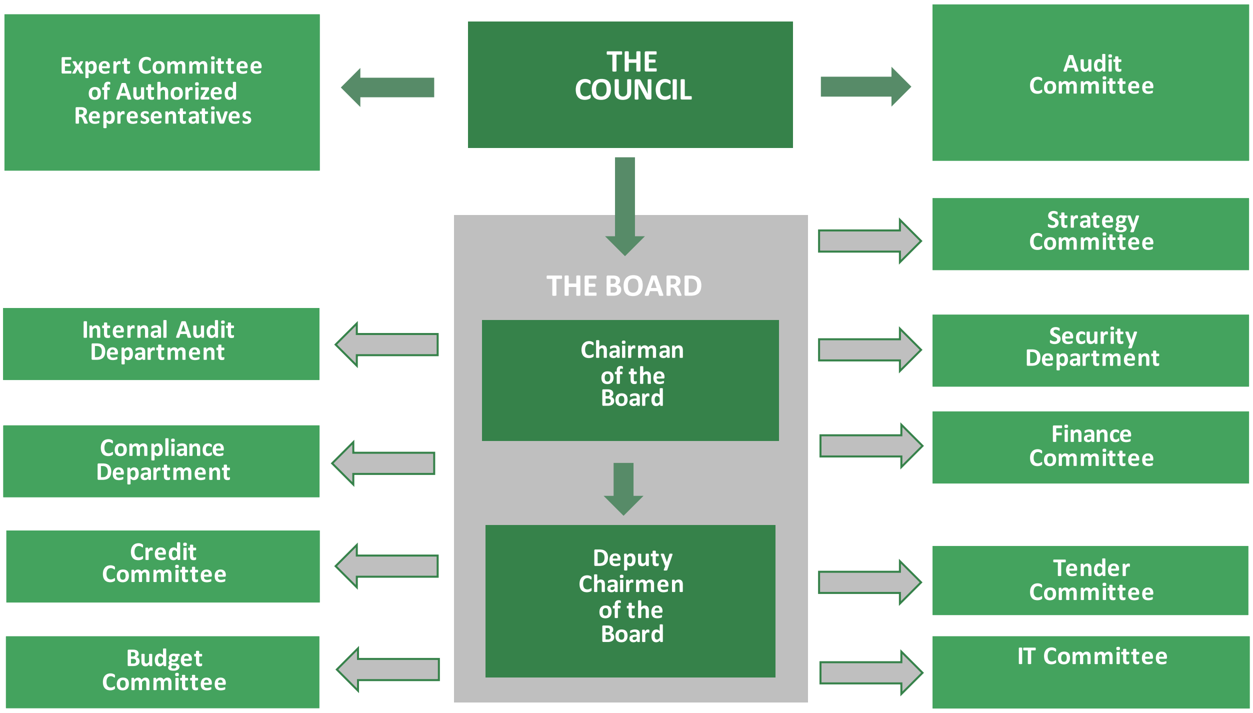
Member States may withdraw their membership from the Issuer upon notice to the Council at least six (6) months in advance. The withdrawal procedure is outlined in the Constitutive Documents.

The Issuer is also open to new members. Membership may be obtained by filing an official application with the Council. Acceptance of the new member is approved by decision of the Council, with a detailed Regulation on Joining the International Investment Bank having been adopted by the Council in 2015.

MANAGEMENT AND GOVERNANCE

General

The corporate governance structure of the Issuer is based on the principles of transparency, accountability, responsibility and openness. The overall governance structure of the Issuer is shown in the following chart:



The Issuer's governing bodies are the following:

- The Council, which is the highest authority, and supreme management body, of the Issuer, carrying out the strategic and general management of the Issuer's activities; and

- The Board, which is the executive body of the Issuer, appointed by the Council.

In line with best corporate governance practices of other international development banks, the Issuer has established various specialised collective bodies, including the Finance Committee, the Credit Committee, the Strategy Committee, the Budget Committee, the Tender Committee, the IT Committee and various tasks groups.

Council

The Council is the highest authority of the Issuer responsible for the general management of the Issuer's activities. The Council meets as frequently as it is necessary, but not less than twice a year. The main tasks of the Council include the establishment of the general strategy and trends of the Issuer's activities on financing and the attraction of funds, as well as the Issuer's policy with respect to interest rates, commissions and other charges, on the basis of the proposals made by the Board, approving a list of projects to be financed by the Issuer with indication of the credit amount within which the Board has the right to extend loans in connection with each project, approving the main principles of the Issuer's credit policy and risk management, the Issuer's annual report, balance sheet and allocation of profits, the Issuer's corporate governance structure, staff schedule and budget of administrative expenses, and appointing the Chairman, the members of the Board and the members of the Audit Committee.

The Council also resolves on the opening of branches and representative offices by the Issuer in Member States, as well as in other countries, the increase of the capital of the Issuer, the admission of new members and the amendments to the Constitutive Documents.

Each Member State has one vote in the Council, irrespective of its share in the paid-in share capital of the Issuer, which may be casted by the members of the Council appointed by the respective Member State or the members of the official Delegation of the respective Member State. Below is a list of persons appointed as members of the official Delegations of the Member States, and, respectively, members of the Council by each Member State, as of the date of the Offering Circular:

- *Czech Republic*: Head of the Delegation is Lenka Jurošková, Deputy Minister of Finance of the Czech Republic. Council Member is Zuzana Matyášová, Director of the Department of International Relations with the Ministry of Finance of the Czech Republic.

- *Hungary*: Head of the Delegation is Mihály Varga, Minister for National Economy of Hungary. Council Member is Ágnes Hornung, State Secretary for Financial Policy Affairs.

- *Mongolia*: Head of the Delegation is Nadmid Bayartsaikhan, President of Mongolbank. Deputy Head of the Delegation is Dorjgotov Chimed-Yunden, Chief of Administration of Mongolbank. Council Member is Gombo Erdenebaiar, Director of Department at the Mongolbank.

- *Republic of Bulgaria*: Head of the Delegation is Marinela Petrova, Deputy Minister of Finance of the Republic of Bulgaria. Council Member is Gergana Beremska, Director of the International Financial Institutions and Co-Operation Directorate of the Ministry of Finance of the Republic of Bulgaria.

- *Republic of Cuba*: Head of the Delegation is Arnaldo Alayón Bazo, Vice-President, Central Bank of Cuba. Deputy Head of the Delegation is Isaac Hernández Pérez, Department Director of the Banco Central de Cuba.

- *Romania*: Head of the Delegation is Attila Gyorgy, State Secretary of the Ministry of Public Finance of Romania. Council Member is Boni Cucu, Department General Director of the Ministry of Public Finance of Romania.

- *Russian Federation*: Head of the Delegation is Sergey Storchak, Deputy Minister of Finance of the Russian Federation. Deputy Head of the Delegation is Evgeniy Stanislavov, Department Director of the Ministry of Foreign Affairs of the Russian Federation.

- *Slovak Republic*: Head of the Delegation is Vazil Hudák, Adviser to the Minister of Finance of the Slovak Republic. Council Members are Martina Kobilicová, General Director of the Department of International Relations of the Ministry of Finance of the Slovak Republic and Katarína Kováčová, Director of the Division of International Institutions of the Ministry of Finance of the Slovak Republic.

- *Socialist Republic of Vietnam*: Head of the Delegation is Le Minh Hung, President of the State Bank of Vietnam. Council Members are Nguyen Thi Hong, Vice-President of the State Bank of Vietnam, Doan Hoay Anh, Department General Director at the State Bank of Vietnam and Dao Thuy Hang, Deputy Department General Director at the State Bank of Vietnam.

Board

The Board is the executive body of the Issuer and it reports to the Council. The Board is headed by the Chairman. Four members of the Board are recommended by the Member States and two – following the resolution of the Council – are appointed on a merit-based approach. Member States which are not represented in the Board may appoint representatives in the Audit Committee.

The Board is vested with operating management duties, carried out in accordance with the strategy and policies approved by the Council. The Board supervises the Issuer's activities, oversees the day-to-day administration of the Issuer, exercises all powers delegated to it by the Council and performs all such other functions that are not specifically reserved to the Council in accordance with the Constitutive Documents.

As at the date of this Offering Circular, the Board comprises six members, namely five Deputies and the Chairman of the Board. Three Deputy Chairmen are appointed from the Member States' representatives, on a rotational basis, and two Deputy Chairmen are appointed on a merit basis. As a rule, members of the Board are elected from citizens of the Member State, for a mandate of five years. According to the decision of the Issuer's Council 103th meeting held on the 4-5 June 2015, the countries which shall be represented in the Issuer's Board within the next 5-year rotational cycle starting on 1 January 2016 are Bulgaria, Romania and the Slovak Republic. The representatives of these Member States within the Board were approved at the 104th meeting of the Issuer's Council held in Hanoi, Vietnam during 3-4 December 2015 and during further absentee voting by the Council. The members of the Board supervise the department assigned to them and report to the Chairman.

The table below contains a list of the members of the Issuer's Board:

Nikolay Kosov, Russia	
Function:	Chairman of the Board, as of September 2012
Education, practice, other relevant information:	Mr. Kosov graduated from the Moscow State Institute of International Relations majoring in Foreign Affairs. In 2000, he graduated from the Finance Academy affiliated to the Government of the Russian Federation majoring in World Economy. He holds a PhD in Economics. 1977-1992 – Assistant, Senior Assistant, Attaché, the Third, Second and then the First Secretary, Counsellor of the USSR Embassy, counsellor at the Ministry of Foreign Affairs of the USSR. 1992-1993 – Assistant to the Vice President of the Russian Federation in the Administration of the President of the Russian Federation. 1993-1998 – First Deputy, then CEO of Automobile Russian Alliance plc., member of the Board of Directors of AutoVaz OJSC. 1998-2007 – First Deputy of the Chairman, state bank for development and external economic activity (Vnesheconombank). 2007–2012 – Member of the Board of Vnesheconombank); First Deputy of the Chairman of Vnesheconombank. Since September 2012 – Chairman of the Board, International Investment Bank. For his contribution to the development of the financial banking system of the Russian Federation and for his longstanding conscientious work, Mr. Kosov was awarded with the 4th class of the Order "For Merit to the Fatherland", Order of Merit, medals of Order of "For Merit to the Fatherland" (1st and 2nd class) and the Order of Friendship.

Alexandru Florescu, Romania	
Function:	Deputy Chairman of the Board, as of January 2016; coordinates the risk and financial management departments of the Issuer.

Education, practice, other relevant information:	Mr. Florescu graduated with merits the International Economic Relations and Finance, Insurance, Banking and Capital Markets faculties within the Academy of Economic Studies (Romania) in September 2003. 2006–2010 and 2012–2013 – Senior Expert at the Ministry of Public Finance, DG Treasury and Public Debt (Romania), covering mainly Romania's participation in several IFIs and financial markets issues. Member of EFC sub-committee for IMF and related issues and EFC/EPC Joint Working Group on financial aspects related to international financing in the climate change area. 2010–2011 – Adviser to the State Secretary responsible with the coordination of Treasury and Public Debt, PPP and Management of European Funds. 2014 – Post-University degree in Economics of European Integration from the Academy of Economic Studies. September 2013–December 2015 – Head of Strategic Development and Analysis Department, International Investment Bank. Since January 2016 – Deputy Chairman of the Board at the International Investment Bank, representative of Romania.

Denis Ivanov, Russia

Function:	Deputy Chairman of the Board, since February 2013; coordinates the structured and debt financing, and the treasury, departments of the Issuer, as well as cooperation with financial institutions,
Education, practice, other relevant information:	Mr. Ivanov graduated with honours from the Moscow State Institute of International Relations in 1997 (specialising in International Relations and Diplomacy), received an MBA degree (specialising in Finance) from Cass Business School in London (2011) and holds a Certificate in Corporate Finance from London Business School. 1997-1999 – Attaché, Second European Department, Ministry of Foreign Affairs of Russia (Moscow). 1999-2004 – Attaché, Third, Second Secretary (PS to the Ambassador) of the Russian Embassy in the UK (London). 2004-2006 – Head of Representative Offices Division, Vnesheconombank (Moscow). 2006-2013 – Head of Vnesheconombank Representative Office in the UK (London). Since February, 2013 – Deputy Chairman of the Board, International Investment Bank (Moscow).

Vladimir Liventsev, Russia	
Function:	Deputy Chairman of the Board, since November 2012; coordinates lending and investment activities of the Issuer.
Education, practice, other relevant information:	In 1994, Mr. Liventsev graduated with honours from Moscow State Institute of International Relations, majoring in International Economic Relations). 1994-1995 — Manager at "Geotrading Ltd. Inc.”. 1995-2002 — Customer relations manager in Moscow and Central Russia at JSC Reuters. Among other responsibilities, Mr. Liventsev was in charge of the relationship with the largest Russian banks. 2002-2003 — Chief Commercial officer, Chief sales officer at JSC Optima Exchange Services. 2003-2004 — Chief business development officer at Andrew Travel House. 2004-2005 — Advisor to General Director, sales and marketing director at JSC Interfax. 2005-2012 — Advisor to Chairman of the Board, Assistant Chairman — executive secretary of the Board, Head of the Board Administration of the International Investment Bank. Since November 2012 — Deputy Chairman of the Board, International Investment Bank.

Rumyana Laleva Kyuchukova, Republic of Bulgaria	
Function:	Deputy Chairman of the Board, as of February 2016. Supervises legal work and ensures cooperation and promotion of the Issuer’s image in Bulgarian market.
Education, practice, other relevant information:	Mrs. Kyuchukova finished University for National and World Economy – International Economic Relations, and is a Master of Business Administration. Studied in City University of Seattle (2000-2002), where she gained an MBA degree in Executive Management. 1998–2000 – Adviser to CEO and Head of internal audit, Mobiltel AD (Bulgaria). 2000–2002 – CEO of Mobiltel AD (Bulgaria) 2003–2004 – General manager and owner of Telecom Consulting Ltd. (Bulgaria) 2005–2011 – Senior Adviser to the ED and member of the Board of the World Bank 2012–2015 – Consultant in finance and investments.

Since February 2016 — Deputy Chairman of the Board, International Investment Bank.

Jozef Kollár, Slovak Republic	
Function:	Deputy Chairman of the Board, as of March 2016. Supervises European Regional Office, ensures cooperation and promotion of the Issuer's image in Slovakian market and building relations with EU authorities.
Education, practice, other relevant information:	Mr. Kollár studied in University of Economics (Bratislava, Slovakia) in 1979 – 1983 where he gained master of economics and graduated with honors. From 1983 – 1990 studied in the Slovak Academy of Sciences from where he graduated with a Ph.D. degree in economics. In summer 1993 studied in University of Wisconsin, U.S.A. (Graduate School of Banking), in summer 1994 and 1995 in Oklahoma City University, U.S.A. (Jack T. Conn Graduate School of Community Banking) and in summer 1996 in AOTS Association for Overseas Technical Scholarship, Yokohama, Japan. 1983–1990 – Macroeconomics and Strategy Planning Analyst at the Slovak Academy of Sciences (Bratislava, Slovakia). 1990–1991 – Head of Department of Economics and Foreign Exchange Analysis at the State Bank of Czechoslovakia (Bratislava, Slovakia). 1991–2006 – Member of the Board (1993–1997), Deputy Chairman of the Board (1997–2000), Chairman of the Board and CEO (2000–2006) at Volksbank AG, (Bratislava, Slovakia). 2008–June 2010 – Owner of JK Advisory s.r.o (financial consulting in real estate development and transport infrastructure in Slovakia). July 2010–February 2016 – Member of the Parliament at the National Council of the Slovak Republic. Since March 2016 — Deputy Chairman of the Board, International Investment Bank.

Audit Committee

The Audit Committee is appointed by the Council and consists of representatives of the Member States, vested with audit duties with respect to the Issuer's operations. The Audit Committee is independent from any other body within the Issuer and reports directly to the Council.

The activity of the Issuer's Audit Committee includes the verification of the methods of implementation of the Council's decisions, the annual reports, the cash and assets operations, the keeping of the Issuer's records, accounts and other books, as well as of the activity of the Issuer's branches and agencies. The members of the Audit Committee are appointed by the Council for a five-year mandate. One of the members of the Audit Committee is appointed as the Chairman thereof. The Chairman and the other members of the Audit Committee cannot hold any other positions within the Issuer.

Current voting system

According to Article I of the Establishment Agreement, the activities of the Issuer are performed on the basis of equality of its members and by respecting the sovereignty of states.

Both Constitutive Documents also provide that each member of the Issuer, irrespective of its quota in the authorized capital, has one vote in the Council of the Issuer - this being the supreme governing body of the Issuer, which exercises the general management duties with respect to the Issuer's activity. The key matters, such as increasing of the authorized capital and contributions to it, admission of new members, amendment constitutive documents, appointment of the Board and its Chairman, approval of the annual report, balance-sheet and allocation of profits by the Issuer, opening or closing down branches and representative offices, are decided with the unanimity of votes of the Members States.. Other matters, including the adoption of strategy and credit policies, are decided with the qualified majority of three fourths of the votes, *i.e.*, by seven votes out of the total nine votes possessed by the Member States.

Based on the express provisions of the Statutes, the members of the Board, its Chairman and the Issuer's other officials are subordinated to the Bank only (while in their official capacity), being also independent from any authority or official of the Member State of which they are citizens.

The Issuer's corporate governance system is based on the principles of transparency, responsibility, openness and careful consideration in decision making. All Member States are therefore equally capable of influencing the decisions adopted at the level of the Issuer.

Proposed governance changes

In line with its objective to develop into a modern multilateral development bank, the Issuer has initiated a large-scale exercise, involving delegations from the Member States and professional advisers, in order to align its Constitutive Documents with best governance practices adopted by development financial institutions and enhance transparency of the Issuer's governance structures, and thus make the Issuer more attractive for new members.

At the Issuer's Council 101st meeting of May 2014 held in Havana, Cuba, the Member States have adopted and opened for signing a Protocol amending the Agreement Establishing the International Investment Bank and its Statutes (the "**Amending Protocol**"). As of the date of this Offering Circular, the Amending Protocol was signed by all Member States, and is subject to completion of the required ratification procedures in the Member States. The ratification process is expected to be completed in early 2017 - however, this term may be delayed by internal formalities and procedures of Member States. As of the date of this Offering Circular, Hungary is the only Member State, which has completed all the necessary intrastate procedures for the ratification of the Amending Protocol.

The governance changes proposed through the Amending Protocol include:

- *Introduction of the Board of Directors*. The Amending Protocol outlines the framework for the establishment of a three-tier corporate governance system of the Issuer, consisting of a Board of Governors, a Board of Directors and a Management Board, consistent with the governance practice in major development banks. Pursuant to the Amending Protocol, the current powers of the Council shall be, in principle, split between the Board of Governors and the Board of Directors. The Board of Governors shall be the supreme governing body of the Issuer. Votes in the Board of Governors shall be allotted *pro rata* to the Member States' contributions to the paid-in capital of the Issuer. The Board of Directors shall be the Issuer's collective governing body responsible for the general management of the Issuer's operations. Each Member State shall appoint one member of the Board of Directors and his/her deputy that member shall be allotted a number of votes *pro rata* to the share in the paid-in capital of the Issuer contributed by the Member State who appointed her/him. The Board of Governors and the Board of Directors shall be authorized to take decisions within their respective scope of competence provided that at least three quarters of the total number of members attend the relevant meeting. The third layer of the proposed management system consists of the Management Board, which shall be the Issuer's executive body. The members of the Management Board shall be appointed by the Board of Governors, for a five-year term. One member of the Management Board shall be appointed as Chairman. The Management Board shall be responsible for the day-to-day operations of the Issuer. The new governance system is intended to be more effective and facilitate the decision making process.

- *New voting system*. The Amending Protocol proposes to re-allocate the voting powers of the representatives of the Member States in the Board of Governors and, respectively, the Board of Directors *pro rata* to the share of the Issuer's paid-in capital contributed by the respective Member State. Save for certain strategic decisions which shall require the unanimous approval of all Member States represented at the meetings of the Board of Governors (*e.g.*, decisions on the amendment of the Establishment Agreement and the Statutes, changes in the capital of the Issuer and admission of new members, decision on the date and procedure for the termination of the Issuer's operations), under the Amending Protocol, the resolutions of the Board of Governors and the Board of Directors will be adopted based on a double majority rule, with the favorable vote of: (i) at least three quarters of the total votes vested with the representatives of the Members States; and (ii) the majority of representatives of the Members States present at the respective meeting.

The proposed corporate governance changes to the Issuer's Constitutive Documents have also been reviewed by the International Bank for Reconstruction and Development (IBRD) – part of the World Bank Group (WBG), on the basis of the Memorandum of Understanding signed in May 2015 between the two parties. The review concluded in May 2016, with the IBRD having positively assessed the Issuer's transition towards a three-tier governance structure as being in line with the international standards of corporate governance and best practice standard among multilateral development banks.

REGULATORY CAPITAL

The approval of capital adequacy ratios applicable to the Issuer is one of the prerogatives of the Council. As of September 2013, the Council established a 25% minimum capital adequacy ratio, representing the percentage of the Issuer's capital to its risks-weighted assets. Starting with 2013, the Issuer's capital adequacy ratio is computed in accordance with the methodology set forth under the Revised Framework for International Convergence of Capital Measurement and Capital Standards ("**Basel II**").

The 25% minimum capital adequacy ratio approved by the Council is 21 percentage points above the Basel II 4% requirement applicable to tier I capital and 17 percentage points above the Basel II 8% requirement applicable when accounting tier II capital also.

In addition to the paid-in capital (*i.e.*, monetary contributions of the Member States), the regulatory capital of the Issuer also includes retained profits, reserves and other adjustments and components.

The following table shows the composition of the Issuer's capital position as of 31 December 2013, 31 December 2014, 31 December 2015 and, respectively, 30 June 2015 and 30 June 2016*:*

(EUR million)	**31 December 2013**	**31 December 2014**	**31 December 2015**	**30 June 2015**	**30 June 2016**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Tier 1 capital..................................	317.4	351.3	366.0	365.5	378.0
Tier 2 capital..................................	32.4	33.9	29.8	32.2	32.0
Total regulatory capital....................	349.7	385.2	395.8	397.7	410.0
Total risk-weighted assets................	341.9	493.1	686.1	591.1	801.5
Total capital expressed as a percentage of risk-weighted assets, %................	102.3%	78.1%	57.7%	67.3%	51.2
Total tier 1 capital expressed as a percentage of risk-weighted assets, %.	92.8%	71.2%	53.3%	61.8%	47.2

Source: The Financial Statements.

The Issuer's believes that its capital adequacy target of 25% allows it to position above most requirements under the third Basel accord (Basel III) and, therefore does not intend to implement the proposals thereunder.

RISK MANAGEMENT

The Issuer's risk management strategy, approved by the Council in September 2013, sets forth the main principles governing the Issuer's risk management policy, as well as the risk management system, the key specificities of the Issuer's risk profile, the general system of risk limits and the rules governing the definition of the Issuer's risk appetite.

In further developing its risk management system, the Issuer benefits from its membership in the Global Emerging Markets (GEMs) Risk Database Consortium, a cooperation forum aimed at sharing expertise, analysing information and creating a comprehensive database on credit risks for multilateral development banks and international financial institutions.

Main principles

The Issuer's risk management policy is based on the following governing principles:

- the Issuer's profitability is the result of the risk/return trade-off reflected in the Issuer's risk appetite;
- application of the risk management controls at all levels of internal governance and in all processes;
- continuous improvement of the risk management eco-system (skills, tools, systems, processes) following the best market practices; and
- adoption of BASEL II standardized approach with elements of Basel III (liquidity coverage ratio, net stable funding ratio, leverage ratio) since 2014.

Description of the risk management system

The Issuer's risk management system is based on consistent identification of risks, careful assessment and permanent monitoring of all risk-factors. Vertical system of risk management is one of the key points of the risk management policy, with the risk being identified, assessed and controlled at all governance levels starting from the Council, the Board and going down to the level of the Issuer's personnel.

The risk management system is structured on three lines of defence, as follows:

- *Risk taking*: The risks are identified, assessed and controlled across all Issuer's products, activities, processes and systems;
- *Risk management*: The independent Risk Management Department is responsible for the overall risk identification, measurement, control and monitoring of risks. Another key point of its mission is to calculate capital adequacy and regular allocation of capital for different types of risk;
- *Risk assurance*: The Internal Control Department and the Audit Committee provide independent assessment and review of the risk management system.

Risk organization and governance

The chart below summarizes the main risk management duties of the Council, the Board, the Financial Committee, the Credit Committee, the Risk Management Department, the Internal Audit Department, the Audit Committee and the other departments of the Issuer:

Body	***Main responsibilities***
Council	• Regular review of the Risk Management Strategy • Setting of general risk limits • Approval of risk appetite for each year
Board	• Approval and review of risk management policies • Overall organization of the Issuer's risk management system (including related responsibilities and tasks) • Approval of new credit operations

Finance Committee	• Setting of limits for risk categories (e.g., credit, market, liquidity) • Providing methodological guidance • Review of limits for specific risk categories (i.e., country, market, liquidity) • Management of assets and liabilities • Liquidity management
Credit Committee	• Management of loan portfolio • Review of credit risks limits • Approval of new credit operations
Risk Management Department	• Identification, assessment, measurement, reporting and monitoring of credit, market, operational and • Liquidity risks • Management of risks limits • Development of risks policies • Assessment of counterparties
Internal Audit Department and Audit Committee	• Review of the efficiency of the risk management framework • Review of the risk management process, tools and organization
Other Departments	• Monitoring and controlling risk limits • Active management of operational risks

Risk management process

At the level of the Issuer, the risk management process generally entails the following stages:

- *Risk identification*: Identification of risks at all governance levels
- *Risk assessment*: Risks are evaluated in terms of causes, circumstances of their occurrence, their negative effects and the probability of their outcome. Potential losses and the respective risk's impact in the Issuer's monthly capital adequacy ratio are calculated and accounted for when deciding on whether to accept a particular risk;
- *Limitation of risk exposure*: Based on the results of the risk assessment stage, the Issuer's Risk Management Department proposes the establishment of general limits, limits restricting credit, market and liquidity risks, which are subsequently approved by the Council, as well as of other limits approved by the Board;
- *Risk monitoring and control*: Risk indicators are monitored on a regular basis in order to ensure that the approved limits are not exceeded, as well as to identify the most effective methods of reaction to the materialized and potential risks;
- *Risk reporting*: The Risk Management Department regularly reports to the Financial Committee, the Credit Committee, and the Board with respect to risk levels and their potential negative impact on the Issuer's operations.

Risk profile

The risk profile of the Issuer is defined by several key considerations particularly related to the Issuer's mission, its strategic goals and the specificities of the Issuer's business, mainly including the following:

- The Issuer main goal is to develop into a modern multilateral development bank, its mission being particularly focused on the promotion of social and economic development, growth of well-being of the population, and economic cooperation, of the Member States;
- The Issuer's core activities are financed through its equity capital base and the funds raised from the Member States' or international capital markets;
- The Issuer focuses on acting as a lender in interbank and syndicated interbank loans aiming to support SMEs, as well as project investment loans; and
- The Issuer's operations with new partners and clients are preceded by due diligence investigations carried out by the Issuer in order to assess its partners'/ clients' legal status.

Risk appetite

In accordance with the Risk Management Strategy, the Council approves the Issuer's risk appetite. Risk Appetite determines how much risk (measured by the allocated capital) the Issuer is willing to accept taking into account the risk characteristics of the Issuer's assets and liabilities, as well as its ongoing and prospective operations. During the process, the Council assesses the Issuer's willingness to assume a certain risk-carrying operation against the amount of own funds or liquidity the Issuer is willing to expose to risk in the implementation of the respective operation and the current and anticipated situation of the following parameters:

- the Member States' expectations on profitability;
- international regulatory standards;
- volume of transactions;
- structure of significant risks;
- level of aggregate capital.

Risk appetite is a key indicator, shaping the risks limits applicable at the level of the Issuer, and defining the thresholds for key risk management indicators relevant to the Issuer.

Risks monitoring, control and reporting

In accordance with its internal procedures, the Issuer has established a system of limits based on which it assesses the creditworthiness of third parties *e.g.*, partners and clients, and evaluates potential financial transactions. This system is subject to bi-annual review by the Issuer.

As part of the lending activity analysis, risks associated with the Issuer's asset-based lending operations are continuously monitored and the fair value of the pledged items is regularly determined. During the monitoring period, specialists appointed by the Issuer perform on-site visits to certain borrowers, in order to verify the implementation of the financed projects and assess risks of loans impairment.

The Issuer also performs daily monitoring of compliance of operations with limits applicable to cash and equity transactions, as well as with structural limits included in key risk ratios and stop-loss and take-profit limits. Regular reports on the status of risks are submitted to the Issuer's management on a regular basis.

The diagram below describes the roles of the Council and, respectively, the Board in the establishment of key risk limits:

<table>
<tr><td rowspan="2">Council</td><td colspan="2">Strategic yearly limits</td><td colspan="2">Risk appetite indicators for one year</td></tr>
<tr><td colspan="2">• Capital adequacy ratio (at least 25%)
• Limit of exposure to one counterparty or group of related counterparties (up to 25% of the Issuer’s equity)
• Liquidity coverage ratio (at least 100%)
• Net stable funding ratio (at least 100%)
• Financial leverage (up to 250%)</td><td colspan="2">• Risk appetite levels (capital allocation to credit, market and operational risks)
• Risk appetite indicators (e.g., liquidity, portfolio, quality, rating)</td></tr>
<tr><td rowspan="2">Board</td><td>Semi-annual individual counterparty limits</td><td colspan="2">Individual loan limits</td><td>Systemic limits</td></tr>
<tr><td>Permitted operations:
• NOSTRO
• Interbank lending
• Forex
• Equity/Bonds
• Other
• Other</td><td colspan="2">• Corporate clients
• Financial institutions</td><td>• Credit risk limits
• Market risk limits
• Operational risk limits
• Country limits
• Sector limits
• Other limits</td></tr>
</table>

The following table shows key risk parameters of the Issuer and applicable limits, as of 31 December 2013 and 31 December 2014, 31 December 2015 and, respectively, as of 30 June 2015 and 30 June 2016:

Indicator	**31 December 2013**	**31 December 2014**	**31 December 2015**	**30 June 2015**	**30 June 2016**	**Limit**
Capital adequacy ratio (*pre Basel II methodology of the Issuer*)	96.0%	-	-	-		not less than 25%
Capital adequacy ratio (*Basel II methodology*)	102.3%	78.1%	57.67%	67.3%	51.2%	not less than 25%
Liquidity coverage ratio (LCR) (*Basel II methodology*)	825.0%	192.8%	319.5%	308.2%	154.0%	not less than 100%
Net Stable Funding Ratio (NSFR) (*Basel II methodology*)	118.0%	89.9%[1]	118.0%	115.3%	116.4%	not less than 100%
Financial leverage	16.7%	57.03%	104.3%	75.7%	123.6%	up to 250%

Source: The Group.

[1] Technical bridge due to reclassifications of securities.

For the years 2015 and 2016, the Council approved “high level” risk appetite for credit and market risks and a “middle level” for operational and other risks.

BORROWINGS

The Issuer’s borrowings in the form of long-term loans from banks, long-term REPO and debt securities amounted to EUR 321.7 million as of 31 December 2015, compared to EUR 133.3 million as of 31 December 2014 and nil as of 31 December 2013. As of 30 June 2016, the Issuer’s borrowings reached EUR 370.6, compared to EUR

195.7 million as of 30 June 2015, the increase being principally due to the issuance of RUB-denominated bonds (in the amount of approx. EUR 69.3 million) and the conclusion of a syndicated loan in the amount of EUR 60 million.

In spring 2014, the Issuer has registered its first RUB 14 billion (EUR 174.9 million) bond programme with the Central Bank of Russia, after having been recognised as an international financial organisation whose securities are admitted for public placement and circulation in the Russian Federation by the Russian Federation Government Decree No. 732-r of 2 May 2013. The programme provides for potential drawings in the amounts of RUB 2 billion (EUR 30.0 million), RUB 3 billion (EUR 37.5 million), RUB 4 billion (EUR 50.0 million) and RUB 5 billion (EUR 62.5 million). The programme documentation provides semi-annual coupon payments and the possibility for the Issuer to benefit from put options with respect to the drawings. In April 2014, the Issuer made an inaugural RUB 2 billion bond issue under the programme with 1.5 year put-option, listed on MOEX (Moscow Exchange). The coupon was fixed at 9.9% p.a., payable semi-annually. The market demand from more than 20 investors exceeded the amount of the issue more than three times. Average effective EUR rate of the attracted funds with regard to cross currency swap is 1.22%. Swap covered cash flow for all payments under the issue and the deal was closed on 29 April 2014. The debut issue was included on the Lombard List of the Central Bank of Russia and the list of securities accepted as collateral for repurchase agreements. In October 2015, the Issuer redeemed RUB-denominated bonds, series 01, worth a total of RUB 1.51 billion (EUR 18.9 million), in connection with an investor put option and, consequently, set a new coupon rate of 11.70% p.a. for the following two years.

On 21 October 2014, the Issuer successfully placed EUR 30 million bonds maturing on 21 October 2019 on the Slovak regulated securities market. The coupon rate was set at 3.5% p.a. and is payable once a year, with the first coupon payment having been made on 21 October 2015. The Slovak bonds' amortized value amounted to EUR 30.6 million as of 30 June 2016.

On 2 December 2014, the Issuer placed series 03 RUB-denominated bonds, in the amount of RUB 4 billion (EUR 50.0 million) with a half year put option period. The coupon rate for the bonds was set at 12.25% p.a. and is payable twice a year, with the first coupon payment having been paid on 2 June 2015 and the second having been paid on 1 December 2015. The series 03 RUB-denominated bonds' amortized value amounted to EUR 56.8 million as of 30 June 2016. In June 2015, the Issuer repurchased RUB-denominated bonds for the total amount of RUB 2.31 billion (EUR 28.8 million) under investor put option and, consequently, set a new coupon rate at 12.00% p.a. for the coupon periods 2-5. In September 2015, the Issuer made a secondary placement of RUB-denominated bonds of these series among investors in the amount of RUB 2.31 billion (EUR 28.8 million) - all RUB-denominated bonds, series 03 being outstanding again.

On 29 April 2015, the Issuer placed RUB-denominated bonds, series 02, on the Russian capital market, in the amount of RUB 3 billion (EUR 37.5 million) with a one and a half year put option period. ROSBANK (Société Générale Group) was mandated as Lead Manager. The coupon rate for the series 02 bonds was set at 13.25% p.a. and is payable twice a year, with the first coupon payment having been paid on 28 October 2015. As of 30 June 2016, the series 02 RUB-denominated bonds' amortized value amounted to EUR 43.2 million.

On 25 April 2014, the Issuer concluded a USD 25 million (EUR 22.9 million) bilateral loan facility with Rosbank (part of Groupe Société Générale). This bilateral loan was repaid in April 2016. A second bilateral loan facility for the amount of USD 15 million (EUR 13.8 million) was concluded on 19 March 2015 with International Asset Bank AD (Bulgaria). In December 2015, the Issuer signed an Addendum to the loan agreement which lowered the interest rate and extended the maturity. On 20 May 2015, the Issuer concluded a EUR 7.5 million bilateral loan facility with EXIMBANKA SR (EXPORTNO-IMPORTNÁ BANKA SLOVENSKEJ REPUBLIKY). This bilateral loan was repaid in June 2016.

The Issuer placed RON 111 million (approx. EUR 25 million) of 3-year bonds on the Bucharest Stock Exchange in October 2015, with annual interest payments. The interest rate of the issue, managed by BT Capital Partners S.A. (formerly, BT Securities S.A.), was set at 4.1%. The first interest payment on this issue is due October 2016. The fully domestic issue attracted demand from Romanian pension and investment funds, as well as investment and insurance companies.

On 19 November 2015, the Issuer successfully placed bonds of 04 series in the amount of RUB 5 billion (approx. EUR 62.5 million) on the Moscow Exchange with a two year put option period. The coupon rate for this issue was fixed at 11.9% p.a. The issue attracted banks, asset management firms and investment companies. The interest will be paid twice a year, with a put option exercisable in two years.

All RUB-denominated bonds were included in the Lombard List of the Central Bank of Russia..

The final maturity date of the RUB-denominated Bonds are subject to the Issuer's put option, exercisable in accordance with the applicable terms and conditions of the programme documentation and of each individual issue. At the dates of the placements of the RUB-denominated bonds, the Issuer entered into cross-currency interest rate swaps for the purpose of hedging currency risks.

In May 2015, the Issuer concluded a sell-buy back transaction for the amount of EUR 7.5 million with the EXIM Bank SR with a maturity of three years. In September 2015, the Issuer signed two total return swap transactions with Credit Suisse London - one denominated in USD, for the amount of 35 million and a maturity of 2.5 years, and the other denominated in EUR for the amount of 25 million and a maturity of three years.

As part of its strategy to diversify its sources of funding and in order to build its track record as a borrower and issuer on the financial markets of the Member States, as well as the international financial markets, the Issuer intends to continue the attraction of funds through the issuance of bonds, as well as by entering into credit facilities (both bilateral and syndicated) with other financial institutions. As of 02 March 2016 MOEX, registered a RUB 100 billion (or equivalent in another currency) programme of exchange-traded bonds by the Issuer. The maximu m maturity period of the Issuer's bonds within the open-ended programme will be 30 years. Placement will be carried out by public subscription. The Issuer will determine the currency of each issue. Earlier, according to the Russian legislation, only resident issuers of the Russian Federation had the right to issue such bond programmes. However, due to extensive negotiations during 2015 between the Issuer and the representatives of the Bank of Russia, the Moscow Exchange and the National Settlement Depository, a common approach was agreed on in relation to IFIs' access to such bond programmes, the programme registered by the Issuer being the first of its kind in the Russian Federation.

In May 2016, the Issuer concluded its first syndicated term loan facility, in the amount of EUR 60 million. The facility is unsecured, carries a margin of 175 basis points over EURIBOR and has a 2-year tenor with bullet repayment. ING Bank N.V., PJSC ROSBANK, Raiffeisen Bank International AG, VTB Bank (Deutschland) AG and OTP Bank Plc. acted as Mandated Lead Arrangers for the facility. Bulgarian Development Bank AD and Sberbank Europe AG joined as Lead Arrangers and International Asset Bank AD joined as an Arranger. ING Bank N.V. acted as Coordinator/Documentation Agent of the Facility and will act as Facility Agent.

The Issuer is not in breach of any of its obligations or undertakings under its issued bonds or the loan agreements to which it is a party.

Although the Issuer perceives its liquidity position as sustainable, it has commenced negotiations with the Central Bank of Russia with respect to the conclusion of a bilateral agreement for the provision of liquidity in case of any (however, based on the Issuer's assessment, at this moment, unlikely) future constraints on the reserves of the Issuer. As of the date of this Offering Circular, negotiations with the Central Bank of Russia are pending and the outcome of such discussions may not yet be anticipated.

In January 2015, the Issuer was nominated by a special committee of the Ministry of Economic Development of the Russian Federation for participation in the Programme for Support of Investment Projects established by the Resolution No.1044 of the Government of the Russian Federation of October 11, 2014. This nomination enables the Issuer to apply for concessional refinancing from the Central Bank of the Russian Federation in respect o f the investment projects concluded in accordance with the Programme's requirements and eligible under the Programme.

COMPLIANCE

The Issuer endeavours to comply with commonly accepted compliance rules and standards. As of 2016, the Issuer developed and currently has in place a clearly defined policy which includes rules regarding compliance control standards, compliance organization, responsibilities, functions and independence of compliance control, reporting, access to information and interaction with departments with relevant areas of responsibility (the "**Compliance Policy**").

The Issuer's structure includes an independent Compliance Department which reports directly to the Chairman of the Board and is responsible for identifying, managing and monitoring compliance risks under the Compliance Policy. The main duties of the Compliance Department include:

- development of recommendations for the Issuer's management regarding compliance, and of standards and practices based on the models used by other international financial institutions with respect to the organization and implementation of compliance control;
- development and maintenance of the reporting system regarding compliance risks and disclosure of information to management bodies of the Issuer with respect to compliance risks;
- presentation of conclusions and recommendations to the Issuer's management with respect to the mitigation or elimination of identified compliance risks;
- preparation of recommendations and comments on developed and existing policies, regulations, rules and procedures, and monitoring observance thereof in order to mitigate compliance risks;
- developing and implementing activities to counter prohibited practices (including corruption, coercion, collusion, financing of terrorism, fraud and money laundering); organizing activities aimed at monitoring the use of insider and confidential information, and the identification, evaluation and control of conflicts of interest;
- management of complaints and reports regarding prohibited practices, misconduct (meaning failure by a staff member to observe the rules of conduct and the standards of behavior prescribed by the by-laws and policies of the Issuer) especially about fraudulent and corrupt actions on the part of Issuer`s staff and other relevant third parties;
- investigating facts or suspicions regarding prohibited practices and misconduct;
- developing and implementing measures to detect, assess and control the ecological risks of the Issuer`s projects, and the Issuer's own activities;
- reviewing the Issuer's projects in order to detect breaches in performance and maintain compliance rules.

The Issuer does not tolerate any actions related to prohibited practices neither as regards its own operations nor on the part of its employees or partners. Therefore, the Issuer supports international efforts to tackle the aforementioned practices while actively applying international standards for anti-money laundering and combating terrorism financing, corruption and fraud ("**AML/CFT/F/C**") to its activities. In 2015, the Issuer has joined the Uniform Framework for Preventing and Combatting Fraud and Corruption, elaborated by the leading international financial institutions, thus strengthening its internal compliance procedures. The policies of the Compliance Department (anti-money laundering, and combating the financing of terrorism, fraud and corruption, policies and the Issuer's Compliance Policy and Procedure for receiving and handling complaints have been amended in 2016 in order to comply with the Uniform Framework for Preventing and Combatting Fraud and Corruption.

The identification of its counterparties and the performance of related due diligence investigations, followed by continuous monitoring operations, are at the core of the Issuer's AML/CFT/F/C control system, enabling the effective identification, mitigation and control of compliance risks. Main approaches, standards and requirements for the procedures of the Issuer's AML/CFT/F/C control system aimed at preventing the participation in illicit operations are outlined by the Issuer's internal policy on anti-money laundering and combating the financing of terrorism, fraud and corruption.

The Issuer understands that its mission to promote economic growth and increase competitiveness of Member States' economies is more efficiently carried out if its corporate culture is aligned with generally accepted norms of corporate ethics and business conduct. Therefore, a Code of Conduct applicable to all employees has been prepared and implemented at the level of the Issuer. The Code of Conduct identifies key corporate values and rules of conduct in atypical situations. The Compliance Department collects information, educates and works with employees to prevent potential conflicts of interest.

Attaching great importance to and promoting the formation of an efficient, transparent and competitive financial market, the Issuer has implemented certain internal control measures aimed at preventing, identifying, and stopping abuse in the form of unlawful use and dissemination of insider information, manipulation of prices for the Issuer's financial instruments, as well as financial instruments of third parties. To this end, in 2016 the Issuer updated its internal Regulations on the Procedure of Dealing with Insider Information and Insiders of the International Investment Bank, on the basis of the general requirements of Regulation No. 596/2014/EU of the European Parliament and of the Council on market abuse and the national legislation amendments of the Member States.

In 2016, the Issuer's Management Board approved certain amendments to the procedure for receiving and handling complaints in the International Investment Bank mainly aligned with the Uniform Framework for Preventing and Combatting Fraud and Corruption. The aim of the procedure is to gradually implement an independent accountability mechanism at the level of the Issuer. Under this procedure, each employee or third party may file complaint via the relevant communication channels with the Compliance Department on breaches in the activities by the Issuer, its staff members, or its counterparties related to prohibited practices. Consistent implementation of the independent accountability mechanism corresponds to the Member States' common intention to increase the Issuer's overall efficiency and social responsibility as an international entity.

LEGAL AND ARBITRATION PROCEEDINGS

There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had, during the 12 (twelve) months prior to the date of this Offering Circular, a significant effect on the financial position or prospects of the Group.

MATERIAL CONTRACTS

There are no material contracts to which a member of the Group is a party, concluded outside of the ordinary course of the Group's business, which could result in any Group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to the bondholders in respect of the Bonds.

RELATED PARTIES TRANSACTIONS

The Group had no transactions with related parties, except in relation to maintaining current accounts for and payments of employee benefits and compensations to the key management personnel. The expenses in respect of such related parties transactions amounted to EUR 0.7 million for the first half of2016, of which employee benefits to the key management personnel represented EUR 0.6 million..

TREND INFORMATION

There has been no material adverse change in the prospects of the Issuer since the date of its last published consolidated audited financial statements. Except as set out herein, the Issuer is not aware of any other trends, uncertainties, demands, commitments or events that should be reasonably likely to have a material effect on the Issuer's prospects within the current financial year.

STATUTORY AUDITORS

The consolidated financial statements of the Group for the years ended 31 December 2013, 31 December 2014 and, respectively, 31 December 2015 prepared in accordance with the IFRS have been audited, and the interim condensed consolidated financial statements of the Group for the six-month periods ended 30 June 2015 and, respectively, 30 June 2016 prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting have been reviewed, by CJSC Ernst & Young Vneshaudit, with its registered office at Sadovnicheskaya Nab., 77, bld.1, Moscow, 115035, Russia.

CJSC Ernst & Young Vneshaudit is registered in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739199333. Ernst & Young Vneshaudit is a member of Non Profit Partnership Russian Audit Chamber ("**NP APR**"). Ernst & Young Vneshaudit is registered in the register of auditors and audit organizations of NP APR (Non-profit partnership Audit Chamber of Russia), number 3027, and also included in the control copy of the register of auditors and audit organizations, main registration number 10301017410.

No qualifications have been included in the reports prepared by the Group's financial auditors with respect to the Group's consolidated financial statements for the years ended 31 December 2013, 31 December 2014 and, respectively, 31 December 2015 and the six-month periods ended 30 June 2014 and, respectively, 30 June 2015.

TERMS AND CONDITIONS OF THE BONDS

The following does not purport to be a complete listing of all rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors should carefully review the information contained in this Offering Circular and the information incorporated by reference herein, as well as the information found elsewhere relevant for the Offering (as such term is defined below). Prospective Bondholders are likewise encouraged to consult their legal and financial counsels and accountants in order to be better advised of the circumstances surrounding the Bonds. In respect of the Bonds, the terms and conditions below represent the sole terms and conditions governing the obligations of the Issuer under the Bonds, irrespective of any separate agreement which may exist between the Issuer and particular investors.

The terms and conditions (the "**Conditions**") herein relate to a public offering of unsecured fixed-rate Bonds denominated in RON, in maximum aggregate principal amount of RON 300,000,000, issued by the International Investment Bank, an international organisation under, and subject to, public international law, established and operating on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank dated 10 July 1970 and the Statutes of the International Investment Bank attached to the Establishment Agreement, registered with the Secretariat of the United Nations on 1 December 1971 under number 11417, with its official seat at 7 Mashi Poryvaevoy Street, 107 078 Moscow, Russian Federation, hereinafter referred to as the "**Offering**".

The Offering shall comprise RON-denominated fixed-rate Bonds with a 3-year maturity and due 27 September 2019. The Bonds shall have the maximum principal amount of RON 300,000,000. The Bonds shall bear the Interest Rate established by the Issuer in agreement with the Co-Lead Managers and notified to investors through a pricing notification published on the Issuer's web site https://www.iib.int/en/, on each Co-Lead Manager's website http://www.btcapitalpartners.ro/ and https://www.bcr.ro, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 23 September 2016 (the "**Pricing Notification**"). The publication of the Pricing Notification shall not be construed, nor shall require, an amendment of this Offering Circular or the Conditions.

Investors may subscribe for the Bonds on 23 September 2016 (the "**Offering Date**"), from 13:00 to 18:30 Romanian time. (see "*Subscription and sale*" below).

The Bonds are governed by the following terms and conditions (the "**Conditions**"):

1. DEFINITIONS AND INTERPRETATION

Capitalized term used herein and not otherwise defined in this Offering Circular shall have the following meaning:

Bondholders	has the meaning ascribed to it under Condition 4 herein;
Bonds	means RON-denominated fixed-rate bonds under the Offering, with a **3**-year maturity and due 27 September 2019, having the maximum principal amount of RON **300,000,000**;
Business Day	means a day in which banks are opened for general business in Bucharest and Moscow, other than Saturday, Sunday and public holidays;
BTCP	BT Capital Partners S.A. (formerly, BT Securities S.A.);

Calculation Agent	BT Capital Partners S.A. (formerly, BT Securities S.A.);
Capital Market Law	means the law no. 297/2004 on the capital market, as subsequently amended and supplemented;
Central Depository	means Central Depository S.A.;
Conditions	means the terms and conditions in this section "*Terms and conditions of the Bonds*" by which the Bonds are governed;
Covenant	has the meaning ascribed to it in Condition 14.1 herein;
Covenant Fulfilment Notice	has the meaning ascribed to it in Condition 14.2 herein;
Covenant Triggering Event	has the meaning ascribed to it in Condition 14.1 herein;
Early Redemption	has the meaning ascribed to it in Condition 14.1 herein;
Early Redemption Amount	has the meaning ascribed to it in Condition 14.1 herein;
Early Redemption Date	has the meaning ascribed to it in Condition 14.2 (c) herein;
Eligible Recipient	has the meaning ascribed to it under Condition 12.3 herein;
EMU	means the Economic and Monetary Union;
Event of Default	has the meaning ascribed to it in Condition 13.1 herein;
Financial Indebtedness	means an indebtedness for or in respect of (i) moneys borrowed and debit balances at banks; (ii) any acceptance credit (including any dematerialised equivalent); (iii) any bond, note, debenture, loan stock or other similar instrument; (iv) any finance lease; (v) receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis); (vi) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing and (vii) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution;
Guarantee	means in relation to any Financial Indebtedness of any person, any obligation to pay such Financial Indebtedness including (without limitation): (i) any obligation to purchase such Financial Indebtedness; (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial

	Indebtedness; (iii) any indemnity against the consequences of a default in the payment of such Financial Indebtedness; and (iv) any other agreement to be responsible for such Financial Indebtedness;
Interest Payment Date	means 27 September of each year from and excluding the Issue Date and until and including the Maturity Date; for the avoidance of doubt, the first Interest Payment Date is 27 September 2017;
Interest Period	means the period beginning on the Issue Date (inclusive) and ending on the first Interest Payment Date (exclusive) and each following twelve-month period beginning on an Interest Payment Date (inclusive) and ending on the next following Interest Payment Date (exclusive), until and excluding the Maturity Date;
Interest Rate	means the fixed interest rate established by the Issuer in agreement with the Co-Lead Managers for the Bonds and announced to investors through the Pricing Notification (see also "*Subscription and sale – Establishment of the Interest Rate*");
Issue Date	means the second Business Date following the Transaction Date, when the Bonds are delivered to the Bondholders pursuant to the Conditions herein, *i.e.*, 27 September 2016;
Material Subsidiary	means, as of any date, an entity (i) whose affairs and policies are controlled by the Issuer, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body or otherwise; or (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the Issuer and (iii) whose consolidated (or in the case of an entity that does not itself have any subsidiaries, unconsolidated) total assets represent 10% or more of the total book value of all assets of the Issuer's group as reflected in the Issuer's most recent consolidated annual audited financial statements;
Maturity Date	means **27 September 2019**;
Nominal Value	means the nominal value of each of the Bonds, in the amount of RON 10,000;
Offering	has the meaning ascribed to it in the preamble of this section "*Terms and conditions of the Bonds*";
Offering Date	means 23 September 2016;
Participant	means any entity authorised to open securities accounts with the Central Depository on its own name, whether on its own behalf or on behalf of its clients;
Paying Agent	Banca Transilvania S.A.;

Payment Date	has the meaning ascribed to it in Condition 12.2 herein;
Permitted Security Interest	means (i) any Security Interest in respect of a Financial Indebtedness the secured amount of principal of which does not at any time exceed 20% of the total book value of all assets of the Issuer's group as reflected in the Issuer's most recent consolidated annual audited financial statements; (ii) any Security Interest arising in the ordinary course of banking transactions (including, without limitation, such as sale and repurchase transactions and share, loan and bond lending transactions and any netting or set-off arrangements entered into by the Issuer or any Material Subsidiary for the purpose of netting any debit and credit balances), provided that the Security Interest is limited to the assets which are the subject of the relevant transaction; (iii) Security Interests imposed or required by statute or operation of law (but not through any act or omission to act on the part of the Issuer or any of its Material Subsidiaries); and (iv) any extension, renewal, refunding or replacement, as a whole or in part, of any Security Interest referred to in clauses (i) to (iii), inclusive, for amounts not exceeding the principal amount of indebtedness secured by such Security Interest so extended, renewed or replaced (plus improvements thereon or additions or accessions thereto;
Pricing Notification	means the notification which shall be published on the Issuer's web site https://www.iib.int/en/, on each Co-Lead Manager's website http://www.btcapitalpartners.ro/ and https://www.bcr.ro, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 23 September 2016, whereby the Issuer and the Co-Lead Managers shall announce the Interest Rate for the Bonds to investors (see "*Subscription and sale – Establishment of the Interest Rate*");
Procedures	has the meaning ascribed to it in Condition 12.4 (a) herein;
Rating Agency	means any of the following: Fitch Ratings Limited, Moody's Investors Service Limited or Standard & Poor's Credit Market Services Europe Limited and their respective successors or affiliates;
Redemption Date	means the Maturity Date or the Early Redemption Date, as applicable;
Reference Date	means the date falling 15 Business Days before the relevant Payment Date;
Registry of Bondholders	means the evidence of bondholders maintained electronically by the Central Depository on the basis of the contractual arrangements entered into with the Issuer;
Relevant Account	means the Registry of Bondholders or the internal account of a Participant registered in the Registry of Bondholders, as the case may be;

Restricted Party	means any person or entity which is (i) listed on a Sanctions List, or a person acting on behalf of such a person; or (ii) the subject of any Sanctions;
Sanctions	means any country- or territory-wide trade, economic or financial sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by a Sanctions Authority;
Sanctions Authority	means each entity under (i) to (v) of the definition of the Sanction List;
Sanctions List	means the Specially Designated Nationals and Blocked Persons list maintained by Office of Foreign Assets Control of the US Department of the Treasury (OFAC), the Consolidated List of Financial Sanctions Targets and the Investment Ban List maintained by Her Majesty's Treasury, or any similar list maintained by, or public announcement of a Sanctions designation made by (i) the Security Council of the United Nations; (ii) the United States of America; (iii) the European Union; (iv) the member states of the European Union and (v) the governments and official institutions or agencies of any of paragraphs (i) to (iv) (including OFAC, the US Department of State and Her Majesty's Treasury), each as amended, supplemented or substituted from time to time;
Security Interest	means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;
Specified Account	has the meaning ascribed to it in Condition 14.2 (d) herein;
Transaction Date	means the date on which trades in relation to the Bonds are executed through the Bucharest Stock Exchange electronic system, *i.e.*, 23 September 2016.

2. GENERAL

2.1 The Bonds are issued in registered form and evidenced by book-entry (in Romanian: *obligatiuni nominative in forma dematerializata*). The entity in charge of keeping the records of the Bonds is the Romanian Central Depository, a Romanian joint stock company having its registered office at 34-36 Carol I Blvd., 3rd, 8th and 9th floors, Bucharest, 020922, Romania. The Bonds shall be registered in the system of the Central Depository in accordance with the regulations thereof, by the crediting of the accounts of the Bondholders opened with the Central Depository, directly or through a Participant.

2.2 The Bonds are denominated in RON. Each Bond has a Nominal Value of RON 10,000. If Romania becomes a member state of the Economic and Monetary Union (the "**EMU**") prior to any relevant Maturity Date, adopting EUR as its national currency, at any date after the gaining of such membership in the EMU by Romania, the Issuer may choose to redenominate all outstanding Bonds in EUR and adjust their aggregate and individual Nominal Value accordingly, subject to a 30-day previous notice to the Bondholders and with the observance of any applicable legal provisions. Any alteration of the principal amounts of the Bonds shall be made in accordance with existing or anticipated market practice and, if consistent therewith, may be made by redenominating the Nominal Value of the Bonds by using the fixed RON/EUR conversion rate and rounding the resultant figure to the nearest EUR 0.01 (with

EUR 0.005 being rounded upwards). Any adjustment amounts owed to the Bondholders as a result of the application of such rounding shall be paid in EUR, in the conditions notified to the Bondholders. To the extent that applicable provisions of law allow the Issuer to redenominate the Bonds in EUR and to take additional measures, the Issuer may exercise the rights provided by law instead of or in addition to the rights set out in this Condition. Neither the Issuer nor the Paying Agent shall be liable to the Bondholders or any other persons for any commission, cost, loss or expense related or resulting from the redenomination of the Bonds in EUR in accordance with this Condition 2.2 or any related operation. If a redenomination of the Bonds is performed in accordance with this Condition 2.2, all references to RON in these Conditions shall be deemed references to EUR.

2.3 The Bonds are issued at Nominal Value.

2.4 The Bonds are issued under the laws of Romania, in particular the Capital Market Law and the relevant secondary legislation. Any dispute arising out of or in relation to the Bonds shall be settled by the competent Romanian courts.

2.5 **The** Bonds shall be issued and delivered to the Bondholders on the Issue Date, *i.e.*, 27 September 2016.

2.6 The Bonds have been assigned the ISIN code ROIIBKDBC023.

2.7 The maximum aggregate principal amount of the Bonds under these Conditions is RON 300,000,000 and the maximum aggregate number of Bonds issued under these Conditions is 30,000.

2.8 The issuance and the offering of the Bonds has been approved by the resolution of the Issuer's Board and the terms and conditions applicable thereto shall be further approved by the resolution of the Chairman of the Board.

3. FURTHER ISSUES

The Issuer may at any time issue further bonds under terms and conditions similar to or different from the Conditions, such bonds representing a different issue than the Bonds. The Issuer may sell any number of such bonds by any means, and at any such price, the Issuer may deem fit in its sole discretion.

4. BONDHOLDERS

The Bondholders are the persons registered as owners of the Bonds as of the Reference Date (i) in the Registry of Bondholders or (ii) in the internal account of a Participant registered in the Registry of Bondholders (each such person being hereinafter referred to as a "**Bondholder**"). In this latter case, the Issuer reserves the right to rely on the authority of each Participant to fully represent (directly or indirectly) the Bondholder and perform *vis-a-vis* the Issuer and to the account of the Bondholder all legal acts (either in the Bondholder's name or in its own name) associated with the Bonds as if this person were their owner. Unless the laws or a decision of the court delivered to the Issuer provides otherwise, the Issuer and the Paying Agent will deem every Bondholder the authorised owner of the Bonds in all respects and make the payments under this Offering Circular to that Bondholder.

5. PAYMENT OBLIGATION OF THE ISSUER

The Issuer declares that it is obliged to pay to each Bondholder the Nominal Value of the Bonds held by the respective Bondholder and the applicable interest on such Bonds, in accordance with the Conditions herein.

6. TRANSFERABILITY AND RIGHTS ATTACHED TO THE BONDS

6.1 Transferability of the Bonds and the rights attached to the Bonds are not restricted, except for any general statutory restrictions applicable to creditor rights in general and the individual restrictions applicable to each Bondholder (if any).

6.2 The ownership right over the Bonds is transferred on a delivery versus payment basis (*i.e.*, the securities being delivered only if the corresponding purchase price is paid), by the registration of the Bonds in the relevant account of the Bondholders, in accordance with the regulations of the Central Depository and the applicable legislation. All costs related to the transfer of the Bonds are incurred by the relevant Bondholder.

6.3 No rights of exchange or pre-emption rights are attached to the Bonds.

6.4 No transfer of Bonds may be registered in the Registry of Bondholders starting with and including one Business Day before the Reference Date immediately preceding the Maturity Date and until and including the Maturity Date.

7. STATUS OF THE ISSUER'S OBLIGATIONS

7.1 The obligations under the Bonds will constitute direct, unsecured, unconditional and unsubordinated obligations of the Issuer ranking *pari passu* among themselves and as to the order of their satisfaction and at least *pari passu* to all other current and future direct, unsecured, unconditional and unsubordinated obligations of the Issuer, except for those obligations of the Issuer so identified by the mandatory provisions of law and provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other obligations and, in particular, the Issuer shall have no obligation to pay other obligations at the same time or as a condition of paying sums due on the Bonds and/or applicable interest and *vice versa*.

7.2 The Issuer undertakes to treat all Bondholders equally.

8. NEGATIVE PLEDGE

So long as any Bond remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest, except for any Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Financial Indebtedness or Guarantee of Financial Indebtedness without at the same time or prior thereto securing the Bonds equally and rateably therewith.

9. UNDERTAKINGS IN RESPECT OF USE OF PROCEEDS

The Issuer undertakes that it will not contrary to the Sanctions use, lend, contribute, or otherwise make available any part of the proceeds of the Bonds directly or indirectly for the purpose of financing any trade, business or other activities involving, or for the benefit of, any person that is a Restricted Party.

10. INTEREST ON THE BONDS

10.1 Interest rate

The Bonds bear interest on their principal amount from and including the Issue Date and up to and excluding the Maturity Date at the Interest Rate announced through the Pricing Notification, payable in annual arrears, always on 27 September of each year.

For purposes of clarity, the first Interest Payment Date on the Bonds is 27 September 2017 and the last Interest Payment Date on the Bonds shall fall on the Maturity Date or 27 September 2019 or three years from the Issue Date.

10.2 Interest accrual

Each Bond shall accrue and bear interest from and including the first day of each Interest Period until and including the last day of the Interest Period.

10.3 Interest calculation convention

In order to calculate the interest income attributable to the Bonds for a period of less than one year, the "Standard 30E/360" interest calculation convention will be used (*i.e.*, for the purposes of calculation of interest income, a year is deemed to have 360 (three hundred and sixty) days divided into 12 (twelve) months of 30 (thirty) calendar days, provided, however, in the case of an incomplete month, due to reasons such as, but not limited to, trades in the secondary market, interest shall be calculated on the basis of the number of days elapsed on the basis of a 30-day month.

10.4 Determination of the interest income

(a) The amount of interest income attributable to one Bond for each period of one current year will be determined as the nominal value of the Bond multiplied by the applicable interest rate (expressed by a decimal number). The amount of interest income attributable to one Bond for each period of less than one current year will be determined as the Nominal Value of the Bond multiplied by the applicable interest rate (expressed by a decimal number) multiplied by the relevant day fraction calculated in accordance with the interest calculation convention specified in Condition 10.3 above, with the resulting amount rounded to two decimal points pursuant to mathematical rules.

(b) Save for manifest error, the calculation of yield on the Bonds by BTCP acting as calculation agent will be final and binding on all Bondholders, and Bondholders shall have no right to contest or oppose such calculation.

10.5 End of interest accruing

The Bonds will cease to bear interest on and excluding the Redemption Date, unless at the moment of all conditions and requirements being satisfied, the repayment of the outstanding amount is refused or delayed by the Issuer without justification. In such case, interest will continue to accrue on the Bonds at the applicable interest rate and by reference to the Nominal Value until the Bondholders are paid all amounts payable as of that day in accordance with these Conditions.

11. MATURITY OF THE BONDS AND REPURCHASE

11.1 Final repayment

If the Bonds do not become early payable under these Conditions, the Nominal Value is payable as a bullet payment on the respective Maturity Date of the Bonds.

11.2 No redemption at the option of the Issuer

The Issuer shall have no right to early redeem any of the Bonds.

11.3 Purchase, resale and cancellation of the Bonds by the Issuer

The Issuer may at any time purchase any Bonds on the secondary market, under any conditions and for any market price. The Bonds thus purchased by the Issuer shall not cease to exist and may be kept, resold or cancelled by the Issuer, at its sole discretion. The rights and obligations under the Bonds purchased by the Issuer shall cease to exist due to their amalgamation in a single person at the earlier of: (i) cancellation by the Issuer and (ii) their respective Maturity Date.

12. CURRENCY, DATES AND MAKING OF PAYMENTS; GROSS-UP

12.1 Currency

The Issuer undertakes to pay the applicable interest on the Bonds on each Interest Payment Date, and repay the Nominal Value of the Bonds on the Redemption Date, in RON. All payments under the Bonds to the Bondholders shall be made in accordance with these Conditions and applicable tax and other laws of Romania as valid and effective at the time of making of the payment (see also "*Taxation*").

12.2 Payment dates

(a) All payments under the Bonds will be made through the Paying Agent on the dates specified in these Conditions (each, a "**Payment Date**"), in accordance with Condition 12.4 below.

(b) If the Payment Date falls on a day other than a Business Day, the Issuer, through the Paying Agent, shall pay the relevant amounts on the next following Business Day, without being obliged to pay any default interest or any other additional amounts.

12.3 Determination of the right to receive payments

(a) All payments under the Bonds will be paid to those persons who are Bondholders registered as such in the Relevant Accounts at end of business hours on the relevant Reference Date (the "**Eligible Recipient**"). All payments made to Eligible Recipients shall be deemed as effective and irrevocable discharge of the Issuer's and the Paying Agent's payment obligations towards such persons.

(b) For the purposes of determination of the Eligible Recipient, neither the Issuer nor the Paying Agent will take into consideration any transfers of Bonds occurring after the Reference Date and until the relevant Payment Date and the respective transferee shall not have the right to claim or receive the relevant payment for the purposes of which they were not duly registered as Bondholders by the aforementioned time on the Reference Date.

12.4 Making of payments

(a) The Paying Agent will make all payments under the Bonds in accordance with the applicable law, the procedures issued by the Central Depository, set out in the agreement to be concluded between the Central Depository and the Issuer and/or notified to the Bondholders by the Central Depository and/or the Paying Agent with respect to payments under the Bonds (the "**Procedures**").

(b) The obligation to pay any amount under the Bonds is deemed to be satisfied properly and on time if, on the relevant due date, the relevant amount is transferred to the Eligible Recipient in accordance with the Procedures.

(c) The Issuer and the Paying Agent are under no obligation to effect payments to Eligible Recipients unless and until such persons have provided all relevant information requested to be provided by them in accordance with the Procedures and neither the Issuer nor the Calculation Agent or the Paying Agent is liable for any delay in paying any outstanding amount due to (i) Central Depository's or the Eligible Recipients' failure to deliver proper information or other documents or information under the Procedures and these Conditions on time, (ii) because any related or relevant documents or information was incomplete, incorrect or untrue, or (iii) because the delay was caused by circumstances outside the control of the Issuer or the Paying Agent or the Calculation Agent. In these cases, the Bondholders do not become entitled to any extra payment or interest for the delay of that payment.

12.5 Gross-up

All payments under the Bonds by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Czech Republic, Hungary, Republic of Bulgaria, Republic of Cuba, Romania, Russian Federation, Slovak Republic, Mongolia or the Socialist Republic of Vietnam or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(a) held by or on behalf of a Bondholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Bond; or

(b) in case of Austria where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income, until 1 January 2017, or any law implementing or complying with, or introduced in order to conform to, this Directive.

For the avoidance of doubt, Central Depository fees payable upon the effectuation payments in respect of the Bonds shall be incurred by the Issuer.

13. EARLY REPAYMENT OF THE BONDS ON DEFAULT

13.1 Events of Default

If any of the following events occurs and is continuing (each of them an "**Event of Default**"):

(a) *Non-payment*: the Issuer does not pay an amount payable under the Bonds within 15 calendar days from its due date;

(b) *Breach of other obligations*: the Issuer breaches any other obligation under or in connection with the Bonds and does not remedy this breach within 30 calendar days from the day on which any Bondholder notified the Issuer of this fact by a written notice delivered to the Issuer;

(c) *Cross-Acceleration of Issuer or Material Subsidiary:* either of the following events occurs in respect of the Issuer or its Material Subsidiary:

    (i) any Financial Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any applicable grace period;

    (ii) any such Financial Indebtedness becomes due and payable prior to its stated maturity as a result of an event of default and otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Financial Indebtedness; or

(iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Financial Indebtedness of any other person;

provided that no event in this paragraph (c) shall constitute an Event of Default unless the amount of Financial Indebtedness and/or the amount payable under any Guarantee, individually or when aggregated (without duplication) with any other Financial Indebtedness or amount payable under any Guarantee as a result of any other event specified in this paragraph (c) which has occurred and is continuing, exceeds EUR 5,000,000 (or its equivalent in any other currency or currencies);

(d) *Imposition of Sanctions:* the Issuer becomes a Restricted Party;

(e) *Inability to pay debts*: either of the following events occurs in respect of the Issuer or its Material Subsidiary:

(i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due;

(ii) an administrator or liquidator is appointed (or an application for any such appointment is made by or with the consent of the Issuer) in respect of the Issuer or any of its Material Subsidiaries;

(iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of its material obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of its material Indebtedness or any Guarantee of any Indebtedness given by it;

(iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(v) an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, consolidation, reorganisation or restructuring whilst solvent);

(f) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds; or

(g) *Ceased trading*: the Bonds cease to be admitted to trading on a regulated market in the European Union;

then each Bondholder will have the right to declare all Bonds (but not some only) held by that Bondholder immediately due and payable and require the Issuer to pay the Nominal Value of each Bond held by that Bondholder together with any accrued interest, by a written notification to the Issuer.

13.2 Duty to inform

The Issuer must without undue delay notify the Bondholders, the Calculation Agent and the Paying Agent of the occurrence of any Event of Default. Any such notification must specify the nature of the Event of Default and the circumstances giving rise to it.

14. COVENANT

14.1 If any of the following events occurs and is continuing (each of them a "**Covenant Triggering Event**"):

(a) *Change in the membership of the Issuer:* Romania ceases to be a member state of the Issuer; or

(b) *Rating downgrade*: a rating downgrade occurs with respect to the Issuer or the Bonds. For the purposes hereof, the rating downgrade shall be deemed to have occurred if (i) the ratings previously assigned to the Bonds or the Issuer by at least two of the Rating Agencies are (A) withdrawn or (B) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (ii) at least two of the Rating Agencies assign to the Bonds or the Issuer a rating which is a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse),

then the Issuer hereby undertakes (the "**Covenant**"), upon request by any Bondholder registered as such in the Relevant Account at the end of business hours on the date of publication of the Covenant Fulfilment Notice (as defined below), to repurchase each Bond (but not some only) held by that Bondholder at the Nominal Value together with an amount equal to accrued interest (if any) up to but excluding the Early Redemption Date (the sum of such amounts being the "**Early Redemption Amount**") in accordance with the procedure set out in this Condition 14 ("**Early Redemption**").

14.2 The Issuer must within seven Business Days after the occurrence of any Covenant Triggering Event notify the Bondholders by way of publication of a notice on its website ("**Covenant Fulfilment Notice**"). Any such notice must specify the following:

(a) date of occurrence of the Covenant Triggering Event, nature of the Covenant Triggering Event and circumstances leading to its occurrence and the date of publication of the Covenant Fulfilment Notice;

(b) date by which each Bondholder must deliver to the Calculation Agent a duly signed request whereby they require that the Issuer fulfil the Covenant;

(c) date on which the Early Redemption shall take place, which may not be later than 13 Business Days after the lapse of the 20 Business Days period specified in Condition 14.3 below (the "**Early Redemption Date**");

(d) specification of the securities account of the Issuer with BTCP where the repurchased Bonds will be transferred on the Early Redemption Date (the "**Specified Account**"); and

(e) explicit warning to each Bondholder that instructions must be given to relevant accountholder or custodian to procure for transfer of the Bonds to the Specified Account on a delivery-versus-payment basis on the Early Redemption Date, otherwise no Early Redemption money will be received.

14.3 Within 20 Business Days after the Covenant Fulfilment Notice is published, each Bondholder shall have the right to require that the Issuer fulfil the Covenant by delivery of a duly signed request in this respect to the Calculation Agent. The request must specify the number of Bonds to be repurchased by the Issuer (*i.e.*, the total number of Bonds held by that respective Bondholder) and confirmation that instructions have been given to relevant accountholder or custodian to procure for transfer of the Bonds on a delivery-versus-payment basis to the Specified Account on the Early Redemption Date.

14.4 On the Early Redemption Date, the Issuer shall pay the Redemption Amount to each Bondholder who duly exercised their right to request the Issuer to fulfil the Covenant against delivery of the Bonds held by that Bondholder to the Specified Account. Condition 12 shall apply to making payments on the Early

Redemption Date accordingly. The Bonds purchased by the Issuer under this Conditions 14 shall not cease to exist and may be kept, resold or cancelled by the Issuer, at its sole discretion. Condition 11.3 shall apply accordingly.

15. STATUTE OF LIMITATIONS

The rights under the Bonds are subject to statute of limitations (in Romanian: *prescriptive extinctiva*) of three years from their respective due date.

16. CALCULATION AGENT AND PAYING AGENT

16.1 The applicable amounts payable to the Bondholders on the Bonds in accordance with Condition 10.1 above shall be calculated by BT Capital Partners S.A., a joint stock company incorporated under the laws of Romania, having its principal office at 74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca, Cluj county, Romania, in capacity as Calculation Agent. Payments of such amounts shall be effected by Banca Transilvania S.A., a joint stock company incorporated under the laws of Romania, having its principal office at 8 George Baritiu Street, Cluj-Napoca, Cluj county, Romania, in capacity as Paying Agent.

16.2 The Issuer may appoint another or an additional calculation agent and, respectively, paying agent in accordance with the contractual arrangements entered into with the Calculation Agent and, respectively, the Paying Agent. Any such change shall be notified to the Bondholders in accordance with the Conditions herein and shall not be deemed as an amendment of the Conditions.

16.3 The Issuer may not dispose of the funds paid by the Issuer to the account opened with the Paying Agent to be used to pay the interest income on the Bonds and the Nominal Value. These funds are not owned by the Paying Agent; the Paying Agent must use them only for payments to the Bondholders in accordance with the Conditions herein.

16.4 Each of the Calculation Agent and the Paying Agent acts in connection with the performance of its obligations as agent of the Issuer and in this connection has no legal relationship with the Bondholders, under or by virtue of these Conditions or otherwise.

16.5 Copies of the agreements whereby the calculation agent(s) and the paying agent(s) are appointed in such capacity (capacities) in respect of the Bonds shall be available for inspection by the Bondholders at the respective addresses mentioned herein or otherwise notified to the Bondholders in accordance with Condition 16.2 above, during normal business hours.

17. AMENDMENTS

17.1 The Conditions may be amended without the consent of the Bondholders for the purposes of the rectification of manifest errors.

17.2 Any amendment to the Conditions hereunder will be published in English language (unless Romanian language is required under law) on the Issuer's web site https://www.iib.int/en/ and/or the website of the Bucharest Stock Exchange www.bvb.ro.

18. NOTICES

18.1 Any notice to the Bondholders in connection with the Bonds will be published in English language (unless Romanian language is required under law) on the Issuer's web site https://www.iib.int/en/ and/or the website of the Bucharest Stock Exchange www.bvb.ro. If a law or regulation requires its publication by other means, the notice will be published also by those other means. If a notice is published by several means, the publication date of such notice will be deemed to be the date of its first publication. The date of publication is also deemed to be the date of delivery of the notice to the Bondholders.

18.2 Any notice to the Issuer in connection with the Bonds must be delivered in writing to the following address of BTCP: 74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor Cluj-Napoca, Cluj county, Romania.

18.3 Any notice to BT Capital Partners S.A., in capacity as Co-Lead Manager and/or Calculation Agent must be delivered in writing to the following address of the Co-Lead Manager: 74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca, Cluj county, Romania, to the attention of Investment Banking and Capital Market Division.

18.4 Any notice to Banca Comerciala Romana S.A., in capacity as Co-Lead Manager must be delivered in writing to the following address of the Co-Lead Manager: 5 Regina Elisabeta Blvd., 3rd district, Bucharest, Romania, to the attention of Corporate Finance Division.

18.5 Any notice to Banca Transilvania S.A., in capacity as Paying Agent must be delivered in writing to the following address of BTCP: 74-76 Constantin Brancusi Street, Brancusi Business Center ground floor, Cluj-Napoca, Cluj county, Romania.

18.6 Notices to the Issuer, the Co-Lead Managers, the Calculation Agent and the Paying Agent must be delivered by registered mail and shall be deemed delivered to the respective party on the date indicated in the delivery confirmation.

19. GOVERNING LAW, LANGUAGE AND DISPUTES

19.1 Any rights and obligations arising under or in connection with the Bonds will be governed and construed in accordance with the laws of Romania.

19.2 Any disputes between the Issuer and the Bondholders regarding the Bonds will be resolved by the relevant competent court of Romania. The Issuer irrevocably waives any objection which it might now or hereafter have (for reasons of its status, immunity or otherwise) to the Romanian courts being nominated as the forum to hear and determine any proceedings and to settle any disputes regarding the Bonds.

19.3 These Conditions are prepared in the English language and shall be binding on the Issuer and the Bondholders. The English language version of these conditions shall prevail over any translation thereof.

20. WAIVER OF IMMUNITIES

To the extent that the Issuer, at any time and in any jurisdiction, is entitled or may otherwise claim for itself or its assets or properties or revenues, whether of a commercial or a non-commercial nature, immunity from suit, execution, enforcement proceedings or attachment or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or properties or revenues, whether of a commercial or a non-commercial nature, the Issuer irrevocably and unconditionally waives, and agrees not to plead or claim, any such immunity. For the avoidance of doubt, the irrevocable waiver in this clause extends to any bank account of the Issuer and includes a waiver of any right of immunity in respect of pre-judgment interim relief and post-judgment execution of any judgment or arbitral award.

21. REPRESENTATION OF THE ISSUER

The Issuer represents to each Bondholder that all information in these Conditions is true and complete.

TAXATION

Potential purchasers, holders and sellers of the Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are issued or transferred, or of other jurisdictions. Potential investors are advised not to rely upon the tax summary contained in this Offering Circular but to ask for their own tax advisers' advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Bonds. Only these advisers are in a position to duly consider the specific situation of the potential investor. This investment consideration should be read in connection with this "Taxation" section of the Offering Circular which contains a summary discussion of certain relevant aspect of Romanian taxation. The following summary is general in nature and does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of, the Bonds. It is not intended to be, nor should it be considered to be, legal or tax advice to any holder of the Bonds. The considerations provided herein are not binding on the Romanian tax authorities and there can be no assurance that the authorities will not take a position contrary to the considerations expressed herein. Each prospective holder or beneficial owner of Bonds should consult its tax advisor on the Romanian tax consequences of any investment in, or ownership and disposition of, the Bonds.

General information

The statements herein regarding taxation are based on the laws in force in Romania as of the date of this Offering Circular and does not take into account any subsequent changes in the law, whether or not such changes have a retroactive effect.

The following summary does not take into account or discuss the tax laws of any country other than Romania. Prospective non-resident holders or beneficial owners of Bonds should request tax advice regarding the tax consequences of any investment in, or ownership and disposition of, the Bonds that may appear in any jurisdiction in which they have to or may have to pay taxes.

Definitions of terms

The terms used in this section "*Taxation*" shall have the following meaning, ascribed to them in accordance with Law no. 227/2015 regarding the Fiscal Code in force as of 1 January 2016, as amended and supplemented, (the "**Fiscal Code**"):

Foreign legal entity	means any legal entity which is not a Romanian legal entity and any legal entity established according to the European regulations which does not have a registered head office in Romania;
Non-resident	means any foreign legal entity, any non-resident individual and any other foreign entities, including undertakings for collective investment in securities, without legal personality, not registered in Romania, according to the law;
Non-resident individual	means any individual who does not meet the conditions to be a resident individual, and/or any individual foreign citizen with diplomatic or consular status in Romania, and/or any foreign citizen who is an official or employee of an international and intergovernmental organization that is registered in Romania, and/or any foreign citizen who is an official or employee of a foreign state in Romania, and/or members of the family of such foreign citizens;
Resident	means any Romanian legal entity, any foreign legal entity having the place of effective management in Romania, any legal entity with a registered head office in Romania, established according to the European regulations, and any resident individual;
Resident individual	means any individual who satisfies at least one of the following conditions: (i) the individual has the domicile in Romania; (ii) the individual's centre of vital interests is in Romania; (iii) the individual is present in Romania for a period or periods that exceed in total 183 days, during any period of 12 consecutive months, ending in the

calendar year in question; or (iv) the individual is a Romanian citizen who is serving abroad as an official or employee of Romania in a foreign state.

Romanian legal entity means any legal entity which was established and operates in accordance with Romanian legislation.

Tax regime applicable in relation to the Bonds

The following information represents a summary of the tax regime applicable to Bonds issued by a non-resident of Romania (such as the Issuer) on the Romanian capital market, according to the Fiscal Code, the Methodological Norms for the enforcement of the Fiscal Code, approved through the Decision no. 1/2016 and the relevant secondary legislation.

Under the provisions of the Fiscal Code, income derived from Bonds is generally subject to tax considering the following:

(a) tax on interest income associated to the Bonds; and

(b) tax on capital gains obtained from transfer of the Bonds.

The applicable taxes due in Romania are established based on the quality (*e.g.*, individual, legal entity) and residence (*i.e.*, resident or non-resident) of the Bondholders.

Resident Bondholders

Resident individuals

Interest income derived in relation to the Bonds by Bondholders who are Romanian resident individuals, should qualify as income obtained from abroad, considering that the interest is paid by a non-resident (*i.e.*, the Issuer) who does not have a permanent establishment in Romania, and is subject to 16 percent income tax in Romania.

The Bondholders have to declare the interest income derived from the Bonds by submitting with the Romanian tax authorities a special form by the 25th May of the year following the one in which the income was obtained. The tax due in connection with the interest income derived from the Bonds should be established by the tax authorities based on the return submitted by the Bondholders and should be paid to the Romanian state budget within 60 days from the receipt of the tax assessment decision issued by the tax authorities.

No withholding tax is applicable in Romania.

According to the Romanian fiscal legislation, any tax that was paid or withheld in other jurisdictions in connection with the interest income derived from the Bonds for the same period, can be deducted from the tax due in Romania for the respective interest income (*i.e.*, credit method for avoidance of double taxation if such method is provided by the applicable double tax treaty). Such tax deduction is not to exceed the tax due in Romania for the respective interest income (*i.e.*, 16 percent).

In case the double tax treaty concluded between Romania and the state where such tax was due and paid provides for the exemption method for the avoidance of double taxation, the interest income should be exempt from income tax in Romania (declaration liability subsists).

The credit method or the exemption method for the avoidance of double taxation, as the case, can be applied provided that (i) there is a double tax treaty concluded between Romania and the state where the tax (for which a tax deduction/tax exemption is requested) was paid; (ii) and the Bondholder submits with the Romanian tax authorities the necessary documentation, attesting the payment of the tax in the other state for the interest income.

Capital gains derived from the transfer of the Bonds by Bondholders who are Romanian resident individuals, should qualify as income obtained from abroad, considering that the Bonds are issued by a non-resident (*i.e.*, the Issuer) who does not have a permanent establishment in Romania, and is subject to 16 percent income tax in Romania. The profit/loss obtained by the Bondholders from the transfer of the Bonds represents the positive/negative difference between the sale price and the purchase price, reduced, where appropriate, by the costs of the transaction, proved with appropriate documents.

The Bondholders have to declare the capital gains derived from the Bonds by submitting with the Romanian tax authorities a special form by the 25th May of the year following the one in which the income was obtained. The tax due in connection with the capital gains derived from the Bonds should be established by the tax authorities based on the return submitted by the Bondholders and should be paid to the Romanian state budget within 60 days from the receipt of the tax assessment decision issued by the tax authorities.

No withholding tax is applicable in Romania.

According to the Romanian fiscal legislation, any tax that was paid or withheld in other jurisdictions in connection with the capital gains derived from the Bonds, can be deducted from the tax due in Romania for the respective capital gains (*i.e.*, credit method for avoidance of double taxation). Such tax deduction is not to exceed the tax due in Romania for the respective capital gains (*i.e.*, 16 percent).

In case the double tax treaty concluded between Romania and the state where such tax was due and paid provides for the exemption method for the avoidance of double taxation, the capital gains should be exempt from income tax in Romania.

The credit method or the exemption method for the avoidance of double taxation, as the case, can be applied provided that (i) there is a double tax treaty concluded between Romania and the state where the tax (for which a tax deduction/tax exemption is requested) was paid; (ii) and the Bondholder submits with the Romanian tax authorities the necessary documentation, attesting the payment of the tax in the other state in respect of capital gains.

Investment income (including interest income and capital gains) derived by Romanian resident individuals starting 1 January 2017 will be subject to 5.5% social health insurance contribution. The monthly taxable base for the social health insurance contribution is the gross income/gain derived by the individual and is capped at five times the medium gross salary, in force in the year for which the social health insurance contribution is determined, and cannot be less than the minimum gross salary per country. The threshold is applicable for income from independent activities, income from agriculture, forestry and fishing, income from rental and leasing, income from association with a legal person, all investment income or income from other sources derived in a year.

The social health insurance contribution due by the individuals is determined by the tax authorities based on the form submitted by the individuals regarding the income derived from abroad and should be paid to the Romanian state budget within 60 days from the receipt of the tax assessment decision issued by the tax authorities.

For investment income derived during 2016, social health insurance contribution might be due in certain specific cases (*e.g.*, in case the individual does not derive during the respective year other types of income subject to social health insurance contribution, for instance salary income or income from independent activities).

Resident legal entities

Interest income in relation to the Bonds as well as capital gains from the transfer of the Bonds derived by Bondholders who are Romanian resident legal entities should be included in the Bondholder's regular corporate income tax computation, as taxable items.

The liability to compute, declare and pay the tax related to the interest income and capital gains derived by the Bondholders, Romanian resident legal entities, in relation with the Bonds, stays with the Bondholders.

Depending on the applicable tax regime, the Bondholder, legal entity having its tax residence in Romania, could be subject to:

(a) 16 percent profits tax, applicable on the taxable profit determined according to the Fiscal Code; or to

(b) income tax applicable to the total income derived by microenterprises, depending on the number of the employees of the microenterprise (*e.g.*, one (1) percent – in case of minimum two (2) employees, two (2) percent – in case of one (1) employee, three (3) percent – in case of no employees) with certain exceptions, as detailed under the Fiscal Code.

No withholding tax is applicable in Romania.

According to the Romanian fiscal legislation, any tax that was paid or withheld in other jurisdictions in connection with the interest income or capital gains derived from the Bonds can be deducted from the tax due in Romania for the respective interest income or capital gains (*i.e.*, credit method for avoidance of double taxation if such method is provided by the applicable double tax treaty). Such tax deduction is not to exceed the tax due in Romania for the respective interest income (*i.e.*, 16 percent). The credit is granted from the tax due in Romania for the year during which the tax was paid abroad,

The credit method for the avoidance of double taxation, as the case, can be applied provided that (i) there is a double tax treaty concluded between Romania and the state where the tax (for which a tax deduction is requested) was paid; and (ii) the Bondholder submits with the Romanian tax authorities the necessary documentation, attesting the payment of the tax in the other state.

Resident pension funds

Investments made by privately managed pension funds without corporate status are exempt from profits tax in Romania, as each participant is liable for its own taxes. No withholding tax is applicable in Romania in this specific case.

Non-resident Bondholders

The interest income derived in connection to the Bonds should not qualify as Romanian sourced income considering that the interest is paid by a non-resident (*i.e.*, the Issuer), who does not have a permanent establishment in Romania. Therefore, no withholding tax is applicable in Romania.

Capital gains derived from the disposal of the Bonds, issued by a non-resident (*i.e.*, the Issuer), are not subject to withholding tax in Romania.

In case the income derived by the non-resident Bondholder is attributable to a Romanian permanent establishment, the respective income should be subject to tax in Romanian considering the comments above regarding taxation at the level of resident Bondholders.

SUBSCRIPTION AND SALE

General information about the Offering

The Offering is addressed only to investors in Romania who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive, and to such other investors in Romania or such other jurisdictions where it is possible to do so, in reliance of Regulation S and without the need to publish a prospectus or undertake any other formalities whatsoever under applicable law in reliance on article 3(2) of the Prospectus Directive, to the extent, and only provided that, an investment in the Bonds does not constitute a violation of any applicable law by such investors (the "**Eligible Investors**").

Eligible Investors who intend to invest in the Bonds must be aware of, and comply with the laws, restrictions and limitations applicable to the Offering in their jurisdiction and the restrictions and limitations set out in "*General information*" below. By investing in the Bonds, investors undertake any liability arising in the event that such investment is deemed unlawful under their country of residence.

In consideration of the Issuer's status as international organization, the Romanian Financial Supervisory Authority has issued in 2015 a written confirmation regarding the exemption of the Issuer from the obligation to prepare and publish a prospectus, within the meaning of the Prospectus Directive, the Capital Market Law and the relevant secondary legislation, with respect to potential offerings of bonds on the Romanian market and the admission to trading on the Regulated Spot Market of the Bucharest Stock Exchange of such bonds. For the avoidance of doubt, this Offering Circular does not purport to be and should not be construed as a prospectus, within the meaning of the Prospectus Directive, the Capital Market Law or the relevant secondary legislation.

Offering Date

Eligible Investors may subscribe for the Bonds on the Offering Date *i.e.* 23 September 2016, from 13:00 to 18:30 Romanian time.

Proposed timetable of the Offering

Information on the proposed timetable of the Offering is set forth in the table below. Such information is for reference purposes only and should not be construed as a binding commitment or undertaking by the Issuer or the Co-Lead Managers to comply with the indicative dates below. The timetable of the Offering may be subject to change. Certain events provided therein are beyond the control of the Issuer. The Issuer, in agreement with the Co-Lead Managers, reserves the right to change the below timetable for the Offering, including the Offering Date. Information about any changes to the proposed timetable of the Offering will be notified to investors in accordance with "*Terms and conditions of the Bonds*" above. For the avoidance of doubt, any change in any of the dates set forth in the table below shall neither require nor be construed as an amendment to the Offering Circular or the Conditions.

21 September 2016 **(P)**	Publication of the Offering Circular on the Issuer's web site https://www.iib.int/en/ and on each Co-Lead Manager's website http://www.btcapitalpartners.ro/ and https://www.bcr.ro, respectively
21 September 2016 **(P)** – 23 September 2016, by 11:00 a.m. Romanian time **(P+2 BD)**	Bookbuilding process for Eligible Investors
23 September 2016 **(P+2 BD)**	Determination of the Interest Rate Publication of the Pricing Notification on the Issuer's web site https://www.iib.int/en/, on each Co-Lead Manager's website http://www.btcapitalpartners.ro/ and https://www.bcr.ro, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro
23 September 2016, between 11:00 a.m. and 13:00 Romanian time **(P+2 BD)**	Allocation of the Bonds

23 September 2016, between 13:00 and 18:30 Romanian time **(P+2 BD)**	Offering Date
23 September 2016 **(P+2 BD)**	Transaction Date *i.e.*, the date on which trades in relation to the Bonds are executed through the Bucharest Stock Exchange system
27 September 2016 **(P+4 BD)**	Issue Date *i.e.*, the date on which the Bonds are issued and delivered to the Bondholders pursuant to the Conditions (see "*Terms and conditions of the Bonds*")
29 September 2016 **(P+6 BD)**	First day of trading of the Bonds on the Regulated Spot Market of the Bucharest Stock Exchange

Establishment of the Interest Rate

For the purpose of establishing the Interest Rate, a bookbuilding process shall be carried out by the Co-Lead Managers among Eligible Investors, during 21 - 23 September 2016. During the bookbuilding process, the Co-Lead Managers will evaluate the interest rate sensitivity of demand for the Bonds from the Eligible Investors.

For such purposes, Eligible Investors will be required to specify the number of Bonds which they would be prepared to acquire and the related interest rate at which they would be prepared to acquire such Bonds within an indicative range specified by the Co-Lead Managers.

The Interest Rate shall be established by the Issuer, in agreement with the Co-Lead Managers, on the basis of the bookbuilding results and shall be notified to investors through the Pricing Notification published on the Issuer's web site https://www.iib.int/en/, on each Co-Lead Manager's website http://www.btcapitalpartners.ro/ and https://www.bcr.ro, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro on 23 September 2016.

Subscription documents

Eligible Investors may subscribe for the Bonds on the Offering Date, during 13:00 and 18:30 Romanian time, through the Co-Lead Managers or Eligible Participants.

"Eligible Participants" means any Participants (other than the Co-Lead Managers) which (i) have signed an irrevocable and unconditional undertaking to observe the provisions of this Offering Circular, the Pricing Notification and the applicable law, in the form made available by the Co-Lead Managers and (ii) have transmitted such undertaking to BTCP. In case an Institutional Investor has concluded an investment services agreement any Co-Lead Manager or an Eligible Participant, such investor may validly subscribe for Bonds on the basis of orders given pursuant to such agreement and by any means of communication provided by such an agreement. In all other cases in which an Eligible Investor has not concluded an investment services agreement with a Co-Lead Manager or an Eligible Participant, such investor may validly subscribe for Bonds through any Co-Lead Manager or Eligible Participant, by filling-in and signing the subscription form, in two original counterparts, accompanied by the Payment Evidence and such other documents as the Co-Lead Manager or the respective Eligible Participant may require for fulfilling its obligation to observe "know your customer" rules and client identification procedures, in accordance with its own internal procedures. All documents submitted by the investors in relation to their subscription of Bonds shall be in English or Romanian, or accompanied by a notarized translation of such documents into English or Romanian.

The Co-Lead Managers and the Eligible Participants shall accept, validate, transmit and execute subscriptions/purchase orders into the Bucharest Stock Exchange electronic system in accordance with their internal regulations and the rules regarding the management of settlement risks and the requirements provided in this Offering Circular and the applicable law.

Subscription procedures

By subscribing for Bonds, each Eligible Investor confirms having read this Offering Circular, having unconditionally accepted the terms and conditions set out in "*Terms and conditions of the Bonds*" above and having made the subscription according to the terms included in this Offering Circular and the applicable law

and warrants to the Issuer and the Co-Lead Managers that he/ she / it is an Eligible Investor (within the definition set forth in this Offering Circular) which may lawfully subscribe the Bonds (without being subject to any restriction or limitation) under his/ her/ its jurisdiction of residence. Any subscription made in breach of this Offering Circular or in breach of applicable law shall be invalid and shall be cancelled.

The Issuer, in consultation with the Co-Lead Managers, will determine, at its/their sole discretion, those Eligible Investors to whom invitations to submit a subscription order for the Bonds will be sent by the Co-Lead Managers. Each Eligible Investor may submit one or several subscription orders, in accordance with the procedures set forth herein.

No minimum subscription requirements, other than those applicable as per the provisions of article 3(2) of the Prospectus Directive (in case an Eligible Investor subscribes pursuant to an exception thereunder which requires a minimum amount of the subscribed securities) applies to Eligible Investors. Subscriptions of fractions of Bonds are not permitted and any subscription for a fraction of a Bonds shall be deemed invalid. Multiple subscriptions orders must be placed with the same Eligible Participant or Co-Lead Manager only.

Participants may not accept subscriptions prior to the signing of a valid and binding written undertaking to abide by the terms and conditions herein with the Co-Lead Managers. Any placement of subscriptions orders with participants who are not Eligible Participants shall not be taken into consideration and the Issuer and the Co-Lead Managers shall have no liability whatsoever in relation thereto. Each Eligible Participant must comply, and must ensure that its internal systems allow it to comply, with the requirements set out in this Offering Circular, the Pricing Notification and the applicable law including, without being limited to, the requirements regarding the availability of funds and the settlement of the transactions carried out by the respective Eligible Participant.

The Co-Lead Managers and the Eligible Participants shall process, validate and register all the received subscriptions, provided that subscriptions meet the validation conditions, by entering the subscription order related to the subscription in the Bucharest Stock Exchange electronic system. The subscription orders shall be registered in the Bucharest Stock Exchange electronic system by the Co-Lead Managers and the Eligible Participants only if the relevant Eligible Investor provides the subscription documents (if the case) and one of the documents below by the end of the Offering Date (each a "**Payment Evidence**"):

1) evidence of payment by the investor of the Nominal Value multiplied by the number of subscribed Bonds *via* bank transfer in one of the following accounts: RO96BTRL01301202925690XX opened with Banca Transilvania S.A. Cluj or RO36RNCB0002B00108104762 opened with Banca Comerciala Romana S.A. (each, a "**Collection Account**" and together, the "**Collection Accounts**"), provided that such transfer is made no later than the end of the Offering Date;

   The payment order must contain the identification code and name of the Eligible Investor. The account number to be filled in by an Eligible Investor in the subscription form (if applicable) must be the number of the account out of which the subscription amount is effectively transferred to a Collection Account. No deposits in cash directly to a Collection Account, or the client accounts are accepted. The amounts transferred by Eligible Investors in the relevant Collection Accounts will not bear interest in favour of such Eligible Investors.

   The amounts credited in a Collection Account for the subscribed Bonds does not include the bank fees or other applicable charges. The investors must take into consideration the charges applicable to bank transfers and duration of bank transfers.

   No Co-Lead Managers shall held responsible if, for reasons outside its control, a Collection Account is not effectively credited with the amounts representing the value of the subscriptions by the end of the Offering Date;

   or

2) a settlement commitment statement issued by a custodian agent undertaking the responsibility for the settlement of the subscribed Bonds;

or

3) letter of bank guarantee issued by a credit institution from the European Union for the purpose of covering the settlement risk undertaken by the Co-Lead Manager or the relevant Eligible Participant with whom the subscription order is placed;

or

4) written statement from the Co-Lead Manager or the relevant Eligible Participant with whom the subscription order is placed undertaking responsibility for the settlement for the amount representing the aggregate Nominal Value of the Bonds subscribed by the respective Eligible Investor, in accordance with the limitations imposed by the Romanian Financial Supervisory Authority.

If the amount transferred by an Eligible Investor into the relevant Collection Account is higher than the amount represented by the Nominal Value of the Bonds multiplied by the number of Bonds indicated by that Eligible Investor in the subscription form or purchase order given to a Co-Lead Manager or an Eligible Participant (in case the Eligible Investor has concluded an investment agreement with a Co-Lead Manager or the respective Eligible Participant), the subscription will only be validated for the number of Bonds mentioned in the subscription form or in the respective purchase order, and the investor shall be reimbursed with the remaining amount within five business days after the Offering Date.

Any reimbursements to investors shall be less of any bank transfer commissions and any applicable commissions of the relevant market institutions, to the bank account indicated by each investor in the subscription form submitted in relation to the subscription of Bonds, in the investment services agreement or as otherwise agreed with the Co-Lead Managers. No interest shall be payable to investors in respect of such amounts. If an investor has indicated more than one account for the reimbursement of any such amounts, the Co-Lead Managers reserve the right to pay the whole amount to be reimbursed to only one of the accounts indicated by the investor.

In circumstances where the amount transferred to the Collection Account or indicated in the commitments mentioned under items 2)-4) above is lower than the amount represented by the Nominal Value multiplied by the number of Bonds indicated by that Eligible Investor in the subscription form or purchase order given to the Co-Lead Manager or an Eligible Participant (in case the Institutional Investor has concluded an investment agreement with a Co-Lead Manager or the respective Eligible Participant), the subscription form or the purchase order shall be deemed valid for the number of Bonds corresponding to the amount for which valid Payment Evidence has been provided, calculated by dividing the such amount to the Nominal Value.

The investors must take into consideration bank fees, charges applicable to bank transfers and duration of bank transfers.

Allocation of the Bonds

The allocation of Bonds shall be made by the Issuer in agreement with the Co-Lead Managers following the completion of the bookbuilding process among Eligible Investors, on 23 September 2016.

In case the Offering is over-subscribed and the Issuer and the Co-Lead Manager fail to reach an agreement on the allocation of Bonds within two hours after the bookbuilding process is completed, Bonds shall be allocated to investors who have validly applied for them, on a *pro rata* basis.

Eligible Investors shall thereafter be invited to subscribe for Bonds, on the Offering Date, based on the results of such allocation and in accordance with "*Subscription procedures*" above.

Investors also acknowledge and agree that they cannot refuse the Bonds allocated to them in accordance with the foregoing, and shall have no right to contest or oppose such allocation. The allocation of the Bonds as described herein is mandatory and is binding for the Eligible Investors.

Transaction

On the Offering Date, the subscription orders for the Bonds shall be registered in the system of the Bucharest Stock Exchange, exclusively in accordance with the allocations made by the Issuer in agreement with the Co-Lead Managers, provided that the corresponding subscriptions are valid and the Payment Evidence is received.

Offering results

The results of the Offering will be published in Romanian and/or English, as the case may be on the Issuer's web site https://www.iib.int/en/, on each Co-Lead Manager's website http://www.btcapitalpartners.ro/ and https://www.bcr.ro, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro.

Withdrawal of subscriptions

The subscriptions made on the Offering Date are irrevocable and may not be withdrawn or amended by the Eligible Investors.

Listing on the Bucharest Stock Exchange

The Bucharest Stock Exchange has issued an approval in principle for the admission of the Bonds to trading on the Regulated Spot Market of the Bucharest Stock Exchange (in Romanian: *piata reglementata*). After the completion of the Offering, the Issuer intends to apply to the Bucharest Stock Exchange for obtaining the final approval for the admission of the Bonds to trading on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange. Subject to the final approval of the Bucharest Stock Exchange, the listing of the Bonds on the Regulated Spot Market of the Bucharest Stock Exchange is expected to occur on or about 29 September 2016.

The Bonds are expected to trade under symbol IIB19.

The Issuer may apply for admission of the Bonds to trading on other regulated markets in the European Union.

SETTLEMENT

General

Transfers of securities (other than derivatives) admitted to trading on the Bucharest Stock Exchange are cleared and settled through the clearance-settlement system (RoClear) managed by the Central Depository, in accordance with applicable laws and regulations.

The Central Depository is a joint stock company organized and functioning in accordance with the Romanian law, having its registered office at 34-36 Carol I Bvd., 3rd, 8th, and 9th floors, Bucharest, 020922, 1st District, Romania, sole registration code RO9638020, registered with the Trade Registry under no. J40/5890/1997, which is authorised and supervised by the Romanian Financial Supervisory Authority and provides depository, registrar, clearing and settlement and other related services in connection with securities (other than derivatives) traded on the Bucharest Stock Exchange.

The ownership right over securities listed on the Bucharest Stock Exchange is transferred to the purchaser on the settlement date. The settlement is generally effected on a T+2 basis by debiting/crediting the relevant accounts, on a delivery versus payment basis (*i.e.*, the securities being delivered only if the corresponding purchase price is paid).

By way of exception, there are certain cases in which the Central Depository may operate direct transfers of ownership over securities listed on the Bucharest Stock Exchange, subject to the conditions set forth in the regulations of the Central Depository, as a result, among others, of: (i) a final judgment issued by a court of law; (ii) succession; or (iii) other transfers, in accordance with applicable laws and regulations.

Although the foregoing sets out the procedures of the Romanian Central Depository which shall, in principle, apply to transfers of Bonds after their admittance to trading on the Regulated Spot Market of the Bucharest Stock Exchange, in certain cases, the Central Depository reserves the right to suspend or cancel the registration of an instruction, if there are any doubts with respect to its content, the authority of the person submitting such instruction or if it establishes that the provisions of its regulations or the related agreements have been breached, or to ignore instructions which contain errors or other vices or which are not duly executed by authorized persons. None of the Issuer, the Co-Lead Managers, or their respective agents will have any responsibility for the performance or failure to perform by the Central Depository or other Participants of their respective obligations under the rules, procedures and agreements governing their operations as at the date when such obligations are or should have been performed.

For a more detailed description of the settlement procedures applicable to the transfers of the Bonds within the Offering, see "*Subscription and sale*". Transfer restrictions relating to the Bonds are presented in "*General information – Selling and transfer restrictions*".

Registration of the Bonds

All classes of securities (other than derivatives) traded on a Romanian regulated market or alternative trading system, including the Bonds after their admission to trading on the Regulated Spot Market of the Bucharest Stock Exchange, are mandatorily deposited with the Central Depository for the purpose of ensuring that securities operations are performed in a centralised manner and that unitary records of such operations are maintained. All securities accepted in the Central Depository's system are dematerialised and evidenced by book entry.

In view of their admission to trading on the Regulated Spot Market of the Bucharest Stock Exchange, all Bonds will be registered with the Romanian Financial Supervisory Authority and with the Central Depository. The Central Depository will maintain the record of the aggregate holdings of Bonds.

The Issuer will not impose any fees in respect of holdings of the Bonds; however, holders of Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the system of the Central Depository.

Listing on the Regulated Spot Market of the Bucharest Stock Exchange

The admission to trading and the listing of the Bonds on the Bucharest Stock Exchange requires, *inter alia*: (i) the signing of an agreement between the Issuer and the Central Depository related to the registration of the Bonds in the system operated by the Central Depository; (ii) the signing of the commitment for the admission and maintenance to trading by the Issuer; and (iii) the approval of the Bucharest Stock Exchange management board (in Romanian: *Consiliul Bursei*), based on the opinion issued in this respect by the Bucharest Stock Exchange Commission for the Admittance to Trading.

After their admission to trading, the Bonds shall be listed on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange. The Bonds are expected to trade under the symbol IIB19.

Title to the Bonds

Only persons that are Bondholders within the meaning set forth under Condition 4 "*Bondholders*" of the "*Terms and conditions of the Bonds*" section above will be recognised as owners of the Bonds and, therefore, entitled to the corresponding rights attached to the Bonds. Bondholders will be able to exercise their rights in accordance with the "*Terms and conditions of the Bonds*" section above and, if the case, subject to the contractual arrangements entered with the relevant Participant through which the Bonds are held and the applicable laws and regulations.

ICSDs

The Bonds may also be held through Clearstream. As of the date hereof, Clearstream has either direct or indirect links with the Central Depository; an indirect link is normally maintained through a custodian that holds Bonds for ICDSs in a holding (nominee) account with the Central Depository. Persons holding any Bonds in their accounts with Clearstream must only look to Clearstream for the discharge of the obligations of the Issuer under the Bonds. Subject to the paragraphs below, such persons holding any Bonds through Clearstream may only exercise their rights against the Issuer through Clearstream or the relevant custodian that holds such Bonds for Clearstream, whichever entity is registered as a holder of an account in relation to such Bonds with the Central Depository.

A person holding any Bonds through Clearstream may not have direct rights against the Issuer. Such rights, if any, will be always subject to the standard rules of procedure of Clearstream (if so enabled thereunder) and the applicable laws.

It should be noted that the Issuer does not have any direct agreement with Clearstream to the effect that any links with the Central Depository will remain available as long as any Bonds remain outstanding. The Issuer does not have any direct means to ensure that such links will remain available and accepts no responsibility in respect of the information concerning Clearstream. Clearstream is not under any obligation to perform or continue to perform under any clearing arrangements and such arrangements may be modified or discontinued by any of them at any time. The Issuer and the Co-Lead Managers will not, nor will any of their agents, have responsibility for the performance of the respective obligations of Clearstream or their respective participants. Investors wishing to use these clearing systems are advised to confirm the continued applicability of these arrangements.

GENERAL INFORMATION

Authorisations

The Issuer hereby confirms that, as of the Issue Date, it shall have obtained all consents, approvals and authorisations by its competent governance bodies in connection with the issue of the Bonds and the listing thereof on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange.

Listing and trading

The Issuer shall apply for the admittance of the Bonds to trading on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange. However, no assurance can be given that the Bonds will be admitted to trading on the Bucharest Stock Exchange.

The Issuer may also apply, if it so deems fit, for the admittance of the Bonds to listing, trading and/or quotation on any other listing authorities, stock exchanges, regulated markets and/or quotation systems.

Documents available for inspection

Copies of the agreements whereby the calculation agent(s) and the paying agent(s) are appointed in such capacity (capacities) in respect of the Bonds shall be available for inspection by the Bondholders at the offices of the calculation agent(s) mentioned herein or otherwise notified to the Bondholders in accordance with Condition 16.2 of the "*Terms and conditions of the Bonds*" section above, during normal business hours.

As of the date of this Offering Circular, BT Capital Partners S.A., a joint stock company incorporated under the laws of Romania, having its principal office at 74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca, Cluj county, Romania, is appointed as Calculation Agent and Banca Transilvania S.A., a joint stock company incorporated under the laws of Romania, having its principal office at 8 George Baritiu Street, Cluj-Napoca, Cluj county, Romania, is appointed as Paying Agent.

Selling and transfer restrictions

The distribution of this Offering Circular and the offering, purchase or transfer of the Bonds in certain jurisdictions may be restricted by law and, therefore, persons into whose possession this Offering Circular comes or which otherwise intend to subscribe for, purchase or otherwise transfer the Bonds should inform themselves about and observe any restrictions, including those set out in the paragraphs which follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. By subscribing for or purchasing the Bonds, whether in this Offering or subsequently, investors assume any liability arising in the event that such subscription or purchase is deemed unlawful under the country of residence.

This Offering Circular does not constitute an offer to subscribe for or purchase any of the Bonds.

No action has been or will be taken in any country or jurisdiction that would permit a public offering of the Bonds or possession or distribution of this Offering Circular (or any other offering or publicity material relating to the Bonds) in any country or jurisdiction where action for that purpose is required or doing so may be restricted by law.

Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

This offering of the Bonds described herein is available only to investors in Romania who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive, and to such other investors in Romania or such other jurisdictions where it is possible to do so, in reliance of Regulation S and without the need to publish a prospectus or undertake any other formalities whatsoever under applicable law, in reliance on article 3(2) of the Prospectus Directive, to the extent, and only provided that, an investment in the Bonds does not constitute a violation of any applicable law by such investors.

In particular, the Bonds have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered or sold within the United States.

Each purchaser of the Bonds outside the United States, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that it complies with all applicable laws and regulations of the United States. The Issuer will not recognise any resale or other transfer, or attempted resale or other transfer, in respect of the Bonds made other than in compliance with the restrictions under any applicable laws and regulations of the United States.

This Offering Circular has not been approved by an authorized person in the United Kingdom and is not for distribution in the United Kingdom and may not be construed as a communication of any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of the Bonds in the United Kingdom.

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International Investment Bank

Consolidated financial statements

Year ended 31 December 2013
Together with Independent Auditors' Report

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Independent auditors' report

To the Council of the International Investment Bank

We have audited the accompanying consolidated financial statements of the International Investment Bank (hereinafter the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Vneshaudit ZAO

31 March 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

(Thousands of Euros)

	Note	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	5	20,045	8,407
Deposits with banks and other financial institutions	6	41,490	91,807
Financial assets at fair value through profit or loss	7	151	–
Available-for-sale investment securities	8	129,876	100,104
Held-to-maturity investment securities	9	5,910	–
Long-term loans to banks	10	58,795	–
Loans to customers	11	37,625	49,105
Assets held for sale	12	–	10,744
Inventories – real estate objects	13	4,929	–
Investment property	14	53,480	52,409
Property and equipment	15	50,000	51,449
Other assets	16	8,811	3,051
Total assets		**411,112**	**367,076**
Liabilities			
Due to banks and other financial institutions	17	49,586	3,788
Current customer accounts		3,313	2,396
Other liabilities	16	5,841	5,803
Total liabilities		**58,740**	**11,987**
Equity	18		
Subscribed capital		1,300,000	1,300,000
Callable capital		(1,058,685)	(1,134,752)
Paid-in capital		**241,315**	**165,248**
Revaluation reserve for available-for-sale investment securities	18	214	4,340
Revaluation reserve for property and equipment		33,375	33,375
Foreign currency translation reserve		(1,219)	–
Retained earnings less net income for the year		76,059	149,870
Net income for the year		2,628	2,256
Total equity		**352,372**	**355,089**
Total equity and liabilities		**411,112**	**367,076**

Signed and authorized for release on behalf of the Board of the Bank

Nikolay Kosov — Chairman of the Board

Eugeny Atanassov — Managing Director of the Financial Department

31 March 2014

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

(Thousands of Euros)

	Note	*2013*	*2012*
Financial result from continuing operations			
Interest income	21	13,353	8,690
Interest expenses	21	(432)	(32)
Net interest income		**12,921**	**8,658**
(Allowance) for impairment of loans to customers	11	(10,105)	(4,782)
Net interest income/(expense) after allowance for loan impairment		**2,816**	**3,876**
Fee and commission income		114	238
Fee and commission expense		(72)	(68)
Net fee and commission income		**42**	**170**
Net (losses)/gains from foreign currencies	22	(2,682)	724
Net gains from available-for-sale investment securities	18	5,659	3,727
Income from lease of investment property	14	7,959	7,331
Net (losses)/gains from impairment/disposal of assets held for sale	12	(3,588)	75
Income from revaluation of investment property		–	1,615
Dividend income		362	182
Revenues from sales of inventory	13	3,727	–
Other income	23	10,763	201
Net non-interest income		**22,200**	**13,855**
Operating income		**25,058**	**17,901**
Allowance for impairment of other assets		(152)	(161)
General and administrative expenses	24	(16,751)	(13,503)
Cost of inventories sold	13	(3,346)	–
Other operating expenses		(2,181)	(1,343)
Operating expenses		**(22,430)**	**(15,007)**
Income from continuing operations before income tax benefit		**2,628**	**2,894**
Income tax benefit		–	2
Income from continuous operations after income tax		**2,628**	**2,896**
Loss from discontinued operations after income tax	31	–	**(640)**
Net income for the year		**2,628**	**2,256**

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

(Thousands of Euros)

	Note	*2013*	*2012*
Net income for the year		**2,628**	**2,256**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Net unrealized (losses)/gains on available-for-sale investment securities		(4,126)	6,691
Translation differences		(1,219)	(70)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(5,345)**	**6,621**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property and equipment	15	–	2,284
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–**	**2,284**
Other comprehensive income/(loss)		**(5,345)**	**8,905**
Total comprehensive income for the year		**(2,717)**	**11,161**

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2011	**1,300,000**	**(1,085,505)**	**(2,351)**	**31,091**	**70**	**100,623**	**343,928**
Profit for the year	–	–	–	–	–	2,256	**2,256**
Other comprehensive income for the year	–	–	6,691	2,284	(70)	–	**8,905**
Total comprehensive income	**–**	**–**	**6,691**	**2,284**	**(70)**	**2,256**	**11,161**
Withdrawal of the member countries (Note 18)	–	(49,247)	–	–	–	49,247	–
At 31 December 2012	**1,300,000**	**(1,134,752)**	**4,340**	**33,375**	–	**152,126**	**355,089**
Profit for the year	–	–	–	–	–	2,628	**2,628**
Other comprehensive income for the year	–	–	(4,126)	–	(1,219)	–	**(5,345)**
Subscribed capital withdrawal (Note 18)	–	76,067	–	–	–	(76,067)	**–**
At 31 December 2013	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**(1,219)**	**78,687**	**352,372**

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

(Thousands of Euros)

	Note	*2013*	*2012*
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		7,144	3,146
Interest, fees and commissions paid		(447)	(96)
Net receipts/(payments) from trading with foreign currencies		56	(160)
Cash flows from lease of investment property		7,959	7,331
Income from disposal of assets held for sale		–	75
General and administrative expenses		(15,932)	(11,350)
Other operating expenses		(585)	(1,347)
Cash flows from operating activities before changes in operating assets and liabilities		**(1,805)**	**(2,401)**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		50,129	19,893
Long-term loans to banks		(58,787)	–
Loans to customers		7,406	(10,803)
Inventories – real estate objects		(4,205)	
Assets held for sale		5,985	–
Other assets		(110)	554
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		46,208	3,819
Current customer accounts		921	17
Other liabilities		17	(40)
Net cash flows from operating activities		**45,759**	**11,039**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(187,058)	(153,836)
Proceeds from sale and redemption of investment securities		161,660	138,776
Purchase of held-to-maturity investment securities		(5,958)	–
Investment in investment property	14	(43)	(507)
Acquisition of property and equipment	15	(791)	(982)
Net cash flows from investing activities		**(32,190)**	**(16,549)**
Effect of exchange rate changes on cash and cash equivalents		(1,931)	16
Net increase/(decrease) in cash and cash equivalents		**11,638**	**(5,494)**
Cash and cash equivalents, beginning		**8,407**	**13,901**
Cash and cash equivalents, ending	5	**20,045**	**8,407**

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

(Thousands of Euros)

1. Principal activities

These consolidated financial statements include the financial statements of the International Investment Bank (the "Bank") and its subsidiaries. The Bank and its subsidiaries are hereinafter referred together as the "Group". The International Investment Bank is the parent company of the Group. The list of the Bank's subsidiaries is presented in Note 2.

The Bank was founded in 1970, has operated since 1 January 1971 and is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

The Group had an average of 166 staff employees during 2013 (2012: 148).

In 2013, activities of the Group was focused on implementation of the IIB Relaunch Program, which was unanimously approved at the 98th meeting of the Bank's Council in November 2012 and designed to transform the Bank into a full-service multilateral development institution. IIB consistently implemented its mandate, under which the Bank supports SMEs and socially important projects in member countries. The results of this work confirm the achievement of key strategic goals set by the Group as a part of "optimistic" scenario for the expired year. Key developments are as follows:

- Creation of a qualitatively new loan portfolio under new principles of credit policy: focus on offering credit products with a low risk level, reduction of share of direct lending to ultimate borrowers and refocus to lending via partner banks (providing special purpose credit facilities for the development of the SME sector in the member countries, participating in syndicated lending), extension of geographical diversification of investments;
- Fulfillment of the old loan portfolio rehabilitation program;
- Alignment of the majority of internal regulations with best practices of modern international development institutions (credit policy, strategic and current planning), introduction of a new system of risk management consistent with recommendations of the Basel Committee on Banking Supervision, operation of a full-service compliance control;
- Completion of preparations for a transit to a new organizational structure (with division on front, middle and back office) and employee motivation system consistent with best practices of leading multilateral development banks;
- Strategic focus on the development of partnership relations and IIB's brand recognition. Conclusion of 20 agreements on cooperation with leading financial institutions of member countries (agreements with VEB Group came into practical effect (including OJSC SME Bank, OJSC Russian Agency for Export Credit and Investment Insurance, CJSC State Specialized Russian Export-Import Bank), as well as with several major Vietnamese and Mongolian banks). The following leading development banks invite the Bank to participate in syndicated lending: IFC (International Financial Corporation, 2 syndicates), EBRD (European Bank for Reconstruction and Development, 1 syndicate), the Netherlands Development Finance Company (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., 1 syndicate). As a matter of fact, IIB is starting to be a catalyst for investments. Official accession of the Bank to the Master Cooperation Agreement with IFC on 31 January 2014 means IIB joins 19 leading development institutions and gets an opportunity to participate in syndicated lending projects on a regular basis. The Bank works on practical directions of cooperation with such financial institutions as European Investment Bank, KfW, The Black Sea Trade and Development Bank;
- Completion of a long-term process on settlement of debt of the Republic of Cuba to IIB. The Board and delegations of member countries did considerable work to find mutually acceptable solutions to the Cuban issue. The result of this work is the Agreement on debt restructuring signed by the Bank and the Cuban government, which does not affect the Bank's composition;
- The 99th meeting of the Bank's Council (Bratislava, 6 June 2013) led to a decision on capitalization of the Bank in the amount of EUR 176 million, of which EUR 100 million are additional contributions of member countries.

(Thousands of Euros)

1. Principal activities (continued)

The favorable trend of development and reforming IIB, as well as the support from member countries, helped the Bank to receive an international credit rating of investment level from Fitch Ratings in 2013 (long-term issuer default rating at BBB- with a stable outlook and short-term issuer default rating at F3).

The first rating of this level gives the Bank an opportunity to start shaping a qualitatively new financial agenda through fulfillment of a key task, which is a significant accumulation of assets and diversification of a resource base through using a wide range of funding sources, including syndicated loans, bonded loans and other instruments.

Therefore, the stage of IIB's active reforming under the Development strategy was practically finished in 2013, the Bank acquired self-identification, created conditions for increasing confidence in the Bank, which facilitate broadening its activities both in member countries and multilateral framework.

Member countries of the Bank

The member countries of the Bank include (share in the paid-in capital of the Bank, %):

Member countries	*2013* *%*	*2012* *%*
Russian Federation	58.026	58.026
Czech Republic	12.587	12.587
Republic of Bulgaria	12.365	12.365
Romania	7.647	7.647
Slovak Republic	6.294	6.294
Republic of Cuba	2.222	2.222
Mongolia	0.435	0.435
Socialist Republic of Vietnam	0.424	0.424
	100.000	**100.000**

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case the Bank must settle all obligations to the relevant member country.

The member countries of the Bank may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

Conditions of the Bank's financial and business operations in the member countries

In the member countries, the Bank is not subject to taxation and enjoys all privileges available to diplomatic representations.

The Bank is not subject to regulation by the Central Banks of the member countries, including the country of residence.

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

The accompanying consolidated financial statements reflect the management’s assessment of the impact of the member countries’ business environment on the results of operations and financial position of the Group. Future evolution of the conditions in which the Group operates may differ from the assessment made by the management for the purposes of these consolidated financial statements.

(Thousands of Euros)

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), approved by the International Accounting Standards Board.

Subsidiaries

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012) as at 31 December 2013. The share capital of the subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Bank made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand.

On 17 February 2012, the Bank sold a 100% interest in the share capital of LLC StroyProektInvest.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

In accordance with the Statutes of the Bank, the management has determined the Group’s functional and presentation currency to be the Euro ("EUR") as it reflects the economic substance of the underlying operations conducted by the Group and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Group are denominated in EUR. The functional currency of the Group's subsidiary is Russian ruble.

These consolidated financial statements are presented in thousands of Euros ("Thousands of Euros" or "EUR thousand"), unless otherwise indicated.

(intentionally blank)

(Thousands of Euros)

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS during the year:

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidated financial statements of the Bank.

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Group provided these disclosures in Note 26.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognized in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Group's financial position.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Group does not have subsidiaries with non-controlling interests as well as unconsolidated structured entities.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Group's financial position or performance. The new disclosures are presented in Note 28.

Foreign currency transactions

The consolidated financial statements are presented in Euro, which is the Bank's functional and presentation currency. Every currency except Euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net gains/(losses) from foreign currencies". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Group's exchange rate on the date of the transaction are included in "Net gains/(losses) from dealing in foreign currencies".

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights (interest), or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated income statement, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property and buildings (within property and equipment), at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the separate statement of financial position. Securities borrowed are not recorded in the separate statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the separate income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net (losses)/gains from foreign currencies dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

Operating − Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement over the lease term within net non-interest income on "Income from lease of investment property". The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Leases (continued)

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that may be related to defaults.

Short-term and long-term amounts due from banks and other credit institutions and loans to customers

For amounts due from banks and other credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the assets' value in the consolidated statement of financial position and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The value of the asset in the consolidated statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount of asset based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If amounts previously written off are later recovered, the recovery is credited to the consolidated income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a financial asset is provided at a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group determines at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the separate income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statements.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the consolidated statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the consolidated income statement.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Investment property

Investment property is a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group’s investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investment property (continued)

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Group and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

Intangible assets include computer software.

Intangible assets acquired by the Group are recognized in the consolidated financial statements at their acquisition cost.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

In accordance with amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed in the consolidated financial statements, when an inflow of economic benefits is probable.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and credit and deposit fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Other fee and commission income*

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

Segment reporting

The reportable segments of the Group comprise the following operating segments: Credit and investment activity, Treasury, Other operations.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment shall not be relevant to the Group, since none of the entities in the Bank are qualified to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have a material impact on its consolidated financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Group's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant uses of judgments and estimates are as follows:

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Allowance for impairment of loans and other financial assets carried at amortized cost

Financial assets are recorded in the Group's consolidated statement of financial position less allowances for impairment. The Group regularly reviews its financial assets to assess impairment. When assessing impairment losses, the Group uses its professional judgment in relation to objective evidences that future contractual cash flows on financial asset shall decrease. These evidences may include information on financial difficulties of the borrower or other observable data on adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The Group uses its professional judgment to adjust observable data for financial assets to reflect current circumstances. Impairment loss may be reversed only if a subsequent increase of estimated contractual cash flows can be objectively related to an event occurring after the impairment loss was recognized.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 26.

Impairment of available-for-sale equity securities

The Group determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

Fair values of buildings and investment property

As disclosed in Note 3, the Group applies the fair value model with regard to buildings and investment property.

As for buildings within property and equipment, the Group monitors the compliance of the present value of buildings with their fair value and performs revaluation to ensure that there are no significant differences. Changes in the fair value are recognized in other comprehensive income. The most recent revaluation of the Group's building was carried out as at 26 December 2012 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market. Starting from 26 December 2012, the revalued building is depreciated in accordance with the remaining useful life.

As for investment property, the Group monitors changes in its fair value at each reporting date to ensure that the present value of investment property does not differ materially from its fair value. Changes in the fair value of investment property are recognized in the consolidated income statement. The most recent revaluation of the Group's investment property was carried out as at 26 December 2012 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market. The Group believes that as at 31 December 2013, the fair value of investment property did not change significantly.

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is presented in the following notes:

- Note 7 – Financial liabilities at fair value through profit or loss
- Note 8 – Available-for-sale investment securities
- Note 10 – Long-term loans to banks
- Note 11 – Loans to customers
- Note 13 – Inventories – real estate objects
- Note 14 – Investment property
- Note 15 – Property and equipment
- Note 19 – Contingencies and lending commitments.

(Thousands of Euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	**970**	**103**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	2,148	820
Credit rating from A− to A+	838	1,513
Credit rating from BBB− to BBB+	198	51
No credit rating	–	4
Total Nostro accounts with banks and other financial institutions	**3,184**	**2,388**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from A− to A+	6,500	–
Credit rating from BBB− to BBB+	4,272	5,916
Total short-term deposits with banks	**10,772**	**5,916**
Collateral on credit transactions with banks		
No credit rating	5,119	–
Cash and cash equivalents	**20,045**	**8,407**

Cash and cash equivalents are neither impaired, nor past due.

In December 2013, the Mongolian customer with no credit rating was provided a long-term mortgage loan (Note 11). The surety bank placed a short-term interest-free collateral deposit with IIB prior to the mortgage registration in Mongolia (Note 17). The deposit in the amount of EUR 5,119 thousand is placed by the Bank on the correspondent account of the surety bank.

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	2013	*2012*
Term deposits with banks up to 1 year		
Credit rating from A- to A+	–	10,017
Credit rating from BBB- to BBB+	–	25,069
Credit rating from BB- to BB+	1,028	25,085
Credit rating B+	40,462	18,759
No credit rating	–	12,877
Deposits with banks and other financial institutions	**41,490**	**91,807**

Amounts due from the National Bank of the Republic of Cuba

As at 31 December 2013, the Group placed deposits with the National Bank of the Republic of Cuba (without credit rating). As part of restructuring of reciprocal claims and liabilities, the 100th meeting of the IIB Council approved an Agreement under which the parties confirmed the debt of the Republic of Cuba to IIB, converted the debt into the Group's functional currency and made a partial write off of loans issued to borrowers in the Republic of Cuba (Note 11). Under this Agreement the parties also approved the principles and terms of debt settlement. Despite the restructuring, the Group did not reverse previously accrued allowances for impairment, therefore as at 31 December 2013, the Group created a 100% allowance for impairment of these deposits.

(Thousands of Euros)

6. Deposits with banks and other financial institutions (continued)

Amounts due from the National Bank of the Republic of Cuba (continued)

	2013	*2012*
Term deposits with the National Bank of the Republic of Cuba without credit rating	34,967	35,119
Less: allowance for impairment	(34,967)	(35,119)
Term deposits with the National Bank of the Republic of Cuba	–	–

Information on change in the allowance for impairment of deposits with the National Bank of the Republic of Cuba is presented below:

	2013	*2012*
At 1 January	**35,119**	**35,049**
(Reversal)/charge of allowance for impairment due to changes in exchange rates	(152)	70
At 31 December	**34,967**	**35,119**

Concentration of deposits with banks and other financial institutions

As at 31 December 2013, the Group had one counterparty (2012: no counterparties) accounting for over 20% of the Group’s total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

7. Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

Foreign currency transactions

The table below shows the fair value of derivative financial instruments as of 31 December 2013 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates (31 December 2012: no).

	Notional amount		*Weighted average*	*Fair value*
	Purchase	*Sale*	*exchange rate*	*Assets*
Term transactions	14,400 EUR'000	19,646 USD'000	1.36	**151**

The notional amount, recorded gross, is the amount of a derivative’s underlying asset and liability and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

As at 31 December 2013, the Group has positions in the following types of derivatives:

Swaps: Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

(Thousands of Euros)

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2013	*2012*
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	32,126	34,853
Bonds of regional governments	3,252	12,774
Government bonds of member countries and bonds of regional governments	**35,378**	**47,627**
Corporate bonds:		
Credit rating from A- to A+	46,488	3,877
Credit rating from BBB- to BBB+	45,193	41,959
Credit rating from BB- to BB+	–	4,258
Corporate bonds	**91,681**	**50,094**
Total quoted debt securities	**127,059**	**97,721**
Quoted equity instruments		
Credit rating BB	2,817	2,383
Total quoted equity instruments	**2,817**	**2,383**
Available-for-sale investment securities	**129,876**	**100,104**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2017-2020 (2012: maturing in 2015-2025). The annual coupon rate for these bonds varies from 3.6% to 6.5% (2012: from 3.6% to 5.3%).

Bonds of regional governments represent EUR-denominated bonds issued by the city of Moscow, maturing in 2016 (2012: maturing in 2016). The annual coupon rate for these bonds is 5.1% (2012: 5.1%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2016-2023 (2012: maturing in 2013-2022). The annual coupon rate for these bonds varies from 2.9% to 7.9% (2012: from 4.3% to 8.5%).

Quoted equity securities are represented by shares of a major Russian company.

9. Held-to-maturity investment securities

As at 31 December 2013, held-to-maturity investment securities included quoted Eurobonds of Corporate Commercial Bank (city of Sofia, Bulgaria) with the carrying amount of EUR 5,910 thousand (2012: no).

(intentionally blank)

(Thousands of Euros)

10. Long-term loans to banks

In 2013, the Group changed priorities in its lending policy in terms of institutional and industry orientation and principles of selecting partners and counterparties. The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2013, the Group provided long-term loans to banks operating in the following countries:

	2013
Mongolia	23,522
Russian Federation	20,058
Socialist Republic of Vietnam	15,215
Total long-term loans to banks	**58,795**

As at 31 December 2013, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 31 December 2013:

	2013	
	Long-term loans to banks	*Share in the total loans, %*
Pledge of real property (mortgage) and title	6,012	10.2
Uncollateralized part of the loans	52,783	89.8
	58,795	**100.0**

The amounts shown in the table above represent the carrying amount of the portfolio of long-term loans to banks, and do not necessarily represent the fair value of the collateral.

Concentration of long-term loans to banks

As at 31 December 2013, long-term loans to five banks (2012: no) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Group's statement of financial position. As at 31 December 2013, the total amount of such major loans was EUR 48,647 thousand.

11. Loans to customers

The Group issued loans to customers operating in the following countries:

	2013	*2012*
Mongolia	23,935	23,377
Slovak Republic	7,915	7,465
Republic of Bulgaria	5,775	6,153
Russian Federation	–	89,874
Total loans to customers	**37,625**	**126,869**
Less: allowance for loan impairment	–	(77,764)
Loans to customers	**37,625**	**49,105**

(Thousands of Euros)

11. Loans to customers (continued)

In December 2013, following the decision of the 100th meeting of the Bank's Council, IIB signed the Agreement with the Government of the Republic of Cuba in order to settle reciprocal claims and liabilities. According to the terms of the Agreement, outstanding loans to borrowers in the Republic of Cuba originated during the period of 1985-1990 were fully written off against previously charged allowances.

	2013	*2012*
Loans to customers in the Republic of Cuba	–	44,117
Less: allowance for loan impairment	–	(44,117)
Loans to customers	–	–

Overdue loans to customers

As at 31 December 2013, there were no overdue loans to customers. As at 31 December 2012, total loans for which the principal and/or interest is overdue amounted to EUR 96,586 thousand. An allowance for impairment of EUR 76,830 thousand was created for overdue loans.

As at 31 December 2013 and 31 December 2012, there were no overdue but not impaired loans.

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2013	**69,029**	**5,808**	**2,927**	**77,764**
Net charge/(reversal) for the year	9,977	131	(3)	**10,105**
Write off against previously charged allowance upon sale of the debt	(39,629)	(5,010)	–	**(44,639)**
Write off against previously charged allowance based on the Council's decision	(39,377)	(891)	(2,924)	**(43,192)**
Change in allowance resulting from changes in exchange rates	–	(38)	–	**(38)**
At 31 December 2013	**–**	**–**	**–**	**–**

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2012	**67,878**	**5,526**	**–**	**73,404**
Net charge for the year	1,553	302	2,927	**4,782**
Interest accrued on impaired loans	(402)	–	–	**(402)**
Change in allowance resulting from changes in exchange rates	–	(20)	–	**(20)**
At 31 December 2012	**69,029**	**5,808**	**2,927**	**77,764**
Individual impairment	**69,029**	**5,808**	**2,927**	**77,764**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**89,874**	**11,790**	**2,927**	**104,591**

(Thousands of Euros)

11. Loans to customers (continued)

Analysis of collateral

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2013 and 31 December 2012:

	2013		*2012*	
	Loans net of allowance for impairment	***Share in the total loans, %***	***Loans net of allowance for impairment***	***Share in the total loans, %***
Pledge of real property (mortgage) and title	37,625	100.0	30,795	62.7
Pledge of equipment and goods in turnover	–	–	7,118	14.5
Other	–	–	286	0.6
Uncollateralized part of the loans	–	–	10,906	22.2
Total loans to customers	**37,625**	**100.0**	**49,105**	**100.0**

The amounts shown in the table above represent the carrying amount of the customer loan portfolio, and do not necessarily represent the fair value of the collateral.

As at 31 December 2013, pledge of real property (mortgage) cost EUR 5,119 thousand was not registered but the surety bank placed a short-term interest-free collateral deposit with IIB prior to the registration of mortgage in Mongolia (Note 17).

As at 31 December 2012 the fair value of collateral taken into account when creating the allowance for impairment was EUR 27,908 thousand.

Concentration of loans to customers

As at 31 December 2013, loans to four borrowers (2012: two) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded in the Group's statement of financial position. As at 31 December 2013, these loans total comprised EUR 37,625 thousand (2012: EUR 38,252 thousand) and no impairment allowances (2012: allowances in the amount of EUR 24,479 thousand) has been made for them.

Analysis of loans to customers by industry

The Group issued loans to borrowers operating in the following industries:

	2013	*2012*
Construction of buildings	20,188	50,816
Food and beverage	9,522	24,476
Specialized construction	7,915	7,465
Production, transmission and distribution of electricity, gas and steam	–	22,893
Timber manufacturing	–	10,005
Mining	–	8,922
Rubber and plastic manufacturing	–	1,365
Air transport	–	927
Total loans to customers	**37,625**	**126,869**

12. Assets held for sale

As at 31 December 2012, the Group recognized assets held for sale in the amount of EUR 10,744 thousand. In June 2012, as a result of repayment of a portion of an impaired loan, the Group received power equipment. The loan was issued to a borrower operating in the electric power industry. During the annual period, following the receipt of an asset the Group was active in offering it to its customers but, considering specific characteristics of the equipment and a limited number of potential customers, the annual period was extended. In 2013, the Group recognized the asset impairment in the amount of EUR 3,588 thousand within "Net (losses)/gains from impairment/disposal of assets held for sale" in the consolidated income statement, and the decrease in value due to changes in EUR/RUB exchange rate in the amount of EUR 1,171 thousand within "Net (losses)/gains from foreign currencies" in the consolidated income statement. In December 2013, the asset was sold to an independent customer at its carrying amount.

(Thousands of Euros)

13. Inventories – real estate objects

In January 2013, as part of efforts taken in respect of distressed loans, the Group acquired from the borrower real estate objects (finished apartments) held for resale.

In 2013, the Group sold certain apartments and earned EUR 3,727 thousand. The cost of apartments sold in 2013 is EUR 3,346 thousand.

As at 31 December 2013, the carrying amount of unsold apartments was EUR 4,929 thousand.

14. Investment property

In 2013 and 2012, the following changes occurred in the cost of property under operating lease:

	2013	***2012***
At 1 January	**52,409**	**50,287**
Transfers	1,028	–
Inseparable improvements	43	507
Effect of revaluation	–	1,615
Carrying amount at 31 December	**53,480**	**52,409**

The Group rents part of the building under operating lease agreements. In 2013, the Group's income from lease of investment property amounted to EUR 7,959 thousand (2012: EUR 7,331 thousand).

As at 31 December 2012, the fair value of investment property is determined based on the results of valuation performed on 26 December 2012. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of investment property as at 31 December 2013 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 26.

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2013 and 31 December 2012 would be as follows:

	2013	***2012***
Cost	29,331	29,055
Accumulated depreciation	(10,903)	(10,450)
Net book value	**18,428**	**18,605**

The Group has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

(Thousands of Euros)

15. Property and equipment

The movements in property and equipment for the year ended 31 December 2013 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Total*
Cost						
At 1 January 2013	**50,354**	**8,233**	**3,478**	**493**	**583**	**63,141**
Inseparable improvements	72	–	–	–	–	**72**
Additions	–	118	396	24	181	**719**
Disposals	–	(1,022)	(1,016)	(20)	(15)	**(2,073)**
Transfers	(1,028)	–	–	–	–	**(1,028)**
At 31 December 2013	**49,398**	**7,329**	**2,858**	**497**	**749**	**6,831**
Accumulated depreciation						
At 1 January 2013	**–**	**(7,598)**	**(3,179)**	**(357)**	**(558)**	**(11,692)**
Charge for the year	(757)	(185)	(196)	(19)	(25)	**(1,182)**
Disposals	–	1,015	994	19	15	**2,043**
At 31 December 2013	**(757)**	**(6,768)**	**(2,381)**	**(357)**	**(568)**	**(10,831)**
Net book value						
At 31 December 2012	**50,354**	**635**	**299**	**136**	**25**	**51,449**
At 31 December 2013	**48,641**	**561**	**477**	**140**	**181**	**50,000**

The movements in property and equipment for the year ended 31 December 2012 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Total*
Cost						
At 1 January 2012	**48,315**	**8,013**	**3,256**	**496**	**555**	**60,635**
Inseparable improvements	487	–	–	–	–	**487**
Additions	–	225	222	20	28	**495**
Disposals	–	(5)	–	(23)	–	**(28)**
Accounting for accumulated depreciation at revaluation	(732)	–	–	–	–	**(732)**
Effect of revaluation	2,284	–	–	–	–	**2,284**
At 31 December 2012	**50,354**	**8,233**	**3,478**	**493**	**583**	**63,141**
Accumulated depreciation						
At 1 January 2012	**–**	**(7,286)**	**(2,538)**	**(355)**	**(516)**	**(10,695)**
Charge for the year	(732)	(316)	(641)	(18)	(42)	**(1,749)**
Disposals	–	4	–	16	–	**20**
Accounting for accumulated depreciation at revaluation	732	–	–	–	–	**732**
At 31 December 2012	**–**	**(7,598)**	**(3,179)**	**(357)**	**(558)**	**(11,692)**
Net book value						
At 31 December 2011	**48,315**	**727**	**718**	**141**	**39**	**49,940**
At 31 December 2012	**50,354**	**635**	**299**	**136**	**25**	**51,449**

As at 31 December 2013, the cost of fully depreciated property and equipment still used by the Group was EUR 9,057 thousand (2012: EUR 10,056 thousand).

As at 31 December 2012, the fair value of a group of buildings owned by the Group is determined based on the results of valuation performed on 26 December 2012. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of a group of buildings as at 31 December 2013 does not significantly differ from its carrying amount at that date.

(Thousands of Euros)

15. Property and equipment (continued)

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 26.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2013 and 31 December 2012 would be as follows:

	2013	*2012*
Cost	28,179	28,123
Accumulated depreciation	(10,459)	(10,022)
Net book value	**17,720**	**18,101**

16. Other assets and liabilities

Other assets comprise:

	2013	*2012*
Other accounts receivable	8,109	492
Advance payments and future period expenses	1,111	1,026
Property rights to participatory construction objects	–	1,811
Deferred tax assets	2	2
	9,222	**3,331**
Less: allowance for impairment of accounts receivable	(411)	(280)
Other assets	**8,811**	**3,051**

The movements in other impairment allowance are as follows:

	2013	*2012*
Allowance at 1 January	**280**	**119**
Net charge for the year	152	161
Change in allowance resulting from changes in exchange rates	(21)	–
Allowance at 31 December	**411**	**280**

Other liabilities comprise:

	2013	*2012*
Other accounts payable	3,912	3,098
Liabilities to transfer ownership of apartments	690	–
Settlements with employees	682	621
Provision for potential VAT payments related to income from leases	–	1,962
Other	557	122
Other liabilities	**5,841**	**5,803**

Based on the decision of the Bank's Board, in 2013 a provision for potential VAT payments related to income from leases was reversed since the statute of limitations for the tax inspectorate’s claim had expired (Note 23).

(Thousands of Euros)

17. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	2013	*2012*
Correspondent accounts of banks without rating	1	1
Term deposits of banks:		
Credit rating from BBB- to BBB+	35,021	–
No credit rating	9,445	3,787
Collateral deposit:		
No credit rating	5,119	–
Due to banks and other financial institutions	**49,586**	**3,788**

Collateral deposit is provided by a Mongolian surety bank for a short term required to register mortgage in Mongolia (Note 11). Collateral deposit does not assume any accrual of interest expense and is placed by the Bank on the correspondent account with the Mongolian bank without credit rating (Note 5).

Concentration of deposits from banks and other financial institutions

As at 31 December 2013, the Group has one counterparty accounting for over 20% of the Group's total deposits from banks and other financial institutions in the amount of EUR 10,001 thousand.

18. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 thousand which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

As at 31 December 2013, unpaid portion of the Bank's subscribed capital in the amount of EUR 1,058,685 thousand (2012: EUR 1,134,752 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 296,900 thousand (2012: EUR 296,900 thousand).

On 6 June 2013, the 99th regular meeting of the Bank's Council adopted a decision on including a portion of the IIB's retained earnings for the previous years in the amount of EUR 76,067 thousand into the paid-in portion of the Bank's share capital proportionally to the shares of member countries in the paid-in share capital at the date of such decision.

Additionally, during the 99th meeting of the Council member countries supported the need for additional capitalization of the Bank by making additional contributions of at least EUR 100 million to the share capital. Therefore, member countries perform internal statutory procedures required to ensure additional capitalization of the Bank.

In 2012, based on the Council's decision, the Bank's paid-in share capital decreased by EUR 49,247 thousand (shares of the Republic of Poland and the Republic of Hungary). The Bank had no liabilities to the Republic of Poland and the Republic of Hungary, because per Bank's estimates the net assets of the International Investment Bank were negative as of the date the countries applied for withdrawal. Therefore, the Bank deems liabilities to the Republic of Poland and the Republic of Hungary as settled. The shares (quotes) of the Republic of Poland and the Republic of Hungary in the subscribed capital were transferred to equity unallocated between the member countries. And the shares from the Bank's paid-in capital were transferred to retained earnings.

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(Thousands of Euros)

18. Equity (continued)

Revaluation reserve for available-for-sale investment securities, revaluation reserve for property and equipment and revaluation reserve for currencies

The movements in the revaluation reserve for available-for-sale investment securities, revaluation reserve for property and equipment and revaluation reserve for currencies were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*	*Revaluation reserve for currencies*
At 1 January 2012	**(2,351)**	**31,091**	**70**
Net unrealized gains on available-for-sale investment securities	10,418	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,727)	–	–
Revaluation of buildings	–	2,284	–
Translation differences	–	–	(70)
At 31 December 2012	**4,340**	**33,375**	–
Net unrealized gains on available-for-sale investment securities	1,533	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,659)	–	–
Translation differences	–	–	(1,219)
At 31 December 2013	**214**	**33,375**	**(1,219)**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

Revaluation reserve for currencies

Revaluation reserve for currencies is used to record the subsidiary's assets and liabilities translated to the functional currency of the Group.

19. Contingencies and loan commitments

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group. In accordance with the Agreement on the establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

The Group takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights.

When the estimated amount of costs resulting from the Group's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Group holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

(Thousands of Euros)

19. Contingencies and loan commitments (continued)

Insurance

The Group obtained insurance coverage for a group of buildings, equipment and car park as well as liability insurance against damages caused by operating assets of a hazardous nature. However, the Group did not obtain insurance coverage related to temporarily discontinued operations or the Group's obligations to third parties.

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 31 December, commitments and contingencies of the Group comprised undrawn loan facilities in the amount of EUR 53,466 thousand (2012: EUR 20,419 thousand). The amounts of commitments assume that amounts are fully withdrawn.

20. Leases

Group as lessor

The Group provides its real estate for operating leases. As at 31 December 2013, the Group's non-cancellable operating lease rentals amount to EUR 8,281 thousand (2012: EUR 7,292 thousand) and will be settled within 1 year.

21. Interest income and interest expense

Net interest income comprises:

	2013	*2012*
Deposits with banks and other financial institutions, including cash and cash equivalents	2,449	1,724
Available-for-sale investment securities and held-to-maturity investment securities	4,362	3,366
Long-term loans to banks	1,013	–
Loans to customers	5,529	3,647
Interest income	**13,353**	**8,737**
Due to banks and other financial institutions	(349)	(2)
Current customer accounts	(71)	(30)
Other borrowed funds	(12)	–
Interest expenses	**(432)**	**(32)**
Net interest income	**12,921**	**8,658**

In 2013, interest income accrued on impaired loans to customers amounted to EUR 105 thousand (2012: EUR 1,615 thousand).

22. Net gain/(loss) from foreign currencies

Net gains less losses from foreign currencies comprise:

	2013	*2012*
Net (loss)/gain from revaluation of assets and liabilities in foreign currencies	(2,738)	884
Net gain/(loss) from trading in foreign currencies	56	(160)
Net (loss)/gain from foreign currencies	**(2,682)**	**724**

(Thousands of Euros)

23. Other income

The Group's other income comprised:

	2013	2012
Income from sale of loans	4,837	–
Income from sale of property rights to participatory construction objects	2,835	–
Income from recovery of provision for potential payments (Note 16)	1,764	–
Other	1,327	201
Total other income	**10,763**	**201**

24. General and administrative expenses

General and administrative expenses comprise:

	2013	2012
Employee compensations and employment taxes	10,293	7,620
Depreciation of property and equipment (Note 15)	1,182	1,749
IT-expenses, inventory and occupancy expenses	1,842	1,473
Expenses related to business travel, representative and accommodation expenses	1,281	1,291
Consulting and audit expenses	1,106	466
Other	1,047	904
General and administrative expenses	**16,751**	**13,503**

25. Risk management

Risk management framework

The Bank's risk management policy is based on the conservative assessments and is mainly aimed at mitigation of adverse impact of risks on the Bank's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The prudent assessment assumes that the Bank does not enter into potential transactions with high or undeterminable risk level, regardless of profitability. The Bank's risk management activities are intended to:

- identify, analyze and manage risks faced by the Bank;
- establish ratios and limits that restrict level of the appropriate types of risks;
- monitor the level of the risk and its compliance with established limits;
- develop and implement regulative and methodological documents as well as software applications that ensure the professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets.

Risk management system

The Bank's Council, the Board, the Asset, Liability and Risk Committee (ALRCO), the Credit Committee and the Risk Management Department are responsible for managing the Group's risks.

The Bank's Council is responsible for the general control over the risk management system, determines its development strategy and sets strategic limits and risk appetite.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Council. The Board ensures co-operation among all business units and committees of the Bank with regard to risk management.

ALRCO is the Bank's collegial body responsible for development and implementation of the risk management policy in the course of transactions. ALRCO is engaged in ongoing monitoring of liquidity, market and credit risks.

(Thousands of Euros)

25. Risk management (continued)

Risk management system (continued)

The Credit Committee is the Board's collegial body responsible for lending and assessment of risks arising from all types of credit-related transactions.

Committees meet on a regular basis and provide to the Board their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Group's performance.

In 2013, the risk management system was developed through the implementation of Basel standards and best practices of development banks within the Group:

- new methodological and regulatory documents relating to risk management have been elaborated. The 100th meeting of the IIB Council approved the new Risk management strategy, strategic limits of the Group and risk appetite indicators for 2014;
- a comparative analysis of top rating agencies' requirements to the risk management within the Group and other IIB institutions has been performed, based on which a target model of the risk management system, map of the most significant risks of the Group and scheme for allocating functions and powers between risk management items have been developed.

In strict compliance with the existing procedures, twice a year the Group set limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, classes of loan assets risk were continuously monitored and the fair value of pledged items was regularly determined. During the reporting period, the Group's specialists visited certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of loans' impairment.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Group's limits applied to transactions on money, currency and equity markets, as well as structural limits included in key risk ratios and stop-loss and take-profit limits. In addition, the Group's management receives regular reports on the status of risks within the Bank.

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group's exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of ALRCO and also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

Risk assessment, management and control

The Group's risk exposure is primarily reduced by means of collective decision making. Strict allocation of responsibilities between business units and officers of the Group, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and updated by the Group in order to reflect changed market conditions and improve risk management methods.

(Thousands of Euros)

25. Risk management (continued)

Risk assessment, management and control (continued)

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment;
- Exercising control over the Group's exposure by means of:
  - compliance with the established limits;
  - regular assessment of the Group's risk exposure; and
  - internal audit of risk management systems.

The Group identifies the following major risks inherent in its various activities:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Group, or discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual borrower or counterparty default risk.

System of credit risk management

The Group’s regulatory documents establish the following:

- procedures to review and approve loan/credit applications;
- methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies;
- requirements to the credit documentation;
- procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee approves each new loan as well as changes in and amendments to loan agreements. The Credit Department is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit it is approved by the Credit Committee, and then – the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the Bank's share capital and for the period of up to 7 years. Direct credit risks exposures exceeding the specified amount or the period of 7 years should be approved by the Bank's Council.

The corporate loan/credit application and appropriate project documents are reviewed by the Credit Department. In case of a positive decision, the set of documents from the Credit Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Planning and Analysis Department, Internal Audit Department and Compliance Control Department. For the purpose of comprehensive analysis of the loan/credit application received from the Credit Department, the Legal Department and Risk Management Department jointly prepare Description of the Investment Transaction. The loan/credit application is subject to review by the Credit Committee based on the Description of the Investment Transaction, report of the Security Department and Strategic Planning and Analysis Department, report on risks of the Risk Management Department and compulsory judgment of the Legal Department in respect of the legal compliance of the proposed transaction. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application by the Credit Committee; Step 2 includes making decision by the Board of the Bank (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Board of the Bank to the member countries in order to obtain the final approval from the country of origin of the borrower; Step 4 includes making decision by the Council of the Bank (if such issue falls within its competence).

(Thousands of Euros)

25. Risk management (continued)

Credit risk (continued)

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration and market risks.

To mitigate credit risk, the Group limits concentrations of exposure to individual customers, counterparties and issuers, groups of related customers, counterparties and issuers as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer's most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower's internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- pledge of equipment and goods in turnover;
- pledge of real property (mortgage) and title;
- pledge of rights of demand and construction.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs.

Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). The Group's internal expert opinion on the fair value of the collateral and feasibility of the adjustment coefficient (discount), which adjusts the market value, shall be approved/ reconciled with the Risk Management Department. The adjustment coefficient (discount) is established based on the table of recommended discounts "Regulations on lending operations" as at initial measurement of the collateral value. Where the market value of the collateral is assessed as impaired, the clients are usually required to provide additional collateral.

Portfolio of long-term loans to banks and other financial institutions and customers (less allowance for impairment) by type of the Bank's collateral is analyzed in Notes 10 and 11.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Analysis of credit risk concentration by customers' industry is presented in Note 11.

Maximum credit risk exposure by credit related commitment represents all the amount of these commitments (Note 19).

(Thousands of Euros)

25. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit quality per class of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

Assessment of credit quality of loans is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the client's financial position, payment discipline, credit history, compliance with business plan and production discipline, additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, industry specifics and country rating.

As at 31 December 2013, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard. As at 31 December 2012, there were no such loans.

The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 31 December 2013 and 31 December 2012:

2013	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,522	–	23,522	–
- *Russian Federation*	20,058	–	20,058	–
- *Socialist Republic of Vietnam*	15,215	–	15,215	–
	58,795	**–**	**58,795**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,955	–	23,955	–
- *Slovak Republic*	7,915	–	7,915	–
- *Republic of Bulgaria*	5,775	–	5,775	–
	37,625	**–**	**37,625**	**–**
Total loans	**96,420**	**–**	**96,420**	**–**

(Thousands of Euros)

25. Risk management (continued)

Credit risk (continued)

2012	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Loans to customers without any signs of impairment identified				
Standard loans				
- *Mongolia*	11,586	–	11,586	–
- *Slovak Republic*	7,465	–	7,465	–
- *Republic of Bulgaria*	3,226	–	3,226	–
Impaired loans				
Loans not past due				
- *Russian Federation*	8,005	(933)	7,072	12
Loans overdue less than 90 days				
- *Mongolia*	10,864	(4,881)	5,983	45
Uncollectible loans				
- *Russian Federation*	81,869	(68,096)	13,773	83
- *Republic of Bulgaria*	2,927	(2,927)	–	100
- *Mongolia*	927	(927)	–	100
Total loans	**126,869**	**(77,764)**	**49,105**	**61**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

Impairment assessment

The Group creates allowance for loan impairment that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for loan losses only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the client's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Due to a limited number of borrowers, the Group considers each loan as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

For uncollectible financial assets, the Group makes allowance in the amount equal to 100% of the amount of a financial asset.

The total amount of impairment allowance is approved by the Credit Committee on a monthly basis.

(Thousands of Euros)

25. Risk management (continued)

Liquidity risk

Liquidity risk is the risk of loss resulting from the Group's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from improper balance between the Group's financial assets and financial liabilities by period and amount (including due to untimely discharge of its financial obligations by one or several counterparties of the Group) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

The Group's approach to management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or taking risk of damage to the Group's reputation.

In the course of liquidity management the Group's management relies on the following principles:

- liquidity has priority over return;
- continuous liquidity management;
- distribution of authorities between management bodies and divisions;
- planning and limitation of liquidity consistent with the size, nature of business and financial position of the Group;
- forecasting of cash flows.

Liquidity risk is managed to ensure the Group's ability to meet its financial obligations in full and on a timely basis. For this purpose the Group:

- determines an acceptable liquidity level;
- continuously monitors liquidity;
- takes measures to maintain liquidity at the acceptable level;
- in case of liquidity crisis performs a set of procedures for its recovery.

The Group manages its liquidity in two areas: the Treasury Department manages the liquidity, and Risk Management Department performs control over liquidity risk.

The Treasury Department receives on a weekly basis information from business units regarding the liquidity profile of their financial assets and liabilities and forecasts of projected cash flows arising from projected future business. Further, the Treasury Department manages the Group's liquidity in accordance with the existing regulatory documents of the Bank and ALRCO's decisions.

The Risk Management Department performs control on a weekly basis over actual values of the current and overall liquidity and compares these values with standards. In case of non-compliance of these standards, the Risk Management Department immediately notifies ALRCO about it in order to develop and perform activities for recovering liquidity.

Due to the fact that all the Group's significant liabilities are short-term with maturity of up to 1 year, the Group does not estimate contractual undiscounted liabilities' cash flows since the expected cash outflow will not be significantly different from the carrying amount of the Group's financial liabilities as at 31 December 2013 and 31 December 2012.

The table below shows the contractual expiry by maturity of the Group's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

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(Thousands of Euros)

25. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date:

	2013							*2012*							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets:															
Cash and cash equivalents	20,045	–	–	–	–	–	**20,045**	8,407	–	–	–	–	–	–	**8,407**
Deposits with banks and other financial institutions	–	23,112	18,378	–	–	–	**41,490**	12,877	53,845	25,085	–	–	–	–	**91,807**
Financial assets at fair value through profit or loss	–	97	54	–	–	–	**151**	–	–	–	–	–	–	–	**–**
Available-for-sale investment securities	150	674	1,754	44,061	80,420	2,817	**129,876**	–	830	2,091	42,048	52,752	2,383	–	**100,104**
Held-to-maturity investment securities	117		5,793				**5,910**								
Long-term loans to banks	–	374	2,014	56,407		–	**58,795**	–	–	–	–	–	–	–	**–**
Loans to customers	–	430	7,832	27,463	1,900	–	**37,625**	–	1,026	7,100	10,573	10,650	–	19,756	**49,105**
Other assets	472	4,634	2,800	–	–	–	**7,906**	1,053	6	178	2	–	–	–	**1,239**
Total assets	**20,784**	**29,321**	**38,625**	**127,931**	**82,320**	**2,817**	**301,798**	**22,337**	**55,707**	**34,454**	**52,623**	**63,402**	**2,383**	**19,756**	**250,662**
Liabilities:															
Due to banks and other financial institutions	(24,566)	(25,020)	–	–	–	–	**(49,586)**	(3,788)	–	–	–	–	–	–	**(3,788)**
Current customer accounts	(3,313)	–	–	–	–	–	**(3,313)**	(2,396)	–	–	–	–	–	–	**(2,396)**
Other liabilities	(727)	(2,944)	(1,619)	–	–	–	**(5,290)**	(2,418)	(215)	(3,170)	–	–	–	–	**(5,803)**
Total liabilities	**(28,606)**	**(27,964)**	**(1,619)**	**–**	–	**–**	**(58,189)**	**(8,602)**	**(215)**	**(3,170)**	**–**	**–**	**–**	–	**(11,987)**
Net position	**(7,822)**	**1,357**	**37,006**	**127,931**	**82,320**	**2,817**	**243,609**	**13,735**	**55,492**	**31,284**	**52,623**	**63,402**	**2,383**	**19,756**	**238,675**
Accumulated net position	**(7,822)**	**(6,465)**	**30,541**	**158,472**	**240,792**	**243,609**	–	**13,735**	**69,227**	**100,511**	**153,134**	**216,536**	**218,919**	**238,675**	**–**
Off-balance credit-related commitments	**–**	**(48,466)**	**(5,000)**	**–**	**–**	**–**	**(53,466)**	–	**(2,997)**	**(17,422)**	**–**	**–**	**–**	**–**	**(20,419)**

The accumulated negative liquidity gap in the periods of "less than 1 month" and "1 to 3 months" can be offset with high liquid available for sale investment securities, that can be realized at any moment on market terms. If it is necessary the gained liquid assets can be used to meet the short term liabilities of the Group.

(Thousands of Euros)

25. Risk management (continued)

Market risk

Market risk is the risk that the Group shall incur losses due to adverse fluctuations in market rate of financial instruments, interest rates, foreign exchanges, and securities' prices. Market risk includes equity risk on securities, interest rate risk and currency risk.

The Group is exposed to market risk due to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

The Board of the Bank performs overall management of market risk.

ALRCO, led by the Deputy Chairman of the Bank's Management Board, coordinates the Group's market risk management policy, considers and provides to the Management Board recommendations on management of market risks, as well as assets and liabilities.

The Treasury Department performs operative management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits in order to increase the Group's income on a daily basis.

Currency risk and price risk

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies. Price risk is the risk that the fair values of securities decrease as the result of changes in the levels of indices and the value of individual securities.

The Group applies a VaR methodology to assess currency and equity risks. VaR is a method used in measuring maximum risk of the Group, i.e. the level of losses on a certain position in relation to a financial instrument/currency/precious metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group uses an assumption that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days. The assessment of value at risk in relation to currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

At estimating value at risk, the Group uses a parameter method, which allows assessing the volatility of yield on the basis of the most current market data.

The choice of a respective approach to value at risk estimation is made on the basis of data on statistical analysis of changes in fair values of financial instruments and exchange rates.

Selection period used by the Group for modeling purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of above mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 31 December 2013 and 31 December 2012, final data on value at risk assessment in relation to currency and price risks assumed by the Group are represented as follows:

	2013	***2012***
Fixed income securities price risk	2,174	1,520
Equity securities price risk	335	414
Currency risk	1,211	1,259

(Thousands of Euros)

25. Risk management (continued)

Market risk (continued)

Despite measurement of value at risk is a standard industry method for risk assessment, this method has a number of limitations:

- Analysis based on value at risk assessment is correct in case current market conditions remain unchanged. Using historical data for assessment of future events are not taken into account.
- Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data.
- If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account.
- 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of value at risk assessment may be incorrect in case of market liquidity deterioration.
- Fluctuations that may occur in the course of the day are not taken into account at calculating value at risk on the basis of the results of a business day.

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(Thousands of Euros)

25. Risk management (continued)

Market risk (continued)

The Group's exposure to currency risk as at 31 December 2013 and 31 December 2012 is presented below:

	2013					***2012***				
	EUR	***USD***	***RUB***	***Other currencies***	***Total***	***EUR***	***USD***	***RUB***	***Other currencies***	***Total***
Assets										
Cash and cash equivalents	9,222	331	5,170	5,322	**20,045**	1,010	1,321	5,944	132	**8,407**
Deposits with banks and other financial institutions	23,112	16,015	2,363	–	**41,490**	91,807	–	–	–	**91,807**
Available-for-sale investment securities	102,911	22,940	4,025	–	**129,876**	77,961	22,143	–	–	**100,104**
Held-to-maturity investment securities	–	5,910	–	–	**5,910**	–	–	–	–	**–**
Long-term loans to banks and other financial institutions	41,285	17,510	–	–	**58,795**					
Loans to customers	37,625	–	–	–	**37,625**	49,105	–	–	–	**49,105**
Other assets	590	7	8,214	–	**8,811**	332	173	734	–	**1,239**
	214,745	**62,713**	**19,772**	**5,322**	**302,552**	**220,215**	**23,637**	**6,678**	**132**	**250,662**
Liabilities										
Due to banks and other financial institutions	19,035	25,432	–	5,119	**49,586**	–	3,788	–	–	**3,788**
Current customer accounts	3,162	151	–	–	**3,313**	2,247	149	–	–	**2,396**
Other liabilities	3,064	187	1,999	40	**5,290**	2,033	275	3,495	–	**5,803**
	25,261	**25,770**	**2,550**	**5,159**	**58,189**	**4,280**	**4,212**	**3,495**	**–**	**11,987**
Net balance sheet position	**189,484**	**36,943**	**17,222**	**163**	**243,458**	**215,935**	**19,425**	**3,183**	**132**	**238,675**
Derivative financial instruments										
Claims	14,400	–	–	–	14,400	–	–	–	–	–
Liabilities	–	(14,249)	–	–	(14,249)	–	–	–	–	–
Net balance sheet position including derivative financial instruments	**203,884**	**22,694**	**16,868**	**163**	**243,609**	**215,935**	**19,425**	**3,183**	**132**	**238,675**

(Thousands of Euros)

25. Risk management (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Sensitivity analysis of the Group's equity to changes in interest rate (based on simplified scenario of a 100 basis point (bp) and positions of available-for-sale debt securities parallel fall or rise in all yield curves as at 31 December 2013 and 31 December 2012) is as follows;

	31 December 2013	*31 December 2012*
	The Bank's equity	*The Bank's equity*
100 bp parallel rise	(6,342)	(5,085)
100 bp parallel fall	6,342	5,085

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Group's property.

Generally, the Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Group continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

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(Thousands of Euros)

26. Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

	Valuation date	*Level 1 2013*	*Level 2 2013*	*Level 3 2013*	*Total 2013*
Assets measured at fair value					
Derivative financial assets	31 December 2013	–	151	–	**151**
Government bonds of member countries and bonds of regional governments	31 December 2013	35,378	–	–	**35,378**
Corporate bonds	31 December 2013	91,681	–	–	**91,681**
Quoted equity instruments	31 December 2013	2,817	–	–	**2,817**
Investment property	31 December 2013	–	–	53,480	**53,480**
Property and equipment	31 December 2013	–	–	50,000	**50,000**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	–	–	20,045	**20,045**
Deposits with banks and other financial institutions	31 December 2013	–	–	41,490	**41,490**
Held-to-maturity investment securities	31 December 2013	5,928	–	–	**5,928**
Long-term loans to banks	31 December 2013	–	–	58,795	**58,795**
Loans to customers	31 December 2013	–	–	37,625	**37,625**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2013	–	–	49,586	**49,586**
Current customer accounts	31 December 2013	–	–	3,313	**3,313**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2012:

	Valuation date	*Level 1 2012*	*Level 2 2012*	*Level 3 2012*	*Total 2012*
Financial assets					
Available-for-sale investment securities	31 December 2012	98,936	1,168	–	**100,104**

(Thousands of Euros)

26. Fair values of financial instruments (continued)

Fair value of financial assets and liabilities not recorded at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2013	*Fair value 2013*	*Unrecognized gain/(loss) 2013*	*Carrying amount 2012*	*Fair value 2012*	*Unrecognized gain/(loss) 2012*
Financial assets						
Cash and cash equivalents	20,045	20,045	–	8,407	8,407	–
Deposits with banks and other financial institutions	41,490	41,490	–	91,807	91,807	–
Financial assets at fair value through profit or loss	151	151	–	–	–	–
Held-to-maturity investment securities	5,910	5,928	18	–	–	–
Long-term loans to banks	58,795	58,795	–	–	–	–
Loans to customers	37,625	37,625	–	49,105	48,037	(1,068)
Financial liabilities						
Due to banks and other financial institutions	49,586	49,586	–	3,788	3,788	–
Current customer accounts	3,313	3,313	–	2,396	2,396	–
Total unrecognized change in fair value			**18**			**(1,068)**

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not recorded at fair value in these consolidated financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that at 31 December 2013 and 31 December 2012 the fair value of deposits with banks and other financial institutions and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates at their initial recognition with current market rates offered for similar financial instruments.

The estimated fair value of fixed interest bearing long-term loans to banks, loans to customers, and deposits in banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. Management has estimated that at 31 December 2013 the fair value of long-term loans to banks and loans to customers was not significantly different from their respective carrying amount.

(Thousands of Euros)

27. Segment information

For management purposes, the Group identifies the following three operating segments based on its lines of services:

Credit investment activity	Credit investment banking services include long-term corporate and interbank financing;
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments, foreign currency and liquidity management;
Other operations	Operational leasing services, the Bank's Legal Department and subsidiary activities on credit portfolio rehabilitation, other operations.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. The following table presents revenue, profit, assets and liabilities of the Group's operating segments:

2013	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	6,503	6,811	39	**13,353**
Net gains from trading in foreign currencies	–	56	–	**56**
Net gains from available-for-sale investment securities	–	5,659	–	**5,659**
Income from lease of investment property	–	–	7,959	**7,959**
Net losses from impairment of assets held for sale	–	–	(3,588)	**(3,588)**
Revenues from sales of inventory	–	–	3,727	**3,727**
Other segment income	–	362	7,672	**8,034**
Total income	**6,503**	**12,888**	**15,809**	**35,200**
Interest expenses	–	(432)	–	**(432)**
Cost of inventories sold	–	–	(3,346)	**(3,346)**
Allowance for loans impairment	(10,105)	–	–	**(10,105)**
Segment performance results	**(3,602)**	**12,456**	**12,463**	**21,317**
Other unallocated income				**3,205**
Other unallocated expense				**(21,894)**
Profit for the year				**2,628**
Segment assets	101,539	189,217	120,356	**411,112**
Segment liabilities	5,119	44,467	9,154	**58,740**
Other segment information				
Capital expenditures	–	–	115	**115**

(Thousands of Euros)

27. Segment information (continued)

2012	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	3,600	5,090	–	**8,690**
Net losses from trading in foreign currencies	–	(160)	–	**(160)**
Net gains from available-for-sale investment securities	–	3,727	–	**3,727**
Income from lease of investment property	–	–	7,331	**7,331**
Net gains on disposal of assets held for sale	75	–	–	**75**
Other segment income	–	182	–	**182**
Total income	**3,675**	**8,839**	**7,331**	**19,845**
Interest expenses	–	(32)	–	**(32)**
Allowance for loan impairment	(4,782)	–	–	**(4,782)**
Segment performance results	**(1,107)**	**8,807**	**7,331**	**15,031**
Other unallocated income				**2,938**
Other unallocated expense				**(15,073)**
Profit for the year from continuing operations				**2,896**
Loss from discontinued operations after income tax				**(640)**
Profit for the year				**2,256**
Segment assets	49,105	200,303	117,668	**367,076**
Segment liabilities	–	3,788	8,199	**11,987**
Other segment information				
Capital expenditures	–	–	994	**994**

In 2013 and 2012 the Group had one counterparty with lease operations revenue exceeding 10 % of total Group's revenue (2013: EUR 5,473 thousand; 2012: EUR 5,026 thousand).

Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets as at 31 December 2013 and 31 December 2012 and for the years then ended is presented in the tables below:

	2013				*2012*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income from external customers	5,417	7,094	842	**13,353**	3,445	4,497	748	**8,690**
Income from lease of investment property	7,959	–	–	**7,959**	7,331	–	–	**7,331**
Revenues from sales of inventory	3,727	–	–	**3,727**	–	–	–	–
Non-current assets	103,480	–	–	**103,480**	103,858	–	–	**103,858**

Non-current assets include property and equipment and investment property.

(Thousands of Euros)

27. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's financial assets and liabilities as at 31 December 2013 and 31 December 2012 is presented below:

	2013									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets:										
Cash and cash equivalents	5,440	–	–	6,500	–	5,119	–	–	2,986	**20,045**
Deposits with banks and other financial institutions	25,475	–	–	–	–	16,015	–	–	–	**41,490**
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	–	–	151	**151**
Investment securities:										
- available-for-sale	61,673	7,712	12,324	–	–	1,679	–	–	46,488	**129,876**
- held-to-maturity	–	5,910	–	–	–	–	–	–	–	**5,910**
Long-term loans to banks less allowances for impairment.	20,058	–	–	–	–	23,522	15,215	–	–	**58,795**
Loans to customers less allowances for impairment	–	5,775	–	7,915	–	23,935	–	–	–	**37,625**
Assets	**112,646**	**19,397**	**12,324**	**14,415**	–	**70,270**	**15,215**	–	**49,625**	**293,892**
Liabilities:										
Due to banks and other financial institutions	35,021	9,446	–	–	–	5,119	–	–	–	**49,586**
Liabilities	**35,021**	**9,446**	**–**	**–**	**–**	**5,119**	**–**	**–**	**–**	**49,586**

(Thousands of Euros)

27. Segment information (continued)

Geographical information (continued)

	2012									
	Russian Federation	*Czech Republic*	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Other countries*	*Total*
Assets:										
Cash and cash equivalents	6,073	–	–	–	–	–	–	–	2,334	**8,407**
Deposits with banks and other financial institutions	37,962	–	15,033	–	10,018	–	18,759	–	10,035	**91,807**
Available-for-sale investment securities	49,317	15,078	3,326	10,915	12,267	–	1,168	–	8,033	**100,104**
Loans to customers less allowances for impairment	20,845	–	3,226	–	7,465	–	17,569	–	–	**49,105**
Assets	**114,197**	**15,078**	**21,585**	**10,915**	**29,750**	–	**37,496**	–	**20,402**	**249,423**
Liabilities:										
Due to banks and other financial institutions	–	–	3,788	–	–	–	–	–	–	**3,788**
Liabilities	–	–	**3,788**	–	–	–	–	–	–	**3,788**

Other countries include members of the Organization for Economic Development (OECD).

(Thousands of Euros)

28. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as at 31 December 2013 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

2013	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position Cash collateral received*	*Net amount*
Financial assets					
Cash and cash equivalents	20,045	–	20,045	(5,119)	**14,926**
Total	**20,045**	**–**	**20,045**	**(5,119)**	**14,926**
Financial liabilities					
Due to banks and other financial institutions	49,586	–	49,586	(5,119)	**44,467**
Total	**49,586**	**–**	**49,586**	**(5,119)**	**44,467**

There was no financial assets offset against financial liabilities in the consolidated statement of financial position, as at 31 December 2012 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position.

29. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and settlements with related parties were carried out on conditions similar to those, which prevail in transactions between independent parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for 2013 and 2012 are as follows:

		2013		*2012*	
	Related party	*Carrying amount*	*Average interest rate, %*	*Carrying amount*	*Average interest rate, %*
Balance sheet					
Current customer accounts	Key management personnel	120	1.5	75	1.5

		2013	*2012*
	Related party	*Income/(expense)*	*Income/(expense)*
Income statement			
Interest expense on current customer accounts	Key management personnel	(14)	(6)
Employee benefits	Key management personnel	(1,134)	(744)
Compensation for travel expenses and medical insurance	Key management personnel	(84)	(106)
		(1,232)	**(856)**

(Thousands of Euros)

30. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of the credit institutions and is estimated as ratio of capital base to risk weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Council.

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2013, this minimum level was 8% (2012: 8%).

Besides, taking into account the Bank's status as the multilateral development institution and the structure of the Bank's member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as of 31 December 2013 (2012: 25%).

From 2013 the Group monitors the capital adequacy ratio, computed in accordance with the Basel Capital Accord (commonly known as Basel II) as defined in the International Convergence of Capital Measurement and Capital Standards and Amendment to the Capital Accord to incorporate market risks.

The following table shows the composition of the Group’s capital position computed in accordance with the Basel Accord (Basel II), as of 31 December 2013 and 31 December 2012.

	31 December 2013	***31 December 2012***
Capital:		
Tier 1 capital	317,373	315,118
Tier 2 capital	32,370	37,715
Total regulatory capital	**349,743**	**352,833**
Risk-weighted assets:		
Credit risk	163,875	140,782
Market risk	117,431	93,210
Operational risk	60,585	118,116
Total risk-weighted assets	**341,891**	**352,108**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	**102.30%**	**100.21%**
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")	**92.83%**	**89.49%**

31. Discontinued operations

In February 2012, the Group sold its 100% interest in LLC StroyProektInvest to independent purchasers for EUR 0.25 thousand paid in cash and amount of the loan with fair value of EUR 6,707 thousand. The excess of the current carrying amount of liabilities less current carrying amount of assets of LLC StroyProektInvest over the compensation paid in cash and the fair value of newly recognized loan amounted to EUR 640 thousand as of the acquisition date. This excess was recognized in the consolidated income statement as a result of discontinued operation.

	Carrying value as of the disposal date
Assets	10,121
Liabilities	2,774
Total identifiable net assets	**7,347**
Compensation received upon disposal of control	(6,707)
Loss from disposal of control	**640**

(Thousands of Euros)

32. Subsequent events

On 27 February 2014 Government of the Slovak Republic was the first among the member countries of the International Investment Bank to fulfill its obligations over additional capitalization of the bank. EUR 6,294 thousand were transferred to the Bank's accounts against Slovak additional contribution to the Bank's share capital. As a result, the paid-in capital of International Investment Bank amounted to EUR 247,609 thousand with increase of Slovak share to 8.67%.

(The end).

International Investment Bank

Consolidated financial statements

Year ended 31 December 2014
Together with Independent auditors' report

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditors' report

To the Council of the International Investment Bank

We have audited the accompanying consolidated financial statements of the International Investment Bank (hereinafter the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Vneshaudit

16 March 2015

Moscow, Russia

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

(Thousands of Euros)

	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	5	65,918	20,045
Deposits with banks and other financial institutions	6	34,371	41,490
Financial assets at fair value through profit or loss	7	311	151
Available-for-sale investment securities	8	24,973	129,876
Available-for-sale investment securities pledged under repurchase agreements	8	13,903	–
Held-to-maturity investment securities	9	81,000	5,910
Held-to-maturity investment securities pledged under repurchase agreements	9	42,634	–
Long-term loans to banks	10	132,032	58,795
Loans to customers	11	108,276	37,625
Inventories – real estate objects	13	50	4,929
Investment property	14	52,879	53,480
Property and equipment	15	53,207	50,000
Other assets	16	1,978	8,811
Total assets		**611,532**	**411,112**
Liabilities			
Due to banks and other financial institutions	17	58,669	49,586
Current customer accounts		4,788	3,313
Financial liabilities at fair value through profit or loss	7	21,705	–
Long-term loans of banks	18	20,540	–
Debt securities issued	19	112,759	–
Other liabilities	16	3,656	5,841
Total liabilities		**222,117**	**58,740**
Equity	20		
Subscribed capital		1,300,000	1,300,000
Callable capital		(1,027,382)	(1,058,685)
Paid-in capital		**272,618**	**241,315**
Revaluation reserve for available-for-sale investment securities		(999)	214
Revaluation reserve for property and equipment		35,095	33,375
Foreign currency translation reserve		(224)	(1,219)
Retained earnings less net income for the year		78,687	76,059
Net income for the year		4,238	2,628
Total equity		**389,415**	**352,372**
Total equity and liabilities		**611,532**	**411,112**

Signed and authorized for release on behalf of the Board of the Bank

Demchigjav Molomjamts — Acting Chairman of the Board

Eugeny Atanassov — Managing Director of the Financial Department

16 March 2015

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2014

(Thousands of Euros)

	Note	*2014*	*2013*
Financial result from continuing operations			
Interest income	23	16,799	13,353
Interest expenses	23	(4,777)	(432)
Net interest income		**12,022**	**12,921**
Allowance for impairment of loans to customers	11	(3,572)	(10,105)
Net interest income after allowance for loan impairment		**8,450**	**2,816**
Fee and commission income		42	114
Fee and commission expense		(117)	(72)
Net fee and commission income		**(75)**	**42**
Net gains/(losses) from foreign currencies	24	2,361	(2,682)
Net gains from available-for-sale investment securities	20	5,165	5,659
Income from lease of investment property	14	8,116	7,959
Net losses from impairment/disposal of assets held for sale	12	–	(3,588)
Income from revaluation of investment property	14	257	–
Dividend income		–	362
Revenues from sales of inventory	13	3,569	3,727
Other income	25	–	10,763
Other expenses	25	(225)	–
Net non-interest income		**19,243**	**22,200**
Operating income		**27,618**	**25,058**
Allowance for impairment of other assets	16	(1,730)	(152)
General and administrative expenses	26	(16,931)	(16,751)
Cost of inventories sold	13	(4,305)	(3,346)
Other operating expenses		(414)	(2,181)
Operating expenses		**(23,380)**	**(22,430)**
Net income for the year		**4,238**	**2,628**

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

(Thousands of Euros)

	Note	2014	2013
Net income for the year		**4,238**	**2,628**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Net unrealized losses on available-for-sale investment securities		(1,213)	(4,126)
Translation differences		995	(1,219)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(218)**	**(5,345)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property and equipment	15	1,720	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**1,720**	**–**
Other comprehensive income/(loss)		**1,502**	**(5,345)**
Total comprehensive income/(loss) for the year		**5,740**	**(2,717)**

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2012	**1,300,000**	**(1,134,752)**	**4,340**	**33,375**	–	**152,126**	**355,089**
Profit for the year	–	–	–	–	–	2,628	**2,628**
Other comprehensive income for the year	–	–	(4,126)	–	(1,219)	–	**(5,345)**
Total comprehensive income	**–**	**–**	**(4,126)**	–	**(1,219)**	**2,628**	**(2,717)**
Contributions to capital (Note 20)	–	76,067	–	–	–	(76,067)	–
At 31 December 2013	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**(1,219)**	**78,687**	**352,372**
Profit for the year	–	–	–	–	–	4,238	**4,238**
Other comprehensive income for the year	–	–	(1,213)	1,720	995	–	**1,502**
Total comprehensive income	**–**	**–**	**(1,213)**	**1,720**	**995**	**4,238**	**5,740**
Contributions to capital (Note 20)	–	31,303	–	–	–	–	**31,303**
At 31 December 2014	**1,300,000**	**(1,027,382)**	**(999)**	**35,095**	**(224)**	**82,925**	**389,415**

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

(Thousands of Euros)

	Note	*2014*	*2013*
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		8,495	7,144
Interest, fees and commissions paid		(1,342)	(447)
Net receipts from trading with foreign currencies		3,426	56
Cash flows from lease of investment property		8,116	7,959
General and administrative expenses		(16,592)	(15,932)
Other operating expenses on banking operations		(426)	(585)
Cash flows from operating activities before changes in operating assets and liabilities		**1,677**	**1,805**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		10,857	50,129
Long-term loans to banks		(70,127)	(58,787)
Loans to customers		(72,944)	7,406
Inventories – real estate objects		806	(4,205)
Assets held for sale		–	5,985
Other assets		5,938	(110)
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		6,978	46,208
Current customer accounts		1,452	921
Other liabilities		(541)	17
Net cash flows from operating activities		**(115,904)**	**45,759**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(295,580)	(187,058)
Proceeds from sale and redemption of investment securities		284,823	161,660
Purchase of held-to-maturity investment securities		(7,139)	(5,958)
Proceeds from redemption of investment financial assets held to maturity		5,626	–
Investment in investment property		(154)	(43)
Acquisition of property and equipment		(1,817)	(791)
Net cash flows from investing activities		**(14,241)**	**(32,190)**
Cash flows from financing activities			
Long-term interbank financing raised		17,852	–
Long-term interbank financing repaid		(262)	–
Placement of bonds		131,070	–
Redemption of bonds		(1,846)	–
Contributions to capital		31,303	–
Net cash flows from financing activities		**178,117**	**–**
Effect of exchange rate changes on cash and cash equivalents		(2,099)	(1,931)
Net increase in cash and cash equivalents		**45,873**	**11,638**
Cash and cash equivalents, beginning		**20,045**	**8,407**
Cash and cash equivalents, ending	5	**65,918**	**20,045**

The accompanying notes 1-32 are an integral part of these consolidated financial statements.

(Thousands of Euros)

1. Principal activities

These consolidated financial statements include the financial statements of the International Investment Bank (the "Bank") and its subsidiaries. The Bank and its subsidiaries are hereinafter referred together as the "Group". The International Investment Bank is the parent company of the Group. The list of the Bank's subsidiaries is presented in Note 2.

The Bank was founded in 1970, has operated since 1 January 1971 and is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

The Group had an average of 179 staff employees during 2014 (2013: 166).

On 31 July 2014, the EU Council imposed sectoral sanctions against Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover Russia-based institutions with international status established by intergovernmental agreements in which Russia is one of the parties. Therefore, International Investment Bank is not subject to the restrictive measures.

Despite the difficult international environment and the risk of unpredictable deterioration in 2014 of the financial climate in the country where the Bank's head office is located, the Group continues to expand its operations.

- Rating agencies have highly recognized the new risk management system applied by the IIB.
- The country structure of the loan portfolio has been diversified.
- Loan tools continue to undergo modification. For example, the Bank has focused on providing syndicated lending together with leading financial institutions.
- IIB placed its debt securities on Russian and Slovak domestic markets and borrowed funds from the Societe Generale Group.
- On 29 August 2014, the Moody's rating agency assigned a credit rating of A3 with "stable" outlook to the Bank.
- Hungary re-enters the Bank. At the 102th meeting of the IIB's Council (Sofia, 20-21 November 2014), member countries unanimously approved the Hungary's re-entering the Bank.
- At the suggestion of the Slovak delegation and the Board of the Bank, the Council made a decision to open a regional branch of the Bank in Bratislava (the Slovak Republic).

Member countries of the Bank

The member countries of the Bank include (share in the paid-in capital of the Bank, %):

Member countries	*2014* *%*	*2013* *%*
Russian Federation	55.031	58.026
Republic of Bulgaria	15.481	12.365
Czech Republic	11.142	12.587
Slovak Republic	7.880	6.294
Romania	6.769	7.647
Republic of Cuba	1.966	2.222
Socialist Republic of Vietnam	1.346	0.424
Mongolia	0.385	0.435
	100.000	**100.000**

(Thousands of Euros)

1. Principal activities (continued)

Member countries of the Bank (continued)

The decision of the 99th meeting of the Bank's Council on the additional capitalization in the amount of EUR 100 million is being implemented. During 2014, member countries made additional contributions to the share capital of the Bank as follows: In February 2014, the Slovak Republic made a contribution of EUR 6.3 million; in May 2014, the Russian Federation made a contribution of EUR 10 million; in July 2014, the Republic of Bulgaria fulfilled its obligations to ensure additional capitalization of the Bank in the amount of EUR 12.4 million; in October 2014, the Socialist Republic of Vietnam made a contribution of EUR 2.6 million.

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case the Bank must settle all obligations to the relevant member country.

The member countries of the Bank may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

The decisions of the 101st meeting of the Bank's Council (May 2014) establish a basis for the further development of the International Investment Bank as a multilateral bank for development. The member countries have launched the process of signing the Protocol on introducing changes to the Agreement on the Establishment of IIB and the Statutes.

Conditions of the Bank's financial and business operations in the member countries

In the member countries, the Bank is not subject to taxation and enjoys all privileges available to diplomatic representations.

The Bank is not subject to regulation by the Central Banks of the member countries, including the country of residence.

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

The accompanying consolidated financial statements reflect the management's assessment of the impact of the member countries' business environment on the results of operations and financial position of the Group. Future evolution of the conditions in which the Group operates may differ from the assessment made by the management for the purposes of these consolidated financial statements.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), approved by the International Accounting Standards Board.

Subsidiaries

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012) as at 31 December 2014. The share capital of the subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Bank made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

(Thousands of Euros)

2. Basis of preparation (continued)

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

Euro ("EUR") is the Group's functional and presentation currency as it reflects the economic substance of the underlying operations conducted by the Group and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Group are denominated in EUR. Russian ruble is the functional currency of the Group's subsidiary as it reflects the economic substance of the underlying operations conducted by the company and circumstances affecting its operations.

These consolidated financial statements are presented in thousands of Euros ("Thousands of Euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2014:

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Group's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Group's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Group, since the Group has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments had no impact on the Group's financial position or performance.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Foreign currency transactions

The consolidated financial statements are presented in Euro, which is the Bank's functional and presentation currency. Every currency except Euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net gains/(losses) from foreign currencies". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Group's exchange rate on the date of the transaction are included in "Net gains/(losses) from dealing in foreign currencies".

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights (interest), or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated income statement, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending (continued)

Securities lent to counterparties are retained in the separate statement of financial position. Securities borrowed are not recorded in the separate statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the separate income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net (losses)/gains from foreign currencies dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

Operating − Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement over the lease term within net non-interest income on “Income from lease of investment property”. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Leases (continued)

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that may be related to defaults.

Short-term and long-term amounts due from banks and other credit institutions and loans to customers

For amounts due from banks and other credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the assets' value in the consolidated statement of financial position and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The value of the asset in the consolidated statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount of asset based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If amounts previously written off are later recovered, the recovery is credited to the consolidated income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset is provided at a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group determines at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the separate income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statements.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the consolidated statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the consolidated income statement.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Investment property

Investment property is a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group’s investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investment property (continued)

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Group and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

Intangible assets include computer software.

Intangible assets acquired by the Group are recognized in the consolidated financial statements at their acquisition cost.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

In accordance with amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed in the consolidated financial statements, when an inflow of economic benefits is probable.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Other fee and commission income*

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

Segment reporting

The reportable segments of the Group comprise the following operating segments: Credit and investment activity, Treasury, Other operations.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Annual improvements 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods". The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Group's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant uses of judgments and estimates are as follows:

Allowance for impairment of loans and other financial assets carried at amortized cost

Financial assets are recorded in the Group's consolidated statement of financial position less allowances for impairment. The Group regularly reviews its financial assets to assess impairment. When assessing impairment losses, the Group uses its professional judgment in relation to objective evidences that future contractual cash flows on financial asset shall decrease. These evidences may include information on financial difficulties of the borrower or other observable data on adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The Group uses its professional judgment to adjust observable data for financial assets to reflect current circumstances. Impairment loss may be reversed only if a subsequent increase of estimated contractual cash flows can be objectively related to an event occurring after the impairment loss was recognized.

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 26.

Impairment of available-for-sale equity securities

The Group determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

Fair values of buildings and investment property

As disclosed in Note 3, the Group applies the fair value model with regard to investment property. Buildings included in fixed assets are stated at revalued amount.

As for buildings within property and equipment, the Group monitors the compliance of the present value of buildings with their fair value and performs revaluation to ensure that there are no significant differences. Changes in the fair value are recognized in other comprehensive income. The most recent revaluation of the Group's building was carried out as at 21 November 2014 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market. Starting from 21 November 2014, the revalued building is depreciated in accordance with the remaining useful life.

As for investment property, the Group monitors changes in its fair value at each reporting date to ensure that the present value of investment property does not differ materially from its fair value. Changes in the fair value of investment property are recognized in the consolidated income statement. The most recent revaluation of the Group's investment property was carried out as at 21 November 2014 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market. The Group believes that as at 31 December 2014, the fair value of investment property did not change significantly.

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is presented in the following notes:

- Note 7 – Financial liabilities at fair value through profit or loss.
- Note 8 – Available-for-sale investment securities.
- Note 10 – Long-term loans to banks.
- Note 11 – Loans to customers.
- Note 13 – Inventories – real estate objects.
- Note 14 – Investment property.
- Note 15 – Property and equipment.
- Note 21 – Contingencies and lending commitments.

(Thousands of Euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Cash on hand	**392**	**970**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	11	2,148
Credit rating from A– to A+	13,377	838
Credit rating from BBB– to BBB+	25	198
Total Nostro accounts with banks and other financial institutions	**13,413**	**3,184**
Short-term deposits with banks		
Term deposits with banks		
Credit rating from AA- to AA+	16,464	–
Credit rating from A– to A+	8,232	6,500
Credit rating from BBB- to BBB+	255	4,272
Credit rating from BB- to BB+	10,005	–
Credit rating from B- to B+	17,157	–
Total short-term deposits with banks	**52,113**	**10,772**
Collateral on credit transactions with banks		
No credit rating	–	5,119
Cash and cash equivalents	**65,918**	**20,045**

Cash and cash equivalents are neither impaired, nor past due.

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	2014	*2013*
Term deposits with banks up to 1 year		
Credit rating from BBB- to BBB+	3,479	–
Credit rating from BB- to BB+	432	1,028
Credit rating from B- to B+	30,460	40,462
Deposits with banks and other financial institutions	**34,371**	**41,490**

Amounts due from the National Bank of the Republic of Cuba

	2014	*2013*
Term deposits with the National Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the National Bank of the Republic of Cuba	**–**	**–**

Information on change in the allowance for impairment of deposits with the National Bank of the Republic of Cuba is presented below:

	2014	*2013*
At 1 January	**34,967**	**35,119**
(Reversal)/charge of allowance for impairment due to changes in exchange rates	–	(152)
At 31 December	**34,967**	**34,967**

(Thousands of Euros)

6. Deposits with banks and other financial institutions (continued)

Concentration of deposits with banks and other financial institutions

As at 31 December 2014, the Group had one counterparty (2013: one counterparty) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

7. Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

Foreign currency transactions

The table below shows the fair value of derivative financial instruments as of 31 December 2014 and 31 December 2013 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	31 December 2014				
	Notional amount		*Exchange*	*Fair value*	
	Purchase	*Sale*	*rate*	*Assets*	*Liabilities*
Swaps	3,700,000 RUB'000	67,565 EUR'000	–	–	16,494
Term transactions	1,930,050 RUB'000	30,000 EUR'000	64.34	–	4,155
	2,800 EUR'000	195,020 RUB'000	69.65	311	–
	33,000 EUR'000	41,345 USD'000	1.25	–	1,056
Financial assets at fair value through profit or loss				**311**	**21,705**

	31 December 2013			
	Notional amount		*Exchange*	*Fair value*
	Purchase	*Sale*	*rate*	*Assets*
Term transactions	14,400 EUR'000	19,646 USD'000	1.36	151

On 30 April 2014 and 4 December 2014, due to issuing RUB-denominate bond loans (Note 19), the Group concluded cross currency interest rate swaps and a currency forward on an arm's length basis with three Russian credit institutions. These swaps are used to regulate long-term currency risks of the Group. Payment netting is not applied to the parties' obligations in respect of interest and principal payments.

The notional amount, recorded gross, is the amount of a derivative's underlying asset and liability and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

(Thousands of Euros)

7. Financial assets at fair value through profit or loss (continued)

Foreign currency transactions (continued)

As at 31 December 2014 and 31 December 2014, the Group has positions in the following types of derivatives:

Forwards: Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps: Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Fair value measurement is based on the corresponding forward curves that depend on exchange rates, interest rates and swap contract maturity. For the fair value of swaps, the discount rate was calculated on the basis of zero coupon yield curve and credit risk. Changes in the fair value of swaps were mainly due to the increase in the forward EUR to RUB exchange rate.

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2014	*2013*
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	11,202	32,126
Bonds of regional governments	3,395	3,252
Government bonds of member countries and bonds of regional governments	**14,597**	**35,378**
Corporate bonds		
Credit rating from A- to A+	–	46,488
Credit rating from BBB- to BBB+	10,373	45,193
Corporate bonds	**10,373**	**91,681**
Total quoted debt securities	**24,970**	**127,059**
Quoted equity instruments		
Credit rating BB	–	2,817
No credit rating	3	–
Total quoted equity instruments	**3**	**2,817**
Available-for-sale investment securities	**24,973**	**129,876**
Available-for-sale securities pledged under repurchase agreements		
Quoted debt securities		
Government bonds of member countries	13,903	–
Total Government bonds of member countries	**13,903**	**–**
Available-for-sale securities pledged under repurchase agreements	**13,903**	**–**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2017-2024 (2013: maturing in 2017-2020). The annual coupon rate for these bonds varies from 2.9% to 5.0% (2013: from 3.6% to 6.5%).

Bonds of regional governments represent EUR-denominated bonds issued by the city of Bucharest, Romania and Moscow, RF, maturing in 2015-2016 (2013: maturing in 2016). The annual coupon rate for these bonds varies from 4.1% to 5.1% (2013: 5.1%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2015-2020 (2013: maturing in 2016-2023). The annual coupon rate for these bonds varies from 5.0% to 8.1% (2013: from 2.9% to 7.9%).

(Thousands of Euros)

8. Available-for-sale investment securities (continued)

Reclassifications

In 2014 the Group reclassified certain actively quoted securities out of available for sale category to held-to-maturity securities in connection with the intention to hold these securities to maturity. Information about the reclassified financial assets is presented in the table below:

	2014	*2013*
Carrying amount as at 31 December	123,634	–
Fair value as at 31 December	99,868	–
Fair value as at the date of reclassification	120,471	–
Fair value gain/(loss) that would have been recognized in the comprehensive income for the year if the reclassification had not been made	(20,603)	–
Fair value gain/(loss) that have been recognized in the comprehensive income for the year	198	–
Gain/(loss), income/(expense) recognized in profit or loss for the year	3,793	–

The effective interest rate of the reclassified financial assets designated as at the date of reclassification varies from 2.7% to 4.4% for securities in EUR, from 4.3% to 6.1% for securities in USD and from 8.3% to 12.4% for securities in RUB. Current value of estimated cash flows, which the Group expects to recover, equals the fair value of the reclassified financial assets as of the reclassification date. The value of undiscounted future cash flows from reclassified securities totals EUR 152,080 thousand.

9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	2014	*2013*
Owned by the Bank		
Quoted debt securities		
Government bonds of member countries	11,951	–
Total government bonds of member countries	**11,951**	**–**
Corporate bonds		
Credit rating from A- to A+	17,536	–
Credit rating from BBB- to BBB+	45,683	–
Credit rating from BB- to BB+	5,830	–
Credit rating B+	–	5,910
Total corporate bonds	**69,049**	**5,910**
Total held-to-maturity investment securities	**81,000**	**5,910**
Held-to-maturity investment securities pledged under repurchase agreements		
Quoted debt securities		
Corporate bonds with credit rating BBB-	42,634	–
Total corporate bonds	**42,634**	**–**
Held-to-maturity investment securities pledged under repurchase agreements	**42,634**	**–**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2020 (2013: no). The annual coupon rate for these bonds varies from 3.6% to 7.9% (2013: no).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2016-2025 (2013: maturing in 2014). The annual coupon rate for these bonds varies from 5.0% to 8.1% (2013: 8.3%).

(Thousands of Euros)

10. Long-term loans to banks

During the 2014 the Group continued its lending activities, guiding by the key priorities of the development Strategy of the IIB. The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2014 and 2013, the Group provided long-term loans to banks operating in the following countries:

	2014	*2013*
Russian Federation	89,874	20,058
Mongolia	26,986	23,522
Socialist Republic of Vietnam	15,172	15,215
Total long-term loans to banks	**132,032**	**58,795**

As at 31 December 2014 and 31 December 2013, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 31 December 2014 and 31 December 2013:

	2014		*2013*	
	Long-term loans to banks	*Share in the total loans, %*	*Long-term loans to banks*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	5,964	4.5	6,012	10.2
Uncollateralized part of the loans	126,068	95.5	52,783	89.8
	132,032	**100.0**	**58,795**	**100.0**

The amounts shown in the table above represent the carrying amount of the portfolio of long-term loans to banks, and do not necessarily represent the fair value of the collateral.

Concentration of long-term loans to banks

As at 31 December 2014, long-term loans to five banks (2013: five banks) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Group’s statement of financial position. As at 31 December 2014, the total amount of such major loans was EUR 85,049 thousand (2013: EUR 48,647 thousand) and no impairment allowances (2013: no allowances) has been made for them.

11. Loans to customers

The Group issued loans to customers operating in the following countries:

	2014	*2013*
Slovak Republic	48,345	7,915
Republic of Bulgaria	31,094	5,775
Mongolia	23,822	23,935
Romania	5,958	–
Russian Federation	2,646	–
Total loans to customers	**111,865**	**37,625**
Less: allowance for loan impairment	(3,589)	–
Loans to customers	**108,276**	**37,625**

(Thousands of Euros)

11. Loans to customers (continued)

The information on the overdue loans as at December 31, 2014 and December 31, 2013 is stated below:

	2014	*2013*
Loans with overdue principal and/or interest	8,107	–
Less: allowance for loan impairment	(3,589)	–
Overdue loans to customers	**4,518**	**–**

As at 31 December 2014 and 31 December 2013, there were no overdue but not impaired loans.

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Russian Federation	*Republic of Bulgaria*	*Slovak Republic*	*Total*
At 1 January 2014	–	–	–	–
Net charge/(reversal) for the year	(2)	(15)	3,589	**3,572**
Recoveries	2	15	–	**17**
At 31 December 2014	–	–	**3,589**	**3,589**
Individual impairment	–	–	**3,589**	**3,589**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	**8,107**	**8,107**

As at 31 December 2013 there were no impaired loans, the allowance for impairment was not created.

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2013	**69,029**	**5,808**	**2,927**	**77,764**
Net charge/(reversal) for the year	9,977	131	(3)	**10,105**
Write off against previously charged allowance upon sale of the debt	(39,629)	(5,010)	–	**(44,639)**
Write off against previously charged allowance based on the Council's decision	(39,377)	(891)	(2,924)	**(43,192)**
Change in allowance resulting from changes in exchange rates	–	(38)	–	**(38)**
At 31 December 2013	–	–	–	–

Analysis of collateral

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2014 and 31 December 2013:

	2014		*2013*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	29,508	27.2	28,006	74.4
Pledge of equipment and goods in turnover	1,706	1.6	–	–
Pledge of shares	25,947	24	–	–
Pledge of right of claim	12,517	11.6	–	–
Uncollateralized part of the loans	38,598	35.6	9,619	25.6
Total loans to customers	**108,276**	**100.0**	**37,625**	**100.0**

The amounts shown in the table above represent the carrying amount of the customer loan portfolio, and do not necessarily represent the fair value of the collateral.

(Thousands of Euros)

11. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2014, loans to four borrowers (2013: four borrowers) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded in the Group's statement of financial position. As at 31 December 2014, these loans total comprised EUR 65,405 thousand (2013: EUR 37,625 thousand) and no impairment allowances (2013: no allowances) has been made for them.

Analysis of loans to customers by industry

The Group issued loans to borrowers operating in the following industries:

	2014	*2013*
Pipeline transportation	25,080	–
Construction of buildings	20,948	20,188
Leasing	19,427	–
Production of vehicles	14,892	–
Communication service	11,056	–
Food and beverage	9,443	9,522
Specialized construction	8,107	7,915
Trading	2,646	–
Other	266	–
Less: allowance for loan impairment	**111,865**	**37,625**
Total loans to customers	(3,589)	–
	108,276	**37,625**

12. Assets held for sale

In 2012 as a repayment of a portion of an impaired loan, the Group received power equipment. The loan was issued to a borrower operating in the electric power industry. In 2013 the Group recognized the asset impairment in the amount of EUR 3,588 thousand within "Net (losses)/gains from impairment/disposal of assets held for sale" in the consolidated income statement. In December 2013 the asset was sold to an independent customer at its carrying amount.

13. Inventories – real estate objects

In January 2013, as part of efforts taken in respect of distressed loans, the Group acquired from the borrower real estate objects (finished apartments) held for resale. In 2014, the Group sold certain apartments and earned EUR 3,569 thousand (2013: EUR 3,727 thousand). The cost of apartments sold in 2014 is EUR 4,879 thousand (2013: EUR 3,346 thousand).

As at 31 December 2014, the carrying amount of unsold apartments was EUR 50 thousand (2013: EUR 4,929 thousand).

14. Investment property

In 2014 and 2013, the following changes occurred in the cost of property under operating lease:

	2014	*2013*
At 1 January	**53,480**	**52,409**
Inseparable improvements	154	43
Transfers	(1,012)	1,028
Effect of revaluation	257	–
Carrying amount at 31 December	**52,879**	**53,480**

(Thousands of Euros)

14. Investment property (continued)

The Group rents part of the building under operating lease agreements. In 2014, the Group's income from lease of investment property amounted to EUR 8,116 thousand (2013: EUR 7,959 thousand).

As at 31 December 2014, the fair value of investment property is determined based on the results of valuation performed on 21 November 2014. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of investment property as at 31 December 2014 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 28.

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2014 and 31 December 2013 would be as follows:

	2014	*2013*
Cost	29,486	29,331
Accumulated depreciation	(11,360)	(10,903)
Net book value	**18,126**	**18,428**

The Group has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

15. Property and equipment

The movements in property and equipment for the year ended 31 December 2014 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Improvements*	*Total*
Cost							
At 1 January 2014	**49,398**	**7,329**	**2,858**	**497**	**749**	–	**60,831**
Inseparable improvements	149	–	–	–	–	–	**149**
Additions	–	180	475	51	215	766	**1,687**
Transfers	1,012	–	–	–	–	–	**1,012**
Disposals	–	(440)	(78)	(62)	(41)	–	**(621)**
Recovery of accumulated depreciation upon revaluation	(1,473)	–	–	–	–	–	**(1,473)**
Effect of revaluation	1,720	–	–	–	–	–	**1,720**
At 31 December 2014	**50,806**	**7,069**	**3,255**	**486**	**923**	**766**	**63,305**
Accumulated depreciation							
At 1 January 2014	**(757)**	**(6,768)**	**(2,381)**	**(357)**	**(568)**	–	**(10,831)**
Charge for the year	(783)	(195)	(288)	(20)	(71)	–	**(1,357)**
Disposals	–	440	78	58	41	–	**617**
Recovery of accumulated depreciation upon revaluation	1,473	–	–	–	–	–	**1,473**
At 31 December 2014	**(67)**	**(6,523)**	**(2,591)**	**(319)**	**(598)**	**–**	**(10,098)**
Net book value							
At 31 December 2013	**48,641**	**561**	**477**	**140**	**181**	**–**	**50,000**
At 31 December 2014	**50,739**	**546**	**664**	**167**	**325**	**766**	**53,207**

(Thousands of Euros)

15. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2013 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Total*
Cost						
At 1 January 2013	**50,354**	**8,233**	**3,478**	**493**	**583**	**63,141**
Inseparable improvements	72	–	–	–	–	**72**
Additions	–	118	396	24	181	**719**
Disposals	–	(1,022)	(1,016)	(20)	(15)	**(2,073)**
Transfers	(1,028)	–	–	–	–	**(1,028)**
At 31 December 2013	**49,398**	**7,329**	**2,858**	**497**	**749**	**6,831**
Accumulated depreciation						
At 1 January 2013	**–**	**(7,598)**	**(3,179)**	**(357)**	**(558)**	**(11,692)**
Charge for the year	(757)	(185)	(196)	(19)	(25)	**(1,182)**
Disposals	–	1,015	994	19	15	**2,043**
At 31 December 2013	**(757)**	**(6,768)**	**(2,381)**	**(357)**	**(568)**	**(10,831)**
Net book value						
At 31 December 2012	**50,354**	**635**	**299**	**136**	**25**	**51,449**
At 31 December 2013	**48,641**	**561**	**477**	**140**	**181**	**50,000**

As at 31 December 2014, the cost of fully depreciated property and equipment still used by the Group was EUR 8,834 thousand (2013: EUR 9,057 thousand).

As at 31 December 2014, the fair value of a group of buildings owned by the Group is determined based on the results of valuation performed on 21 November 2014. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of a group of buildings as at 31 December 2014 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 28.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2014 and 31 December 2013 would be as follows:

	2014	***2013***
Cost	28,328	28,179
Accumulated depreciation	(10,880)	(10,459)
Net book value	**17,448**	**17,720**

(intentionally blank)

(Thousands of Euros)

16. Other assets and liabilities

Other assets comprise:

	2014	*2013*
Other accounts receivable	2,900	8,109
Advance payments and future period expenses	841	1,111
Deferred tax assets	–	2
	3,741	**9,222**
Less: allowance for impairment of accounts receivable	(1,763)	(411)
Other assets	**1,978**	**8,811**

The movements in other impairment allowance are as follows:

	2014	*2013*
Allowance at 1 January	**411**	**280**
Net charge for the year	1,730	152
Change in allowance resulting from changes in exchange rates	(378)	(21)
Allowance at 31 December	**1,763**	**411**

Other liabilities comprise:

	2014	*2013*
Other accounts payable	2,482	3,912
Settlements with employees	931	682
Liabilities to transfer ownership of apartments	–	690
Other	243	557
Other liabilities	**3,656**	**5,841**

17. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	2014	*2013*
Correspondent accounts of banks without rating	**–**	1
Term deposits of banks:		
Credit rating from BBB- to BBB+	–	35,021
No credit rating	17,349	9,445
Due to banks and other financial institutions	**17,349**	**44,466**
Repurchase agreements	**41,320**	**–**
Collateral deposit:		
No credit rating	–	5,119
Due to banks and other financial institutions	**58,669**	**49,586**

The Group performs daily monitoring of the repurchase agreements, of the collateral's value placing/returning additional collateral if it's necessary.

Concentration of deposits from banks and other financial institutions

As at 31 December 2014, the Group has four counterparties (2013: one) accounting for over 20% of the Group's total deposits from banks and other financial institutions in the amount of EUR 53,669 thousand (2013: EUR 10,001 thousand).

(Thousands of Euros)

18. Long-term loans of banks

As at 31 December 2014, the Group received a long-term loan in the amount of EUR 20,540 thousand granted by the Bank maturing in April 2016 (2013: no loans).

19. Debt securities issued

On 29 April 2014, the Group placed RUB-denominated bonds, series 01, in the amount of RUB 2 billion (EUR 40,441 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 9.9% p.a. and is payable twice a year, with the first coupon payment to be paid on 28 October 2014. As at 31 December 2014, issued RUB-denominated bonds, series 01, recorded at amortized cost amounted to EUR 27,708 thousand.

On 21 October 2014, the Group placed on the Slovak organized securities market EUR-denominated bonds in the amount of EUR 30,000 thousand maturing on 21 October 2019. The coupon rate on bonds was set at 3.5% p.a. and is payable once a year, with the first coupon payment to be paid on 21 October 2015. As at 31 December 2014, issued Eurobonds recorded at amortized cost amounted to EUR 30,079 thousand.

On 2 December 2014, the Group placed RUB-denominated bonds, series 03, in the amount of RUB 4 billion (EUR 60,921 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 12.25% p.a. and is payable twice a year, with the first coupon payment to be paid on 2 June 2015. As at 31 December 2014, issued RUB-denominated bonds, series 03, recorded at amortized cost amounted to EUR 54,972 thousand. Among other things, the Group used the proceeds from the offerings for expanding its loan portfolio.

At the dates of placement of RUB-denominated bonds, the Group entered into cross-currency interest rate swaps for the purpose of regulating currency risks (Note 7).

20. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 thousand which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

As at 31 December 2014, unpaid portion of the Bank's subscribed capital in the amount of EUR 1,027,382 thousand (2013: EUR 1,058,685 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 296,900 thousand (2013: EUR 296,900 thousand).

On 6 June 2013, the 99th regular meeting of the Bank's Council adopted a decision on including a portion of the IIB's retained earnings for the previous years in the amount of EUR 76,067 thousand into the paid-in portion of the Bank's share capital proportionally to the shares of member countries in the paid-in share capital at the date of such decision.

Additionally, during the 99th meeting of the Council member countries supported the need for additional capitalization of the Bank by making additional contributions of at least EUR 100 million to the share capital. In 2014, a number of countries contributed to the share capital. Mongolia has officially announced that the payment of EUR 438.5 thousand will be made during 2015.

On 27 February 2014, the Government of the Slovak Republic fulfilled its obligations to ensure additional capitalization of the Bank assumed at the 99th meeting of the Bank's Council. Slovakia's additional contribution to the Bank's share capital in the amount of EUR 6,293.6 thousand was credited to the Bank's account.

On 8 May 2014, the Government of the Russian Federation partially fulfilled its obligations to ensure additional capitalization of the Bank. Russia's additional contribution to the Bank's share capital in the amount of EUR 10,000.0 thousand was credited to the Bank's account.

(Thousands of Euros)

20. Equity (continued)

Subscribed and paid-in capital (continued)

On 11 July 2014, the Government of the Republic of Bulgaria fulfilled its obligations to ensure additional capitalization of the Bank. Bulgaria's additional contribution to the Bank's share capital in the amount of EUR 12,364.9 thousand was credited to the Bank's account.

On 10 October 2014, the Government of the Socialist Republic of Vietnam fulfilled its obligations to ensure additional capitalization of the Bank. Vietnam's additional contribution to the Bank's share capital in the amount of EUR 2,645.0 thousand was credited to the Bank's account. As a result, the paid-in capital of International Investment Bank totaled EUR 272,618 thousand.

Revaluation reserve for available-for-sale investment securities, revaluation reserve for property and equipment and revaluation reserve for currencies

The movements in the revaluation reserve for available-for-sale investment securities, revaluation reserve for property and equipment and revaluation reserve for currencies were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*	*Revaluation reserve for currencies*
At 1 January 2013	**4,340**	**33,375**	**–**
Net unrealized gains on available-for-sale investment securities	1,533	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,659)	–	–
Translation differences	–	–	(1,219)
At 31 December 2013	**214**	**33,375**	**(1,219)**
Net unrealized gains on available-for-sale investment securities	3,952	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,165)	–	–
Revaluation of buildings	–	1,720	–
Translation differences	–	–	995
At 31 December 2014	**(999)**	**35,095**	**(224)**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

Revaluation reserve for currencies

Revaluation reserve for currencies is used to record the subsidiary's assets and liabilities translated to the functional currency of the Group.

(Thousands of Euros)

21. Contingencies and loan commitments

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group. In accordance with the Agreement on the establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

The Group takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights. When the estimated amount of costs resulting from the Group's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Group holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

Insurance

The Group obtained insurance coverage for a group of buildings, equipment and car park as well as liability insurance against damages caused by operating assets of a hazardous nature. However, the Group did not obtain insurance coverage related to temporarily discontinued operations or the Group's obligations to third parties.

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 31 December 2014, commitments and contingencies of the Group comprised undrawn loan facilities in the amount of EUR 69,296 thousand (2013: EUR 53,466 thousand). The amounts of commitments assume that amounts are fully withdrawn.

22. Leases

Group as lessor

The Group provides its real estate for operating leases. As at 31 December 2014, the Group's non-cancellable operating lease rentals amount to EUR 4,742 thousand (2013: EUR 8,281 thousand) and will be settled within 1 year.

23. Interest income and interest expense

Net interest income comprises:

	2014	*2013*
Available-for-sale investment securities and held-to-maturity investment securities	5,813	4,362
Long-term loans to banks	4,793	1,013
Loans to customers	3,932	5,529
Deposits with banks and other financial institutions, including cash and cash equivalents	2,261	2,449
Interest income	**16,799**	**13,353**
Debt securities issued	(3,405)	–
Due to banks and other financial institutions	(601)	(349)
Long-term loans of banks	(417)	–
Current customer accounts	(146)	(71)
Other borrowed funds	(208)	(12)
Interest expenses	**(4,777)**	**(432)**
Net interest income	**12,022**	**12,921**

In 2014, interest income accrued on impaired loans to customers amounted to EUR 192 thousand (2013: EUR 105 thousand).

(Thousands of Euros)

24. Net gain/(loss) from foreign currencies

Net gains less losses from foreign currencies comprise:

	2014	*2013*
Net (loss)/gain from revaluation of assets and liabilities in foreign currencies	20,354	(2,738)
Net gain/(loss) from trading in foreign currencies	(17,993)	56
Net (loss)/gain from foreign currencies	**(2,361)**	**(2,682)**

25. Other income

The Group's other income comprised:

	2014	*2013*
Income from sale of loans	–	4,837
Income from sale of property rights to participatory construction objects	–	2,835
Income from recovery of provision for potential payments (Note 16)	–	1,764
Other	(225)	1,327
Total other income	**(225)**	**10,763**

26. General and administrative expenses

General and administrative expenses comprise:

	2014	*2013*
Employee compensations and employment taxes	11,405	10,293
Depreciation of property and equipment (Note 15)	1,357	1,182
IT-expenses, inventory and occupancy expenses	1,447	1,842
Expenses related to business travel, representative and accommodation expenses	1,309	1,281
Professional services	1,008	1,106
Other	405	1,047
General and administrative expenses	**16,931**	**16,751**

27. Risk management

Risk management framework

The Group's risk management policy is based on the conservative assessments and is mainly aimed at mitigation of adverse impact of risks on the Group's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The prudent assessment assumes that the Group does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

The Group's risk management activities are intended to:

- identify, analyze and manage risks faced by the Bank;
- establish ratios and limits that restrict level of the appropriate types of risks;
- monitor the level of the risk and its compliance with established limits;
- develop and implement regulative and methodological documents as well as software applications that ensure the professional risk management for the bank transactions.

(Thousands of Euros)

27. Risk management (continued)

Risk management framework (continued)

Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets.

Integrated into the whole vertical organizational structure of the Group and all areas of the Group's activities, the risk management system makes it possible to identify timely manner and effectively manage different types of risks.

Risk management involves all of the Group's divisions in evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st line of defense): the Group's divisions directly preparing and conducting transactions, involved in the identification, assessment, and monitoring of risks, and comply with internal regulations on risk management, as well as give due consideration to the risk level in the preparation of transactions;
- Risk management (2nd line of defense): the division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements;
- Internal audit (3rd line of defense): provides independent quality evaluation for existing risk management processes, identifies violations and makes proposals for the improvement of the risk management system.

The Group's operations are managed taking into account the level of the risk appetite which approved by the Council of the Bank and integrated into a system of limits and restrictions insuring the acceptable level of risk for aggregated positions transparent distribution of total risk limit between the activities of the Group.

Risk management system

The Bank's Council, the Board, the Asset, Liability and Risk Committee (ALRCO), the Credit Committee and the Risk Management Department are responsible for managing the Group's risks.

The Bank's Council is responsible for the general control over the risk management system, determines its development strategy and sets strategic limits and risk appetite.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Council. The Board ensures co-operation among all business units and committees of the Bank with regard to risk management.

Risk Committee performs management and control of credit, market, operational, reputational, legal and liquidity risk, also considers proposal for establishment of risk limits.

ALRCO is the Bank's collegial body responsible for development and implementation of the risk management policy in the course of transactions. ALRCO is engaged in ongoing monitoring of liquidity, market and credit risks.

The Credit Committee is the Board's collegial body responsible for lending and assessment of risks arising from all types of credit-related transactions.

Committees meet on a regular basis and provide to the Board their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Group to mitigate risk impact on the Group's performance.

(Thousands of Euros)

27. Risk management (continued)

Risk management system (continued)

During 2014 further development of the risk management system, started in 2013, was aimed at implementation of Basel standards and best practices of development banks within the Group:

- new methodological and regulatory documents relating to risk management have been elaborated. The 100th meeting of the IIB Council approved the new Risk management strategy, strategic limits of the Group and risk appetite indicators for 2014;
- target model of the risk management system, based on requirements of the leading rating agencies regarding risk management.

In strict compliance with the existing procedures, twice a year the Group set limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, classes of loan assets risk were continuously monitored and the fair value of pledged items was regularly determined. During the reporting period, the Group's specialists visited certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of loans' impairment.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Group's limits applied to transactions on money, currency and equity markets, as well as structural limits included in key risk ratios and stop-loss and take-profit limits. In addition, the Group's management receives regular reports on the status of risks within the Bank.

Risk appetite

The risk appetite is the aggregate amount of risk taken by the Bank to achieve its strategic goals and objectives. By approving the level of risk appetite, the Bank's Council determines the willingness to take a risk (i.e. the risk appetite) or the amount of equity and liquidity that the Bank is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

- the allocation of capital and liquidity (if necessary);
- targets allocation of capital across the main types of risk;
- the level of risk and target risk appetite in the context of the main performance indicators of the Group and significant risks for the Bank;
- determining levels of tolerance.

The procedure for determining the Group's risk appetite shall be defined by the credit risk management division and submitted for review by the Board and approval by the Council of the Bank.

The risk appetite shall be approved by the Council of the Bank on an annual basis for the next year and shall be a major factor of the Group's strategic limits determining the thresholds for the Group's key performance indicators and the Group's significant risks.

In determining the risk appetite, the Group assesses how the specified risk appetite is acceptable in the current time period and how it will be acceptable in the future, taking into account:

- Expectations of the founders concerning the level of profitability;
- International regulatory standards;
- Current and expected future volume of transactions;
- Current and expected future structure of significant risks;
- Current and expected future level of aggregate capital.

Based on the risk appetite determined by the Council, the Board shall annually approve the Group's limits, sublimits, and risk indicators, which shall not exceed the target values of the risk appetite.

(Thousands of Euros)

27. Risk management (continued)

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group's exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of ALRCO and also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

Risk assessment, management and control

The Group's risk exposure is primarily reduced by means of collective decision making. Strict allocation of responsibilities between business units and officers of the Group, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and updated by the Group in order to reflect changed market conditions and improve risk management methods.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment;
- Exercising control over the Group's exposure by means of compliance with the established limits, regular assessment of the Bank's risk exposure and internal audit of risk management systems.

The Group identifies the following major risks inherent in its various activities:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

Credit risk is the risk that the Group will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Group, or discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual borrower or counterparty default risk.

System of credit risk management

The Group's regulatory documents establish the following:

- procedures to review and approve loan/credit applications;
- methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies;
- requirements to the credit documentation;
- procedures for the ongoing monitoring of loans and other credit exposures.

Risk Committee establishes the limits per borrower/group of related borrowers. The Credit Committee structures the transaction to minimize credit risk. The Credit Department is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit it is approved by the Credit Committee and RCO, and then – the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the Bank's share capital and for the period of up to 7 years. Direct credit risks exposures exceeding the specified amount or the period of 7 years should be approved by the Bank's Council.

(Thousands of Euros)

27. Risk management (continued)

System of credit risk management (continued)

The corporate loan/credit application and appropriate project documents are reviewed by the Credit Department. In case of a positive decision, the set of documents from the Credit Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Planning and Analysis Department, Internal Audit Department and Compliance Control Department. For the purpose of comprehensive analysis of the loan/credit application received from the Credit Department, the Legal Department and Risk Management Department jointly prepare Description of the Investment Transaction. The loan/credit application is subject to review by the Credit Committee based on the Description of the Investment Transaction, report of the Security Department and Strategic Planning and Analysis Department, report on risks of the Risk Management Department and compulsory judgment of the Legal Department in respect of the legal compliance of the proposed transaction. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application by the RCO; Step 2 includes making decision on the Credit Committee; Step 3 includes making decision by the Board of the Bank (if such issue falls within its competence); Step 4 includes sending a set of respective documents approved by the Board of the Bank to the member countries in order to obtain the final approval from the country of origin of the borrower; Step 5 includes making decision by the Council of the Bank (if such issue falls within its competence).

Credit risk

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration by industry.

To mitigate credit risk, the Group limits concentrations of exposure to individual customers, counterparties and issuers, groups of related customers, counterparties and issuers as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer’s most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower’s internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- pledge of equipment and goods in turnover;
- pledge of real property (mortgage) and title;
- pledge of rights of demand and construction right.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

(Thousands of Euros)

27. Risk management (continued)

Credit risk (continued)

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs. Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). The Group's internal expert opinion on the fair value of the collateral and feasibility of the adjustment coefficient (discount), which adjusts the market value, shall be approved/ reconciled with the Risk Management Department. The adjustment coefficient (discount) is established based on the table of recommended discounts "Regulations on lending operations" as at initial measurement of the collateral value. Where the market value of the collateral is assessed as impaired, the clients are usually required to provide additional collateral.

Portfolio of long-term loans to banks and other financial institutions and customers (less allowance for impairment) by type of the Bank's collateral is analyzed in Notes 10 and 11.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Analysis of credit risk concentration by customers' industry is presented in Note 11.

Maximum credit risk exposure by credit related commitment represents all the amount of these commitments (Note 21).

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit quality per class of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

Assessment of credit quality of loans is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the client's financial position, payment discipline, credit history, compliance with business plan and production discipline, additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, industry specifics and country rating.

(Thousands of Euros)

27. Risk management (continued)

Credit risk (continued)

As at 31 December 2014 and 31 December 2013, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard. The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 31 December 2014 and 31 December 2013:

2014	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	89,874	–	89,874	–
- *Mongolia*	26,986	–	26,986	–
- *Socialist Republic of Vietnam*	15,172	–	15,172	–
	132,032	**–**	**132,032**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Slovak Republic*	40,238	–	40,238	–
- *Republic of Bulgaria*	31,094	–	31,094	–
- *Mongolia*	23,822	–	23,822	–
- *Romania*	5,958	–	7,915	–
- *Russian Federation*				
Non-performing loans	2,646	–	5,775	–
- *Slovak Republic*	8,107	3,589	4,518	44
	111,865	**3,589**	**108,276**	**3**
Total loans	**243,897**	**3,589**	**240,308**	**–**

2013	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,522	–	23,522	–
- *Russian Federation*	20,058	–	20,058	–
- *Socialist Republic of Vietnam*	15,215	–	15,215	–
	58,795	**–**	**58,795**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,955	–	23,955	–
- *Slovak Republic*	7,915	–	7,915	–
- *Republic of Bulgaria*	5,775	–	5,775	–
	37,625	**–**	**37,625**	**–**
Total loans	**96,420**	**–**	**96,420**	**–**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

(Thousands of Euros)

27. Risk management (continued)

Credit risk (continued)

Impairment assessment

The Group creates allowance for loan impairment that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for loan losses only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the client's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Due to a limited number of borrowers, the Group considers each loan as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

The total amount of impairment allowance is approved by the Credit Committee on a monthly basis.

Liquidity risk

Liquidity risk is the risk of loss resulting from the Group's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from improper balance between the Group's financial assets and financial liabilities by period and amount (including due to untimely discharge of its financial obligations by one or several counterparties of the Group) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

The Group's approach to management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or taking risk of damage to the Group's reputation.

In the course of liquidity management the Group's management relies on the following principles:

- liquidity has priority over return;
- continuous liquidity management;
- distribution of authorities between management bodies and divisions;
- planning and limitation of liquidity consistent with the size, nature of business and financial position of the Group;
- forecasting of cash flows.

Liquidity risk is managed to ensure the Group's ability to meet its financial obligations in full and on a timely basis. For this purpose the Group:

- determines an acceptable liquidity level;
- continuously monitors liquidity;
- takes measures to maintain liquidity at the acceptable level;
- in case of liquidity crisis performs a set of procedures for its recovery.

The Group manages its liquidity in two areas: the Treasury Department manages the liquidity, and Risk Management Department performs control over liquidity risk.

(Thousands of Euros)

27. Risk management (continued)

Liquidity risk (continued)

The Treasury Department receives on a weekly basis information from business units regarding the liquidity profile of their financial assets and liabilities and forecasts of projected cash flows arising from projected future business. Further, the Treasury Department manages the Group's liquidity in accordance with the existing regulatory documents of the Bank and ALRCO's decisions.

The Risk Management Department performs control on a weekly basis over actual values of the current and overall liquidity and compares these values with standards. In case of non-compliance of these standards, the Risk Management Department immediately notifies ALRCO about it in order to develop and perform activities for recovering liquidity.

Due to the fact that all the Group's significant liabilities are short-term with maturity of up to 1 year, the Group does not estimate contractual undiscounted liabilities' cash flows since the expected cash outflow will not be significantly different from the carrying amount of the Group's financial liabilities as at 31 December 2014 and 31 December 2013.

The table below shows the contractual expiry by maturity of the Group's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

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(Thousands of Euros)

27. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date:

	2014								*2013*						
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets															
Cash and cash equivalents	65,918	–	–	–	–	–	–	**65,918**	20,045	–	–	–	–	–	**20,045**
Deposits with banks and other financial institutions	8,327	20,347	5,697	–	–	–	–	**34,371**	–	23,112	18,378	–	–	–	**41,490**
Financial assets at fair value through profit or loss	311	–	–	–	–	–	–	**311**	–	97	54	–	–	–	**151**
Available-for-sale investment securities	42	7,669	750	13,599	16,813	3	–	**38,876**	150	674	1,754	44,061	80,420	2,817	**129,876**
Held-to-maturity investment securities	70	942	1,146	39,791	81,685	–	–	**123,634**	117		5,793				**5,910**
Long-term loans to banks	–	1,531	13,139	117,362	–	–	–	**132,032**	–	374	2,014	56,407		–	**58,795**
Loans to customers	–	901	24,168	53,763	24,926	–	4,518	**108,276**	–	430	7,832	27,463	1,900	–	**37,625**
Other assets	58	75	994	10	–	–	–	**1,137**	472	4,634	2,800	–	–	–	**7,906**
Total assets	**74,726**	**31,465**	**45,894**	**224,525**	**123,424**	**3**	**4,518**	**504,555**	**20,784**	**29,321**	**38,625**	**127,931**	**82,320**	**2,817**	**301,798**
Liabilities															
Due to banks and other financial institutions	(45,436)	(13,233)	–	–	–	–	–	**(58,669)**	(24,566)	(25,020)	–	–	–	–	**(49,586)**
Current customer accounts	(4,788)	–	–	–	–	–	–	**(4,788)**	(3,313)	–	–	–	–	–	**(3,313)**
Financial liability at fair value through profit or loss	–	–	(21,705)	–	–	–	–	**(21,705)**	–	–	–	–	–	–	–
Long-term loans of banks	(97)	–	–	(20,443)	–	–	–	**(20,540)**	–	–	–	–	–	–	–
Debt securities issued	–	–	(82,884)	(29,875)	–	–	–	**(112,759)**	–	–	–	–	–	–	–
Other liabilities	(1,356)	(49)	(2,251)	–	–	–	–	**(3,656)**	(727)	(2,944)	(1,619)	–	–	–	**(5,290)**
Total liabilities	**(51,677)**	**(13,282)**	**(106,840)**	**(50,318)**	–	–	–	**(222,117)**	**(28,606)**	**(27,964)**	**(1,619)**	–	–	–	**(58,189)**
Net position	**23,049**	**18,183**	**(60,946)**	**174,207**	**123,424**	**3**	**4,518**	**282,438**	**(7,822)**	**1,357**	**37,006**	**127,931**	**82,320**	**2,817**	**243,609**
Accumulated net position	**23,049**	**41,232**	**(19,714)**	**154,493**	**277,917**	**277,920**	**282,438**	**–**	**(7,822)**	**(6,465)**	**30,541**	**158,472**	**240,792**	**243,609**	**–**
Off-balance credit-related commitments	**(69,296)**	**–**	**–**	**–**	**–**	**–**	**–**	**(69,296)**	**–**	**(48,466)**	**(5,000)**	**–**	**–**	**–**	**(53,466)**

The accumulated negative liquidity gap in the periods of “3 months to 1 year” is formed on the basis of offers on issued ruble-denominated bonds identified at the time of issuance. Management believes that in the foreseeable future payments on these debentures will not be fully implemented. The accumulated negative liquidity gap can be offset with high liquid available for sale investment securities, that can be realized at any moment on market terms. If it is necessary the gained liquid assets can be used to meet the short term liabilities of the Group.

(Thousands of Euros)

27. Risk management (continued)

Market risk

Market risk is the risk that the Group shall incur losses due to adverse fluctuations in market rate of financial instruments, interest rates, foreign exchanges, and securities' prices. Market risk includes equity risk on securities, interest rate risk and currency risk.

The Group is exposed to market risk due to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

The Board of the Bank performs overall management of market risk.

Risk Committee, led by the Deputy Chairman of the Bank's Management Board, coordinates the Group's market risk management policy, considers and provides to the Management Board recommendations on management of market risks.

The Treasury Department performs operative management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits in order to increase the Group's income on a daily basis.

Currency risk and price risk

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies. Price risk is the risk that the fair values of securities decrease as the result of changes in the levels of indices and the value of individual securities.

The Group applies a VaR methodology to assess currency and equity risks. VaR is a method used in measuring maximum risk of the Group, i.e. the level of losses on a certain position in relation to a financial instrument/currency/precious metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group uses an assumption that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days. The assessment of value at risk in relation to currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

At estimating value at risk, the Group uses a parameter method, which allows assessing the volatility of yield on the basis of the most current market data.

The choice of a respective approach to value at risk estimation is made on the basis of data on statistical analysis of changes in fair values of financial instruments and exchange rates.

Selection period used by the Group for modeling purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of above mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 31 December 2014 and 31 December 2013, final data on value at risk assessment in relation to currency and price risks assumed by the Group are represented as follows:

	2014	*2013*
Fixed income securities price risk	364	2,174
Equity securities price risk	–	335
Currency risk	945	1,211

(Thousands of Euros)

27. Risk management (continued)

Market risk (continued)

Despite measurement of value at risk is a standard industry method for risk assessment, this method has a number of limitations:

- Analysis based on value at risk assessment is correct in case current market conditions remain unchanged. Using historical data for assessment of future events are not taken into account.
- Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data.
- If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account.
- 10-day time horizon implies the entire Group’s position over this period could have been closed or hedged. Results of value at risk assessment may be incorrect in case of market liquidity deterioration.
- Fluctuations that may occur in the course of the day are not taken into account at calculating value at risk on the basis of the results of a business day.

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(Thousands of Euros)

27. Risk management (continued)

Market risk (continued)

The Group's exposure to currency risk as at 31 December 2014 and 31 December 2013 is presented below:

	2014					*2013*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Assets										
Cash and cash equivalents	33,801	31,655	360	102	**65,918**	9,222	331	5,170	5,322	**20,045**
Deposits with banks and other financial institutions	32,895	1,044	432	–	**34,371**	23,112	16,015	2,363	–	**41,490**
Available-for-sale investment securities	32,355	6,521	–	–	**38,876**	102,911	22,940	4,025	–	**129,876**
Held-to-maturity investment securities	55,566	63,561	4,507	–	**123,634**	–	5,910	–	–	**5,910**
Long-term loans to banks and other financial institutions	110,815	21,217	–	–	**132,032**	41,285	17,510	–	–	**58,795**
Loans to customers	108,276	–	–	–	**108,276**	37,625	–	–	–	**37,625**
Other assets	111	2	1,024	–	**1,137**	590	7	7,309	–	**7,906**
	373,819	**124,000**	**6,323**	**102**	**504,244**	**214,745**	**62,713**	**18,867**	**5,322**	**301,647**
Liabilities										
Due to banks and other financial institutions	(16,804)	(41,181)	(684)	5,119	**(58,669)**	(19,035)	(25,432)	–	(5,119)	**(49,586)**
Current customer accounts	(4,605)	(183)	–	–	**(4,788)**	(3,162)	(151)	–	–	**(3,313)**
Long-term loans of banks	–	(20,540)	–	–	**(20,540)**	–	–	–	–	–
Debt securities issued	(30,079)	–	(82,680)	–	**(112,759)**	–	–	–	–	–
Other liabilities	(2,879)	(74)	(703)	–	**(3,656)**	(3,064)	(187)	(1,999)	(40)	**(5,290)**
	(54,367)	**(61,978)**	**(84,067)**	–	**(200,412)**	**(25,261)**	**(25,770)**	**(1,999)**	**(5,159)**	**(58,189)**
Net balance sheet position	**319,452**	**62,022**	**(77,744)**	**102**	**303,832**	**189,484**	**36,943**	**16,868**	**163**	**243,458**
Derivative financial instruments										
Claims	33,310	–	76,915	–	**110,225**	14,400	–	–	–	14,400
Liabilities	(97,564)	(34,056)	–	–	**(131,620)**	–	(14,249)	–	–	(14,249)
Net balance sheet position including derivative financial instruments	**255,198**	**27,966**	**(829)**	**102**	**282,437**	**203,884**	**22,694**	**16,868**	**163**	**243,609**

(Thousands of Euros)

27. Risk management (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Sensitivity analysis of the Group's equity to changes in interest rate (based on simplified scenario of a 100 basis point (bp) and positions of available-for-sale debt securities parallel fall or rise in all yield curves as at 31 December 2014 and 31 December 2013) is as follows;

	31 December 2014	*31 December 2013*
	The Bank's equity	*The Bank's equity*
100 bp parallel rise	(1,387)	(6,342)
100 bp parallel fall	1,387	6,342

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Group's property.

Generally, the Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Group continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

28. Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Thousands of Euros)

28. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

	Valuation date	*Level 1 2014*	*Level 2 2014*	*Level 3 2014*	*Total 2014*
Assets measured at fair value					
Derivative financial assets	31 December 2014	–	311	–	**311**
Government bonds of member countries and bonds of regional governments	31 December 2014	28,500	–	–	**28,500**
Corporate bonds	31 December 2014	10,373	–	–	**10,373**
Quoted equity instruments	31 December 2014	–	3	–	**3**
Investment property	31 December 2014	–	–	52,879	**52,879**
Property and equipment	31 December 2014	–	–	53,207	**53,207**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2014	–	21,705	–	**21,705**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	–	–	65,918	**65,918**
Deposits with banks and other financial institutions	31 December 2014	–	–	34,371	**34,371**
Held-to-maturity investment securities	31 December 2014	99,872	–	–	**99,872**
Long-term loans to banks	31 December 2014	–	–	126,485	**126,485**
Loans to customers	31 December 2014	–	–	108,276	**108,276**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2014	–	–	58,669	**58,669**
Current customer accounts	31 December 2014	–	–	4,788	**4,788**
Long-term loans of banks	31 December 2014	–	–	20,540	**20,540**
Debt securities issued	31 December 2014	–	106,351	–	**106,351**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2013:

	Valuation date	*Level 1 2013*	*Level 2 2013*	*Level 3 2013*	*Total 2013*
Assets measured at fair value					
Derivative financial assets	31 December 2013	–	151	–	**151**
Government bonds of member countries and bonds of regional governments	31 December 2013	35,378	–	–	**35,378**
Corporate bonds	31 December 2013	91,681	–	–	**91,681**
Quoted equity instruments	31 December 2013	2,817	–	–	**2,817**
Investment property	31 December 2013	–	–	53,480	**53,480**
Property and equipment	31 December 2013	–	–	50,000	**50,000**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	–	–	20,045	**20,045**
Deposits with banks and other financial institutions	31 December 2013	–	–	41,490	**41,490**
Held-to-maturity investment securities	31 December 2013	5,928	–	–	**5,928**
Long-term loans to banks	31 December 2013	–	–	58,795	**58,795**
Loans to customers	31 December 2013	–	–	37,625	**37,625**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2013	–	–	49,586	**49,586**
Current customer accounts	31 December 2013	–	–	3,313	**3,313**

(Thousands of Euros)

28. Fair values of financial instruments (continued)

Fair value of financial assets and liabilities not recorded at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2014	*Fair value 2014*	*Unrecognized gain/(loss) 2014*	*Carrying amount 2013*	*Fair value 2013*	*Unrecognized gain/(loss) 2013*
Financial assets						
Cash and cash equivalents	65,918	65,918	–	20,045	20,045	–
Deposits with banks and other financial institutions	34,371	34,371	–	41,490	41,490	–
Held-to-maturity investment securities	123,634	99,872	(23,762)	5,910	5,928	18
Long-term loans to banks	132,032	126,485	(5,547)	58,795	58,795	–
Loans to customers	108,276	108,276	–	37,625	37,625	–
Financial liabilities						
Due to banks and other financial institutions	58,669	58,669	–	49,586	49,586	–
Current customer accounts	4,788	4,788	–	3,313	3,313	–
Long-term loans of banks	20,540	20,540	–			
Debt securities issued	112,759	106,351	6,408			–
Total unrecognized change in fair value			**(22,901)**			**18**

Fair value measurements

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted derivatives, investment property, land and buildings, and for non-recurring measurement, such as inventories.

External valuers are involved for valuation of significant assets, such as buildings and property. Involvement of external valuers is decided upon by the Group's Finance Department. Unquoted derivatives are measured made by the Group's Finance Department.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

In the course of audit procedures, the Group's Finance Department presents the valuation results to the Group's independent auditors upon requests. This includes a discussion of the major assumptions used in the valuations.

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not recorded at fair value in these consolidated financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that at 31 December 2014 and 31 December 2013 the fair value of deposits with banks and other financial institutions and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

(Thousands of Euros)

28. Fair values of financial instruments (continued)

Methodologies and assumptions (continued)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates at their initial recognition with current market rates offered for similar financial instruments.

The estimated fair value of fixed interest bearing long-term loans to banks, loans to customers, and deposits in banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. Management has estimated that at 31 December 2014 and 31 December 2013 the fair value of long-term loans to banks and loans to customers was not significantly different from their respective carrying amount.

Investment property

The Group engages an independent appraiser for the investment property fair value measurement. As at the valuation date (31 December 2014), the fair values of investment property were based on the results of valuation performed by the accredited independent appraiser, according to the prices of market transactions using the market, cost and income approaches to fair value measurement.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Property and equipment − buildings

Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the date of revaluation, 31 December 2014, the properties’ fair values are based on valuations performed by an accredited independent valuer, according to the prices of market transactions using the market, cost and income approaches to fair value measurement.

Significant unobservable inputs and sensitivity of level 3 financial instruments measured at fair value to changes to key assumptions

As at 31 December 2014 (the valuation date), the significant unobservable inputs in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 3,555 per. sq. m (range minimum) to EUR 4,976 per sq. m (range maximum), and lease rates ranging from EUR 512 per sq. m. a year (minimum) to EUR 584 per sq. m. a year (maximum).

29. Segment information

For management purposes, the Group identifies the following three operating segments based on its lines of services:

Credit investment activity	Credit investment banking services include long-term corporate and interbank financing;
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments, foreign currency and liquidity management;
Other operations	Operational leasing services, the Bank’s Legal Department and subsidiary activities on credit portfolio rehabilitation (in 2013), other operations.

(Thousands of Euros)

29. Segment information (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. The following table presents revenue, profit, assets and liabilities of the Group's operating segments:

2014	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	8,725	7,966	108	**16,799**
Net gains from trading in foreign currencies	–	3,426	–	**3,426**
Net gains from available-for-sale investment securities	–	5,165	–	**5,165**
Income from lease of investment property	–	–	8,116	**8,116**
Recovery of provision	–	–	17	**17**
Net gains from revaluation of investment property	–	–	257	**257**
Revenues from sales of inventory	–	–	3,569	**3,569**
Other segment income	42	–	280	**322**
Total income	**8,767**	**16,557**	**12,347**	**37,671**
Interest expenses	(1,622)	(3,155)	–	**(4,777)**
Allowance for loans impairment	(3,589)	–	–	**(3,589)**
Cost of inventories sold	–	–	(4,305)	**(4,305)**
Other segment expenses	(47)	(640)	(5,120)	**(5,807)**
Segment performance results	**3,509**	**12,762**	**2,922**	**19,193**
Other unallocated income				**1,976**
Other unallocated expense				**(16,931)**
Profit for the year				**4,238**
Segment assets	240,308	262,399	108,825	**611,532**
Segment liabilities	56,569	161,892	3,656	**222,117**
Other segment information				
Capital expenditures	–	–	303	**303**

2013	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	6,503	6,811	39	**13,353**
Net gains from trading in foreign currencies	–	56	–	**56**
Net gains from available-for-sale investment securities	–	5,659	–	**5,659**
Income from lease of investment property	–	–	7,959	**7,959**
Net losses from impairment of assets held for sale	–	–	(3,588)	**(3,588)**
Revenues from sales of inventory	–	–	3,727	**3,727**
Other segment income	–	362	7,672	**8,034**
Total income	**6,503**	**12,888**	**15,809**	**35,200**
Interest expenses	–	(432)	–	**(432)**
Cost of inventories sold	–	–	(3,346)	**(3,346)**
Allowance for loans impairment	(10,105)	–	–	**(10,105)**
Segment performance results	**(3,602)**	**12,456**	**12,463**	**21,317**
Other unallocated income				**3,205**
Other unallocated expense				**(21,894)**
Profit for the year				**2,628**
Segment assets	101,539	189,217	120,356	**411,112**
Segment liabilities	5,119	44,467	9,154	**58,740**
Other segment information				
Capital expenditures	–	–	115	**115**

In 2014 and 2013 the Group had one counterparty with lease operations revenue exceeding 10% of total Group's revenue (2014: EUR 5,718 thousand; 2013: EUR 5,473 thousand).

(Thousands of Euros)

29. Segment information (continued)

Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets as at 31 December 2014 and 31 December 2013 and for the years then ended is presented in the tables below:

	2014				*2013*			
	Russia	***Other member countries***	***Other countries***	***Total***	***Russia***	***Other member countries***	***Other countries***	***Total***
Interest income from external customers	7,987	8,096	716	**16,799**	5,417	7,094	842	**13,353**
Income from lease of investment property	8,116	–	–	**8,116**	7,959	–	–	**7,959**
Revenues from sales of inventory	3,569	–	–	**3,569**	3,727	–	–	**3,727**
Non-current assets	106,086	–	–	**106,086**	103,480	–	–	**103,480**

Non-current assets include property and equipment and investment property.

(intentionally blank)

(Thousands of Euros)

29. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's financial assets and liabilities based on the location of the Group's counterparties as at 31 December 2014 and 31 December 2013 is presented below:

	2014									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	23,698	–	–	8,241	–	–	–	16,464	17,515	**65,918**
Deposits with banks and other financial institutions	432	–	–	–	–	30,460	–	–	3,479	**34,371**
Financial instruments at fair value through profit or loss	311	–	–	–	–	–	–	–	–	**311**
Investment securities:										
- available-for-sale	10,381	14,642	2,584	1,177	–	1,948	1,702	3,567	2,875	**38,876**
- held-to-maturity	106,097	–	–	–	–	–	–	–	17,537	**123,634**
Long-term loans to banks less allowances for impairment.	89,874	–	–	–	–	26,986	15,172	–	–	**132,032**
Loans to customers less allowances for impairment	2,646	31,094	5,958	44,756	–	23,822	–	–	–	**108,276**
Assets	**233,439**	**45,736**	**8,542**	**54,174**	**–**	**83,216**	**16,874**	**20,031**	**41,406**	**503,418**
Liabilities										
Due to banks and other financial institutions	–	29,837	–	–	–	–	–	–	28,832	**58,669**
Financial instruments at fair value through profit or loss	21,143	–	–	–	–	–	–	–	562	**21,705**
Long-term loans of banks	20,540	–	–	–	–	–	–	–	–	**20,540**
Debt securities issued	82,679	–	–	30,080	–	–	–	–	–	**112,759**
Liabilities	**124,362**	**29,837**	**–**	**30,080**	**–**	**–**	**–**	**–**	**29,394**	**213,673**

(Thousands of Euros)

29. Segment information (continued)

Geographical information (continued)

	2013									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	5,440	–	–	6,500	–	5,119	–	–	2,986	**20,045**
Deposits with banks and other financial institutions	25,475	–	–	–	–	16,015	–	–	–	**41,490**
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	–	–	151	**151**
Investment securities:										
- available-for-sale	61,673	7,712	12,324	–	–	1,679	–	–	46,488	**129,876**
- held-to-maturity	–	5,910	–	–	–	–	–	–	–	**5,910**
Long-term loans to banks less allowances for impairment.	20,058	–	–	–	–	23,522	15,215	–	–	**58,795**
Loans to customers less allowances for impairment	–	5,775	–	7,915	–	23,935	–	–	–	**37,625**
Assets	**112,646**	**19,397**	**12,324**	**14,415**	**–**	**70,270**	**15,215**	**–**	**49,625**	**293,892**
Liabilities										
Due to banks and other financial institutions	35,021	9,446	–	–	–	5,119	–	–	–	**49,586**
Liabilities	**35,021**	**9,446**	**–**	**–**	**–**	**5,119**	**–**	**–**	**–**	**49,586**

Other countries include members of the Organization for Economic Development (OECD).

(Thousands of Euros)

30. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as at 31 December 2014 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

2014	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Financial liability*	
Financial assets						
Financial assets pledged under repurchase agreements	56,537	–	56,537	–	(41,320)	**15,217**
Total	56,537	–	56,537	–	(41,320)	15,217
Financial liabilities						
Repurchase agreements with banks	41,320	–	41,320	–	(41,320)	–
Total	**41,320**	**–**	**41,320**	**–**	**(41,320)**	**–**

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as at 31 December 2013 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

2013	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*	*Net amount*
				Cash collateral received	
Financial assets					
Cash and cash equivalents	20,045	–	20,045	(5,119)	**14,926**
Total	**20,045**	**–**	**20,045**	**(5,119)**	**14,926**
Financial liabilities					
Due to banks and other financial institutions	49,586	–	49,586	(5,119)	**44,467**
Total	**49,586**	**–**	**49,586**	**(5,119)**	**44,467**

31. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(Thousands of Euros)

31. Related party disclosures (continued)

Transactions and settlements with related parties were carried out on conditions similar to those, which prevail in transactions between independent parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for 2014 and 2013 are as follows:

		2014		***2013***	
	Related party	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Balance sheet					
Current customer accounts	Key management personnel	369	–	120	1.5

		2014	***2013***
	Related party	***Income/ (expense)***	***Income/ (expense)***
Income statement			
Interest expense on current customer accounts	Key management personnel	(42)	(14)
Employee benefits	Key management personnel	(1,451)	(1,134)
Compensation for travel expenses and medical insurance	Key management personnel	(71)	(84)
		(1,564)	**(1,232)**

32. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of the credit institutions and is estimated as ratio of capital base to risk weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank’s Council.

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 31 December 2014, this minimum level was 8% (2013: 8%).

Besides, taking into account the Bank’s status as the multilateral development institution and the structure of the Bank’s member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as of 31 December 2014 (2013: 25%).

From 2013 the Group monitors the capital adequacy ratio, computed in accordance with the Basel Capital Accord (commonly known as Basel II) as defined in the International Convergence of Capital Measurement and Capital Standards and Amendment to the Capital Accord to incorporate market risks.

(Thousands of Euros)

32. Capital adequacy (continued)

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II), as of 31 December 2014 and 31 December 2013.

	31 December 2014	***31 December 2013***
Capital		
Tier 1 capital	351,305	317,373
Tier 2 capital	33,871	32,370
Total regulatory capital	**385,176**	**349,743**
Risk-weighted assets		
Credit risk	384,656	163,875
Market risk	58,352	117,431
Operational risk	50,141	60,585
Total risk-weighted assets	**493,149**	**341,891**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	**78.11%**	**102.30%**
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")	**71.24%**	**92.83%**

(The end).

International Investment Bank

Consolidated financial statements

Year ended 31 December 2015
Together with Independent Auditors' Report

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Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report

To the Council of the International Investment Bank

We have audited the accompanying consolidated financial statements of the International Investment Bank (hereinafter the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Vneshaudit LLC

15 March 2016

Moscow, Russia

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

(Thousands of Euros)

	Note	*31 December 2015*	*31 December 2014*
Assets			
Cash and cash equivalents	5	59,519	65,918
Deposits with banks and other financial institutions	6	100,392	34,371
Financial assets at fair value through profit or loss	7	1,844	311
Available-for-sale investment securities	8	93,031	24,973
Available-for-sale investment securities pledged under repurchase agreements	8	23,028	13,903
Held-to-maturity investment securities	9	50,034	81,000
Held-to-maturity investment securities pledged under repurchase agreements	9	73,194	42,634
Long-term loans to banks	10	140,597	132,032
Loans to customers	11	165,742	108,276
Investment property	12	33,819	52,879
Property and equipment	13	66,393	53,207
Other assets	14	1,810	2,028
Total assets		**809,403**	**611,532**
Liabilities			
Due to banks and other financial institutions	15	113,373	58,669
Current customer accounts		7,430	4,788
Financial liabilities at fair value through profit or loss	7	29,898	21,705
Long-term loans of banks	16	44,187	20,540
Debt securities issued	17	212,724	112,759
Other liabilities	14	4,088	3,656
Total liabilities		**411,700**	**222,117**
Equity	20		
Subscribed capital		1,300,000	1,300,000
Callable capital		(996,947)	(1,027,382)
Paid-in capital		**303,053**	**272,618**
Revaluation reserve for available-for-sale investment securities	18	(1,664)	(999)
Revaluation reserve for property and equipment	3	31,453	35,095
Foreign currency translation reserve		(120)	(224)
Retained earnings less net income for the year		62,925	78,687
Net income for the year		2,056	4,238
Total equity		**397,703**	**389,415**
Total equity and liabilities		**809,403**	**611,532**

Signed and authorized for release on behalf of the Board of the Bank

Nikolay Kosov — Chairman of the Board

Eugeny Atanassov — Head of the Financial Department

15 March 2016

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2015

(Thousands of Euros)

	Note	*2015*	*2014*
Financial result from continuing operations			
Interest income	21	27,132	16,799
Interest expenses	21	(17,744)	(4,777)
Net interest income		**9,388**	**12,022**
Allowance for impairment of loans to customers	11	(6,166)	(3,572)
Net interest income after allowance for loan impairment		**3,222**	**8,450**
Fee and commission income		548	42
Fee and commission expense		(133)	(117)
Net fee and commission income/(expense)		**415**	**(75)**
Net losses from dealing in foreign currencies and operations with foreign currency derivatives		(11,963)	(17,993)
Net gains from revaluation of assets and liabilities in foreign currencies		22,983	20,354
Net gains from available-for-sale investment securities	21	3,204	5,165
Income from lease of investment property	12	5,214	8,116
Income from revaluation of investment property	12	(2,500)	257
Revenues from sales of inventory		–	3,569
Other expenses		(296)	(225)
Net non-interest income		**16,642**	**19,243**
Operating income		**20,279**	**27,618**
Reversal of allowance/(allowance) for impairment of other assets	14	89	(1,730)
General and administrative expenses	22	(16,908)	(16,931)
Cost of inventories sold		–	(4,305)
Other operating expenses		(1,404)	(414)
Operating expenses		**(18,223)**	**(23,380)**
Net income for the year		**2,056**	**4,238**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

(Thousands of Euros)

	Note	*2015*	*2014*
Net income for the year		**2,056**	**4,238**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Net unrealized losses on available-for-sale investment securities		(665)	(1,213)
Translation differences		104	995
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(561)**	**(218)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment	13	(3,642)	1,720
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**(3,642)**	**1,720**
Other comprehensive (loss)/income		**(4,203)**	**1,502**
Total comprehensive (loss)/income for the year		**(2,147)**	**5,740**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2013	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**(1,219)**	**78,687**	**352,372**
Profit for the year	–	–	–	–	–	4,238	**4,238**
Other comprehensive loss for the year	–	–	(1,213)	1,720	995	–	**1,502**
Total comprehensive income	–	–	**(1,213)**	**1,720**	**995**	**4,238**	**5,740**
Contributions to capital (Note 18)	–	31,303	–	–	–	–	**31,303**
At 31 December 2014	**1,300,000**	**(1,027,382)**	**(999)**	**35,095**	**(224)**	**82,925**	**389,415**
Profit for the year	–	–	–	–	–	2,056	**2,056**
Other comprehensive (income)/loss for the year	–	–	(665)	(3,642)	104	–	**(4,203)**
Total comprehensive income	–	–	**(665)**	**(3,642)**	**104**	**2,056**	**(2,147)**
Contributions to capital (Note 18)	–	30,435	–	–	–	(20,000)	**10,435**
At 31 December 2015	**1,300,000**	**(996,947)**	**(1,664)**	**31,453**	**(120)**	**64,981**	**397,703**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

(Thousands of Euros)

	Note	*2015*	*2014*
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		17,498	8,495
Interest, fees and commissions paid		(1,497)	(1,342)
Realised gains less losses from dealing in foreign currencies and operations with foreign currency derivatives		(5,420)	3,426
Cash flows from lease of investment property		5,214	8,116
General and administrative expenses		(15,814)	(16,592)
Other operating expenses on banking operations		(932)	(426)
Cash flows from operating activities before changes in operating assets and liabilities		**(951)**	**1,677**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(76,379)	10,857
Long-term loans to banks		(5,904)	(70,127)
Loans to customers		(61,048)	(72,944)
Other assets		401	6,744
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		60,572	6,978
Current customer accounts		2,618	1,452
Other liabilities		135	(541)
Net cash flows from operating activities		**(80,556)**	**(115,904)**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(245,442)	(295,580)
Proceeds from sale and redemption of available-for-sale investment securities		166,802	284,823
Purchase of held-to-maturity investment securities		–	(7,139)
Proceeds from redemption of held-to-maturity investment securities		20,868	5,626
Investments in investment property		(33)	(154)
Acquisition of property and equipment		(2,764)	(1,817)
Net cash flows from investing activities		**(60,569)**	**(14,241)**
Cash flows from financing activities			
Long-term interbank financing raised		21,448	17,852
Long-term interbank financing repaid		(1,123)	(262)
Placement of bonds		184,399	131,070
Redemption of bonds		(78,725)	(1,846)
Contributions to capital		10,435	31,303
Net cash flows from financing activities		**136,434**	**178,117**
Effect of exchange rate changes on cash and cash equivalents		(1,708)	(2,099)
Net increase in cash and cash equivalents		**(6,399)**	**45,873**
Cash and cash equivalents, beginning		**65,918**	**20,045**
Cash and cash equivalents, ending	5	**59,519**	**65,918**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

(Thousands of Euros)

1. Principal activities

These consolidated financial statements include the financial statements of the International Investment Bank (the "Bank") and its subsidiaries. The Bank and its subsidiaries are hereinafter referred together as the "Group". The International Investment Bank is the parent company of the Group. The list of the Bank's subsidiaries is presented in Note 2.

The Bank was founded in 1970 and has operated since 1 January 1971. The Bank is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

The Group had an average of 237 staff employees during 2015 (2014: 179).

On 31 July 2014, the EU Council imposed sectoral sanctions against Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover Russia-based institutions with international status established by intergovernmental agreements in which Russia is one of the parties. Therefore, International Investment Bank is not subject to the restrictive measures.

Despite the existing difficult international environment and the risk of unpredictable deterioration in 2015 of the financial climate in the country where the Bank‘s head office is located, the Bank continues to expand its operations.

- Hungary re-entered the Bank. At the 102nd meeting of the IIB's Council (Sofia, 20-21 November 2014), member countries unanimously approved the Hungary's re-entering the Bank. In May 2015, Hungary completed all the required domestic procedures and became a full-fledged member of the Bank by making a contribution to its share capital. At the end of 2015, Hungary's share in the IIB's paid-in capital was EUR 30 million.
- As a result of the Hungary's re-entering, the respective share of the Russian Federation fell below 50% and was 49.5%. The share of the EU countries grew up to 47%.
- The program for the additional capitalization of the Bank announced during the 99th meeting of the IIB's Council is about to be completed: in December 2015, Mongolia made its contribution of EUR 0.43 million.
- In April 2015, the Bank opened its first European regional office in Bratislava with the assistance of the Ministry of Finance of the Slovak Republic.
- The Banks continues to implement a new corporate governance structure and introduce the respective changes to its constituent documents: The Protocol on introducing changes to the Agreement on the Establishment of the IIB and the Statutes elaborated in May 2014 has been signed by all member countries, and the respective ratification procedures have been implemented.
- The Bank is assigned the following investment grade ratings: BBB- (outlook stable) by Fitch Ratings and Baa1 (outlook stable) by Moody’s. In October 2015, the Bank was assigned the A rating (outlook stable) by Dagong Global Credit Rating. The IIB became the first international financial institution that was rated by the Chinese agency.
- The Bank continues to improve its risk management system.
- The Bank's operations have been diversified on a country-by-country basis due to the implementation of projects practically in all member countries (or with their participation).
- Loan tools continue to undergo modification. For example, the Bank has focused on providing syndicated lending together with leading financial institutions. The first bank guarantee has been issued.
- In 2015, the IIB sold additional issues of its securities in Russia, completed offering procedures with regard to securities of previous issues, made the first national currency-denominated issue in Romania, received long-term loans from banks, including funds from Credit Suisse, soft financing from Eximbank Slovakia, and funds from Bulgarian partners.

(Thousands of Euros)

1. Principal activities (continued)

Member countries of the Bank

The member countries of the Bank include (share in the paid-in capital of the Bank, %):

Member countries	***2015*** *%*	***2014*** *%*
Russian Federation	49.505	55.031
Republic of Bulgaria	13.926	15.481
Czech Republic	10.023	11.142
Hungary	9.899	–
Slovak Republic	7.088	7.880
Romania	6.089	6.769
Republic of Cuba	1.769	1.966
Socialist Republic of Vietnam	1.211	1.346
Mongolia	0.490	0.385
	100.000	**100.000**

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case, the Bank must settle all obligations to the relevant member country.

The member countries of the Bank may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

Conditions of the Bank's financial and business operations in the member countries

In the member countries, the Bank is not subject to taxation and enjoys all privileges available to diplomatic representations.

The Bank is not subject to regulation by the Central Banks of the member countries, including the country of residence.

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

The accompanying consolidated financial statements reflect the management's assessment of the impact of the member countries' business environment on the results of operations and financial position of the Group. Future evolution of the conditions in which the Group operates may differ from the assessment made by the management for the purposes of these consolidated financial statements.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), approved by the International Accounting Standards Board.

Subsidiary

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012) as at 31 December 2014. The share capital of the subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Bank made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand. During 2015, the share capital of the subsidiary was decreased by EUR 7,138 thousand.

(Thousands of Euros)

2. Basis of preparation (continued)

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

Euro ("EUR") is the Group's functional and presentation currency as it reflects the economic substance of the underlying operations conducted by the Group and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Group are denominated in EUR.

These consolidated financial statements are presented in thousands of Euros ("Thousands of Euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Group, since the Group does not have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact on the Group's accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar".
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 25 to these consolidated financial statements, as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

IFRS 13 Fair Value Measurement

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Group recorded adjustments based on revaluation of the buildings owned by the Group during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

Meaning of 'Effective IFRSs' – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

Foreign currency transactions

The consolidated financial statements are presented in Euro, which is the Group's functional and presentation currency. Every currency except Euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net gains/(losses) from foreign currencies". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Group's exchange rate on the date of the transaction are included in "Net gains/(losses) from dealing in foreign currencies".

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights (interest), or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated income statement, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses from change in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets (continued)

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the separate statement of financial position. Securities borrowed are not recorded in the separate statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the separate income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net (losses)/gains from foreign currencies dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Leases (continued)

Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement over the lease term within net non-interest income on "Income from lease of investment property". The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that may be related to defaults.

Short-term and long-term amounts due from banks and other credit institutions and loans to customers

For amounts due from banks and other credit institutions, long-term loans to banks and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If there is an objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the assets' value in the consolidated statement of financial position and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The value of the asset in the consolidated statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount of asset based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If amounts previously written off are later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset is provided at a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group determines at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the separate income statement; increases in their fair value after impairment are recognized in other comprehensive income.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statements.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the consolidated statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the consolidated income statement.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investment property

Investment property is a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Group and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

Intangible assets include computer software.

Intangible assets acquired by the Group are recognized in the consolidated financial statements at their acquisition cost.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

In accordance with amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed in the consolidated financial statements, when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Other fee and commission income*

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Segment reporting

The reportable segments of the Group comprise the following operating segments: Credit and investment activity, Treasury, Other operations.

Standards issued but not yet effective

The standards issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles of IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity’s rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 becomes effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* which replaces IAS 17 *Leases*. The standard introduces new requirements for recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after 1 January 2019.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27 – Equity Method in Consolidated Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their consolidated financial statements. Entities already applying IFRS and electing to change to the equity method in its consolidated financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its consolidated financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group currently considers whether to apply these amendments for preparation of its consolidated financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. In December 2015, the IASB decided to postpone the date of entry into force of the amendments for an indefinite period.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 – Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual improvements, 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment is effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 7 Financial Instruments: Disclosure – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods". The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively and is effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment is effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 34 Interim Financial Reporting – disclosure of information "elsewhere in the interim financial report"

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Group's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant uses of judgments and estimates are as follows:

Allowance for impairment of loans and other financial assets carried at amortized cost

Financial assets are recorded in the Group's consolidated statement of financial position less allowances for impairment. The Group regularly reviews its financial assets to assess impairment. When assessing impairment losses, the Group uses its professional judgment in relation to objective evidences that future contractual cash flows on financial asset shall decrease. These evidences may include information on financial difficulties of the borrower or other observable data on adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The Group uses its professional judgment to adjust observable data for financial assets to reflect current circumstances. Impairment loss may be reversed only if a subsequent increase of estimated contractual cash flows can be objectively related to an event occurring after the impairment loss was recognized.

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 24.

Impairment of available-for-sale equity securities

The Group determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

Fair values of buildings and investment property

As disclosed in Note 3, the Group applies the fair value model with regard to investment property. Buildings included in fixed assets are stated at revalued amount.

As for buildings within property and equipment, the Group monitors the compliance of the present value of buildings with their fair value and performs revaluation to ensure that there are no significant differences. Changes in the fair value are recognized in other comprehensive income. The most recent revaluation of the Group's building was carried out as at 31 December 2015 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation technique may differ from the prices of actual transactions in the real estate market. Starting from 31 December 2015, the revalued building is depreciated in accordance with the remaining useful life.

As for investment property, the Group monitors changes in its fair value at each reporting date to ensure that the present value of investment property does not differ materially from its fair value. Changes in the fair value of investment property are recognized in the consolidated income statement. The most recent revaluation of the Group's investment property was carried out as at 31 December 2015 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation technique may differ from the prices of actual transactions in the real estate market. The Group believes that as at 31 December 2015, the fair value of investment property did not change significantly.

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is presented in the following notes:

- Note 7 – Financial liabilities at fair value through profit or loss.
- Note 8 – Available-for-sale investment securities.
- Note 10 – Long-term loans to banks.
- Note 11 – Loans to customers.
- Note 12 – Investment property.
- Note 13 – Property and equipment.
- Note 19 – Contingencies and lending commitments.

(Thousands of Euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	*2014*
Cash on hand	**66**	**392**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	–	11
Credit rating from A- to A+	21,106	13,377
Credit rating from BBB- to BBB+	3,059	25
Credit rating from BB- to BB+	350	–
Total Nostro accounts with banks and other financial institutions	**24,515**	**13,413**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from AA- to AA+	–	16,464
Credit rating from A- to A+	–	8,232
Credit rating from BBB- to BBB+	18,304	255
Credit rating from BB- to BB+	16,634	10,005
Credit rating from B- to B+	–	17,157
Total short-term deposits with banks	**34,938**	**52,113**
Cash and cash equivalents	**59,519**	**65,918**

Cash and cash equivalents are neither impaired, nor past due.

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	2015	*2014*
Term deposits with banks		
Credit rating from A- to A+	15,067	–
Credit rating from BBB- to BBB+	–	3,479
Credit rating from BB- to BB+	6,049	432
Credit rating from B- to B+	79,276	30,460
Deposits with banks and other financial institutions	**100,392**	**34,371**

Amounts due from the National Bank of the Republic of Cuba

	2015	*2014*
Term deposits with the National Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the National Bank of the Republic of Cuba	**–**	**–**

Concentration of deposits with banks and other financial institutions

As at 31 December 2015, the Group had one counterparty (31 December 2014: one counterparty) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

(Thousands of Euros)

7. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

Foreign currency transactions

The table below shows the fair value of derivative financial instruments as at 31 December 2015 and 31 December 2014 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	31 December 2015				
	Notional amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Swaps	12,136,720 RUB'000	185,914 EUR'000	65.28	–	29,034
	110,300 RON'000	24,972 EUR'000	4.42	–	864
	61,000 EUR'000	64,982 USD'000	1.07	1,775	–
Term transactions	30,000 EUR'000	32,721 USD'000	1.09	69	–
Financial instruments at fair value through profit or loss				**1,844**	**29,898**

	31 December 2014				
	Notional amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Swaps	3,700,000 RUB'000	67,565 EUR'000	54.76	–	16,494
Term transactions	1,930,050 RUB'000	30,000 EUR'000	64.34	–	4,155
	2,800 EUR'000	195,020 RUB'000	69.65	311	–
	33,000 EUR'000	41,345 USD'000	1.25	–	1,056
Financial instruments at fair value through profit or loss				**311**	**21,705**

Due to issuing bond loans denominated in currencies other than the Group's functional currency (Note 17), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis with large international and Russian credit institutions. These swaps are used to regulate long-term currency risks of the Group. Payment netting is not applied to the parties' obligations in respect of interest and principal payments.

The notional amount, recorded gross, is the amount of a derivative's underlying asset and liability and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the reporting period and are not indicative of the credit risk.

(Thousands of Euros)

7. Financial instruments at fair value through profit or loss (continued)

Foreign currency transactions (continued)

As at 31 December 2015 and 31 December 2014, the Group has positions in the following types of derivatives:

Forwards: Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps: Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Fair value measurement is based on the corresponding forward curves that depend on exchange rates, interest rates and swap contract maturity. For the fair value of swaps, the discount rate was calculated on the basis of zero coupon yield curve and credit risk. Changes in the fair value of swaps were mainly due to the increase in the forward EUR to RUB exchange rate.

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2015	*2014*
Owned by the Group		
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	93,027	11,202
Bonds of regional governments	–	3,395
Government bonds of member countries and bonds of regional governments	**93,027**	**14,597**
Corporate bonds		
Credit rating from BBB- to BBB+	–	10,373
Corporate bonds	**–**	**10,373**
Total quoted debt securities	**93,027**	**24,970**
Quoted equity instruments		
No credit rating	4	3
Total quoted equity instruments	**4**	**3**
Available-for-sale investment securities	**93,031**	**24,973**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	21,646	13,903
Eurobonds by governments of member countries	**21,646**	**13,903**
Corporate bonds		
Credit rating from BBB- to BBB+	1,382	–
Corporate bonds	**1,382**	**–**
Total quoted available-for-sale debt securities pledged under repurchase agreements	**23,028**	**13,903**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2027 (31 December 2014: maturing in 2017-2024). The annual coupon rate for these bonds varies from 2.0% to 6.0% (2014: from 2.9% to 5.0%).

Corporate bonds are represented by the bonds issued by European development banks and banks of member countries, maturing in 2020 (31 December 2014: maturing in 2015-2020). The annual coupon rate for these bonds is 5.0% (31 December 2014: from 5.0% to 8.1%).

(Thousands of Euros)

9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	2015	*2014*
Owned by the Group		
Quoted debt securities		
Eurobonds issued by governments of member countries	1,272	11,951
Government bonds of member countries	**1,272**	**11,951**
Corporate bonds		
Credit rating from A- to A+	–	17,536
Credit rating from BBB- to BBB+	17,442	45,683
Credit rating from BB- to BB+	31,320	5,830
Corporate bonds	**48,762**	**69,049**
Total quoted held-to-maturity debt securities	**50,034**	**81,000**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	10,489	–
Government bonds of member countries	**10,489**	**–**
Corporate bonds		
Corporate bonds with credit rating BBB-	62,705	42,634
Total corporate bonds	**62,705**	**42,634**
Held-to-maturity investment securities pledged under repurchase agreements	**73,194**	**42,634**

Government bonds of member countries represent EUR-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2020 (31 December 2014: maturing in 2018-2020). The annual coupon rate for these bonds varies from 3.6% to 7.9% (31 December 2014: from 3.6% to 7.9%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2016-2023 (31 December 2014: maturing in 2016-2025). The annual coupon rate for these bonds varies from 3.0% to 7.9% (31 December 2014: from 3.4% to 7.9%).

10. Long-term loans to banks

During 2015 the Group continued its lending activities, being guided by the key priorities of the Development Strategy of the IIB. The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2015 and 2014, the Group provided long-term loans to banks operating in the following countries:

	2015	*2014*
Russian Federation	64,223	89,874
Mongolia	43,044	26,986
Socialist Republic of Vietnam	33,330	15,172
Total long-term loans to banks	**140,597**	**132,032**

As at 31 December 2015 and 31 December 2014, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

(Thousands of Euros)

10. Long-term loans to banks (continued)

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 31 December 2015 and 31 December 2014:

	2015		*2014*	
	Long-term loans to banks	*Share in the total loans, %*	*Long-term loans to banks*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	6,933	4.9	5,964	4.5
Uncollateralized part of the loans	133,664	95.1	126,068	95.5
	140,597	**100.0**	**132,032**	**100.0**

The amounts shown in the table above represent the carrying amount of the portfolio of long-term loans to banks, and do not necessarily represent the fair value of the collateral.

Concentration of long-term loans to banks

As at 31 December 2015, long-term loans to five banks (31 December 2014: five banks) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Group‘s balance sheet. As at 31 December 2015, the total amount of such major loans was EUR 85,238 thousand (31 December 2014: EUR 85,049 thousand) and no impairment allowances (31 December 2014: no allowances) has been made for them.

11. Loans to customers

The Group issued loans to customers operating in the following countries:

	2015	*2014*
Republic of Bulgaria	57,917	31,094
Russian Federation	28,160	2,646
Romania	25,844	5,958
Slovak Republic	23,437	48,345
Mongolia	21,890	23,822
Other	18,249	–
Loans to customers	**175,497**	**111,865**
Less: allowance for loan impairment	(9,755)	(3,589)
Loans to customers	**165,742**	**108,276**

The information on the overdue loans as at 31 December 2015 and 31 December 2014 is stated below:

	2015	*2014*
Loans with overdue principal and/or interest	14,858	8,107
Less: allowance for loan impairment	(9,755)	(3,589)
Overdue loans to customers	**5,103**	**4,518**

As at 31 December 2015 and 31 December 2014, there were no overdue but not impaired loans.

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2015	**3,589**	**–**	**3,589**
Net (reversal)/charge for the period	(589)	6,755	**6,166**
At 31 December 2015	**3,000**	**6,755**	**9,755**
Individual impairment	**3,000**	**6,755**	**9,755**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,755**	**14,858**

(Thousands of Euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Russian Federation	*Republic of Bulgaria*	*Slovak Republic*	*Total*
At 1 January 2014	–	–	–	–
Net charge/(reversal) for the period	(2)	(15)	3,589	**3,572**
Recoveries	2	15	–	**17**
At 31 December 2014	**–**	**–**	**3,589**	**3,589**
Individual impairment	**–**	**–**	**3,589**	**3,589**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**	**8,107**	**8,107**

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2015 and 31 December 2014:

	2015		*2014*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, % %*
Pledge of real property (mortgage) and title	35,896	21.6	29,508	27.3
Pledge of equipment and goods in turnover	31,530	19.0	1,706	1.6
Pledge of shares	29,952	18.1	25,947	24.0
Pledge of right of claim	18,492	11.2	12,517	11.6
Uncollateralized part of the loans	49,872	30.1	38,598	35.6
Total loans to customers	**165,742**	**100.0**	**108,276**	**100.0**

Analysis of collateral for loans to customers

The amounts shown in the table above represent the carrying amount of the customer loan portfolio, and do not necessarily represent the fair value of the collateral.

Concentration of loans to customers

As at 31 December 2015, loans to two borrowers (2014: four) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded on the Group‘s balance sheet. As at 31 December 2015, these loans comprised EUR 40,991 thousand (2014: EUR 65,405 thousand) in total and no impairment allowances (2014: no allowances) has been made for them.

Analysis of loans to customers by industry

The Group issued loans to borrowers operating in the following industries:

	2015	*2014*
Leasing	44,114	19,427
Chemical production	22,743	–
Manufacturing of electrical equipment	21,208	–
Construction of buildings	21,076	20,948
Transport	15,001	–
Pipeline transportation	14,688	25,080
Crude oil refining	9,989	–
Specialized construction	8,103	8,107
Food and beverage	7,569	9,443
Trading	5,418	2,646
Investing activities	4,942	–
Production of vehicles	348	14,892
Communication service	–	11,056
Other	298	266
	175,497	**111,865**
Less: allowance for loan impairment	(9,755)	(3,589)
Total loans to customers	**165,742**	**108,276**

(Thousands of Euros)

12. Investment property

In 2015 and 2014, the following changes occurred in the cost of property under operating lease:

	2015	*2014*
At 1 January	**52,879**	**53,480**
Inseparable improvements	33	154
Transfers in the property and equipment	(16,593)	(1,012)
Effect of revaluation	(2,500)	257
Carrying amount at 31 December	**33,819**	**52,879**

The Group rents part of the building under operating lease agreements. In 2015, the Group's income from lease of investment property amounted to EUR 5,214 thousand (2014: EUR 8,116 thousand).

As at 31 December 2015, the fair value of investment property is determined based on the results of valuation performed on 31 December 2015. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of investment property as at 31 December 2015 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 24.

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2015 and 31 December 2014 would be as follows:

	2015	*2014*
Cost	20,264	29,486
Accumulated depreciation	(8,092)	(11,360)
Net book value	**12,172**	**18,126**

The Group has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

13. Property and equipment

The movements in property and equipment for the year ended 31 December 2015 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Capital expenditure*	*Total*
Cost or revalued amount							
At 1 January 2015	**50,806**	**7,069**	**3,255**	**486**	**923**	**766**	**63,305**
Inseparable improvements	52	–	–	–	–	–	**52**
Additions	–	–	–	–	–	1,780	**1,780**
Transfers from the investment property	16,593	–	–	–	–	–	**16,593**
Transfers		179	670	4	102	(955)	**–**
Disposals	–	(175)	(322)	(18)	(217)	–	**(732)**
Recovery of accumulated depreciation upon revaluation	(1,002)	–	–	–	–	–	**(1,002)**
Effect of revaluation	(3,642)	–	–	–	–	–	**(3,642)**
At 31 December 2015	**62,807**	**7,073**	**3,603**	**472**	**808**	**1,591**	**76,354**
Accumulated depreciation							
At 1 January 2015	**(67)**	**(6,523)**	**(2,591)**	**(319)**	**(598)**	**–**	**(10,098)**
Charge for the period	(935)	(176)	(341)	(24)	(96)	–	**(1,572)**
Disposals	–	152	322	16	217	–	**707**
Recovery of accumulated depreciation upon revaluation	1,002	–	–	–	–	–	**1,002**
At 31 December 2015	**–**	**(6,547)**	**(2,610)**	**(327)**	**(477)**	**–**	**(9,961)**
Net book value							
At 31 December 2014	**50,739**	**635**	**664**	**167**	**325**	**766**	**53,207**
At 31 December 2015	**62,807**	**526**	**993**	**145**	**331**	**1,591**	**66,393**

(Thousands of Euros)

13. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2014 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Capital expenditure*	*Total*
Cost or revalued amount							
At 1 January 2014	**49,398**	**7,329**	**2,858**	**497**	**749**	–	**60,831**
Inseparable improvements	149	–	–	–	–	–	**149**
Additions	–	180	475	51	215	766	**1,687**
Transfers from the investment property	1,012	–	–	–	–	–	**1,012**
Disposals	–	(440)	(78)	(62)	(41)	–	**(621)**
Recovery of accumulated depreciation upon revaluation	(1,473)						**(1,473)**
Effect of revaluation	1,720	–	–	–	–	–	**1,720**
At 31 December 2014	**50,806**	**7,069**	**3,255**	**486**	**923**	**766**	**63,305**
Accumulated depreciation							
At 1 January 2014	**(757)**	**(6,768)**	**(2,381)**	**(357)**	**(568)**	**–**	**(10,831)**
Charge for the period	(783)	(195)	(288)	(20)	(71)	–	**(1,355)**
Disposals	–	440	78	58	41	–	**617**
Recovery of accumulated depreciation upon revaluation	1,473	–	–	–	–	–	**1,473**
At 31 December 2014	**(67)**	**(6,523)**	**(2,591)**	**(319)**	**(598)**	**–**	**(10,098)**
Net book value							
At 31 December 2013	**48,641**	**561**	**477**	**140**	**181**	**–**	**50,000**
At 31 December 2014	**50,739**	**546**	**664**	**167**	**325**	**766**	**53,207**

As at 31 December 2015, the cost of fully depreciated property and equipment still used by the Group was EUR 7,977 thousand (31 December 2014: EUR 8,834 thousand).

As at 31 December 2015, the fair value of a group of buildings owned by the Group is determined based on the results of valuation performed on 31 December 2015. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of a group of buildings as at 31 December 2015 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of property and equipment refer to Note 24.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2015 and 31 December 2014 would be as follows:

	2015	***2014***
Cost	37,635	28,327
Accumulated depreciation	(15,029)	(10,880)
Net book value	**22,606**	**17,447**

(Thousands of Euros)

14. Other assets and liabilities

Other assets comprise:

	2015	*2014*
Other accounts receivable	2,256	2,900
Advance payments and future period expenses	1,144	841
Inventories – real estate objects	43	50
	3,443	**3,791**
Less: allowance for impairment of accounts receivable	(1,633)	(1,763)
Other assets	**1,810**	**2,028**

The movements in other impairment allowance are as follows:

	2015	*2014*
Allowance at 1 January	**1,763**	**411**
Net (reversal)/charge for the year	(89)	1,730
Change in allowance resulting from changes in exchange rates	(41)	(378)
Allowance at 31 December	**1,633**	**1,763**

Other liabilities comprise:

	2015	*2014*
Other accounts payable	2,971	2,482
Settlements with employees	1,067	931
Deferred income	50	243
Other liabilities	**4,088**	**3,656**

15. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	2015	*2014*
Term deposits of banks and other financial institutions	49,238	19,783
Repurchase agreements	64,756	41,320
Due to banks and other financial institutions	**113,994**	**61,103**

The Group performs daily monitoring of the repurchase agreements and the value of collateral when placing/returning additional collateral, if necessary.

Concentration of deposits from banks and other financial institutions

As at 31 December 2015, the Group has two counterparties (31 December 2014: four counterparties) accounting for over 20% of the Group's total deposits from banks and other financial institutions in the amount of EUR 87,788 thousand (31 December 2014: EUR 53,669 thousand).

(Thousands of Euros)

16. Long-term loans of banks

As at 31 December 2015, the Group received three long-term loans in the amount of EUR 44,187 thousand granted the Bank maturing in April 2016, June 2017 and May 2020 (31 December 2014: April 2016). The Group raised long-term loans from banks operating in the following countries:

	31 December 2015	*31 December 2014*
Russian Federation	22,953	20,540
Republic of Bulgaria	13,740	–
Slovak Republic	7,494	–
Long-term loans of banks	**44,187**	**20,540**

17. Debt securities issued

On 29 April 2015, the Group placed RUB-denominated bonds, series 02, in the amount of RUB 3 billion (EUR 51,633 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 13.25% p.a. and is payable twice a year, with the first coupon payment to be paid on 28 October 2015. As at 30 September 2015, issued RUB-denominated bonds, series 02, recorded at amortized cost amounted to EUR 43,020 thousand. The Group used the proceeds from the offerings for expanding its loan portfolio.

In June 2015 the Group repurchased RUB-denominated bonds for the total amount of RUB 2.31 billion (EUR 39,283 thousand) under investor put option and set a new coupon rate at 12.00% p.a. for the coupon periods 2-5. In September 2015 the Group made a secondary placement of RUB-denominated bonds of these series among investors in the amount of RUB 2.31 billion (EUR 31,487 thousand). Therefore, all RUB-denominated bonds, series 03, are outstanding again.

On 14 October 2015 the Group issued bonds denominated in Romanian lei in the amount of 111.0 million lei (EUR 25,133,000), maturing in three years. The coupon rate on the bonds was set at 4.1% p.a., payable annually, with the first coupon payment to be made on 14 October 2016.

In October 2015 the Group redeemed ruble-denominated bonds, series 01, worth a total of RUB 1.51 billion (EUR 21,315,000), in connection with an investor put option and set a new coupon rate of 12.00% p.a. for coupon periods 2 through 5.

On 19 November 2015, the Group issued ruble-denominated bonds, series 04, in the amount of RUB 5 billion (EUR 72,362,000), maturing on the 3,640th day after the date of issue. The coupon rate on the bonds was set at 11.9% p.a., payable semiannually, with the first coupon payment to be made on 19 May 2016.

At the dates of placement of RUB-denominated bonds, the Group entered into cross-currency interest rate swaps and a currency forward for the purpose of regulating currency risks (Note 7).

18. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 thousand which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank‘s member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

As at 31 December 2015, unpaid portion of the Bank's subscribed capital in the amount of EUR 996,947 thousand (31 December 2014: EUR 1,027,382 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2014: EUR 296,900 thousand).

(Thousands of Euros)

18. Equity (continued)

Subscribed and paid-in capital (continued)

On 18 May 2015, the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity to resume its full membership. In accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Bank added EUR 10,000 thousand to the contribution of Hungary out of retained earnings for the previous years. On 29 July in accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Bank fulfilled its obligations to transfer the second payment in the amount of EUR 10,000 thousand out of retained earnings for the previous years as Hungary's additional contribution to the Bank's share capital.

On 28 December 2015, the Government of Mongolia met its obligation, assumed at the 99th IIB Council Meeting, to provide additional capitalization for the Bank. The Bank received EUR 434,800 as part of Mongolia's additional contribution to the Bank's authorized capital.

As a result, the paid-in capital of the International Investment Bank totaled EUR 303,053 thousand (31 December 2014: EUR 272,618 thousand).

Revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment

The movements in the revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2014	**214**	**33,375**
Net unrealized gains on available-for-sale investment securities	3,952	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,165)	–
Revaluation of buildings	–	1,720
At 31 December 2014	**(999)**	**35,095**
Net unrealized gains on available-for-sale investment securities	2,539	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,204)	–
Revaluation of buildings	–	(3,642)
At 31 December 2015	**(1,664)**	**31,453**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

(Thousands of Euros)

19. Contingencies and loan commitments

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group. In accordance with the Agreement on the establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

The Group takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights. When the estimated amount of costs resulting from the Group's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Group holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

Insurance

The Group obtained insurance coverage for a group of buildings, equipment and car park as well as liability insurance against damages caused by operating assets of a hazardous nature. However, the Group did not obtain insurance coverage related to temporarily discontinued operations or the Group's obligations to third parties.

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 31 December 2015, commitments and contingencies of the Group comprised off-balance credit-related commitments, in particular undrawn loan facilities and reimbursement obligations.

Off-balance credit-related commitments are presented in the table below as at 31 December 2015 and 31 December 2014.

	2015	***2014***
Undrawn loan facilities	52,376	69,296
Guarantees issued	4,556	–
Reimbursement obligations	6,796	–
Total off-balance commitments	**63,728**	**69,296**

20. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 31 December 2015, the Group's non-cancellable operating lease rentals amount to EUR 5,938 thousand (31 December 2014: EUR 4,742 thousand) and will be settled within 1 year.

(Thousands of Euros)

21. Interest income and interest expense

Net interest income comprises:

	2015	*2014*
Available-for-sale investment securities and held-to-maturity investment securities	8,109	5,813
Loans to customers	8,022	3,932
Long-term loans to banks	7,058	4,793
Deposits with banks and other financial institutions, including cash and cash equivalents	3,943	2,261
Interest income	**27,132**	**16,799**
Debt securities issued	(14,812)	(3,405)
Long-term loans of banks	(1,247)	(417)
Funds raised under repurchase agreements	(819)	(208)
Due to banks and other financial institutions	(609)	(601)
Current customer accounts	(257)	(146)
Interest expenses	**(17,744)**	**(4,777)**
Net interest income	**9,388**	**12,022**

In 2015, interest income accrued on impaired loans to customers amounted to EUR 185 thousand (2014: EUR 192 thousand).

22. General and administrative expenses

General and administrative expenses comprise:

	2015	*2014*
Employee compensations and employment taxes	11,471	11,405
IT-expenses, inventory and occupancy expenses	1,293	1,447
Depreciation of property and equipment (Note 13)	1,572	1,357
Expenses related to business travel, representative and accommodation expenses	1,277	1,309
Professional services	466	1,008
Other	829	405
General and administrative expenses	**16,908**	**16,931**

23. Risk management

Risk management framework

The Group's risk management policy is based on the conservative approach and is mainly aimed at mitigation of adverse impact of risks on the Group's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The conservative approach assumes that the Group does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

The Group's risk management activities are intended to:

- Identify, analyze and manage risks faced by the Group.
- Establish ratios and limits that restrict level of the appropriate types of risks.
- Monitor the level of the risk and its compliance with established limits.
- Develop and implement regulative and methodological documents as well as software applications that ensure the professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing situation on the global financial markets.

(Thousands of Euros)

23. Risk management (continued)

Risk management framework (continued)

Integrated into the whole vertical organizational structure of the Group and all areas of the Group's activities, the risk management system makes it possible to identify in a timely manner and effectively manage different types of risks.

Risk management involves all of the Group's divisions in evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st line of defense): the Group's divisions directly preparing and conducting transactions, involved in the identification, assessment, and monitoring of risks and comply with internal regulations on risk management, as well as give due consideration to the risk level in the preparation of transactions.
- Risk management (2nd line of defense): the division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements.
- Internal audit (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

The Group's operations are managed taking into account the level of the risk appetite approved by the Council and integrated into a system of limits and restrictions insuring the acceptable level of risk for aggregated positions, transparent distribution of total risk limit between the activities of the Group.

The Bank's Council, the Board, the Finance Committee, the Credit Committee and the Risk Management Department are responsible for managing the Group's risks.

The Bank's Council is responsible for the general control over the risk management system, determines its development strategy and sets strategic limits and risk appetite.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Council. The Board ensures co-operation among all departments and committees of the Bank.

The Finance Committee determines the Bank's approaches to forming the optimal structure of the Bank's balance sheet, taking into account information of current and expected level of risks associated with assets and liabilities management within the established limits and other restrictions. It also ensures management and control over the credit risk, market risk, operational risk, reputational risk, legal risk and liquidity risk and reviews the limit-setting offers.

Risk management system

The Credit Committee manages the Bank's loan portfolio in accordance with its effective lending policy, aligns operation of the Bank's divisions in terms of the credit risk management and also reviews the offers for setting credit risk limits in respect of certain counterparties.

Committees meet on a regular basis and provide to the Board their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Group’s performance.

During 2015 further development of the risk management system, started in 2013, was aimed at implementation of Basel standards and best practices of development banks within the Group:

- New methodological and regulatory documents relating to credit and operational risk management have been elaborated.
- The Group continued to implement the target model of the risk management system, based on requirements of the leading rating agencies.

(Thousands of Euros)

23. Risk management (continued)

Risk management system (continued)

In compliance with the existing procedures, twice a year the Group sets and reviews limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, the Group continuously monitors the level of its loan assets risk. During the reporting period, the Bank sent its specialists to certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of impairment of loan assets.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Bank's limits applied to transactions on money, currency and equity markets, as well as structural limits and stop-loss limits. In addition, the Group's management receives regular reports on the status of risks within the Group.

Risk appetite

The risk appetite is the aggregate amount of risk taken by the Group to achieve its strategic goals and objectives. By approving the level of risk appetite, the Bank’s Council determines the willingness to accept a risk or the amount of equity and liquidity that the Bank is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

- ► The allocation of capital and liquidity (if necessary).
- ► Target allocation of capital across the main types of risk.
- ► The level of risk and target risk appetite in the context of the main performance indicators of the Group and significant risks for the Group.
- ► Determining levels of tolerance.

The procedure for determining the Group's risk appetite shall be defined by the Credit Risk Management Department and submitted for review by the Board and approval by the Council of the Bank.

The risk appetite shall be approved by the Council of the Bank on an annual basis for the next year and shall be a major factor of the Group's strategic limits determining the thresholds for the Group's key performance indicators and the Group's significant risks.

In determining the risk appetite, the Group assesses whether the specified risk appetite is acceptable in the current time period and whether it will be acceptable in the future, taking into account:

- ► Expectations of the founders concerning the level of profitability.
- ► International regulatory standards.
- ► Current and expected future volume of transactions.
- ► Current and expected future structure of significant risks.
- ► Current and expected future level of aggregate capital.

Based on the risk appetite determined by the Council, the Board annually approves the Group's limits, sublimits, and risk indicators, which should not exceed the target values of the risk appetite.

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group's exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of the Finance Committee and, if necessary, also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

(Thousands of Euros)

23. Risk management (continued)

Risk assessment, management and control

The Group's risk exposure is primarily reduced by means of collective decision making. Strict allocation of responsibilities between departments and officers of the Group, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and, if necessary, updated by the Group in order to reflect changed market conditions and improve the risk management methodology.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment.
- Exercising control over the Group's exposure by means of compliance with the established limits, regular assessment of the Group's risk exposure, and internal audit of risk management systems.

The Group identifies the following major risks inherent in its various activities:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk.

Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Group, or discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as consolidated borrower or counterparty default risk.

System of credit risk management

The Group's regulatory documents establish the following:

- Procedures to review and approve loan/credit applications
- Methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies
- Requirements to the credit documentation
- Procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee establishes the limits per borrower/group of related borrowers. The Credit Committee structures the transaction to minimize credit risk. The Loan Operations Analysis Department is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit it is reviewed by the Credit Committee, and then it is approved by the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the counterparty's share capital and for the period of up to 7 years. Direct credit risks exposures exceeding the specified amount or the period of 7 years should be approved by the Bank's Council.

The corporate loan/credit application and appropriate project documents are reviewed by the Customer Relations Department. In case of a positive decision, the set of documents from the Loan Operations Analysis Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Development and Analysis Department, Internal Audit Department and Compliance Control Department. For the purpose of comprehensive analysis of the loan/credit application received from the Credit Department, the Legal Department, Security Department and Risk Management Department jointly prepare Description of the Investment Transaction. The loan/credit application is subject to review by the Credit Committee based on the Credit Department's Description of the Investment Transaction, report of the Security Department and Strategic Development and Analysis Department, report on risks of the Risk Management Department and compulsory judgment of the Legal Department in respect of the legal compliance of the proposed transaction. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application by the Credit Committee; Step 2 includes making decision by the Board of the Bank (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Board of the Bank to the member countries in order to obtain the final approval from the country of origin of the borrower; Step 4 includes making decision by the Council of the Bank (if such issue falls within its competence).

(Thousands of Euros)

23. Risk management (continued)

Credit risk (continued)

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration by industry.

To mitigate credit risk, the Group limits concentrations of exposure to individual customers, counterparties and issuers, groups of related customers, counterparties and issuers as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer's most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower's internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- Pledge of equipment and goods in turnover;
- Pledge of real estate (mortgage) and title;
- Pledge of rights of demand and construction.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs. Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). Where the market value of the collateral is assessed as impaired, the borrowers are usually required to provide additional collateral.

Portfolio of long-term loans to banks and other financial institutions and customers (less allowance for impairment) by type of collateral is analyzed in Notes 10 and 11.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where the financial instruments are recorded at fair value, their carrying amount represents the current credit risk exposure but not the maximum credit risk exposure that could arise in the future as a result of changes in values.

Analysis of credit risk concentration by customers' industry is presented in Note 11.

Maximum credit risk exposure by credit related commitment represents all the amount of these commitments (Note 19).

(Thousands of Euros)

23. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit quality per class of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

Assessment of credit quality of loans is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the customer's financial position, payment discipline, credit history, compliance with business plan and production discipline, additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, industry specifics and country rating.

As at 31 December 2015 and 31 December 2014, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard. The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 31 December 2015 and 31 December 2014:

2015	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	64,223	–	64,223	–
- *Mongolia*	43,044	–	43,044	–
- *Socialist Republic of Vietnam*	33,330	–	33,330	–
	140,597	**–**	**140,597**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Republic of Bulgaria*	51,162	–	51,162	–
- *Russian Federation*	28,160	–	28,160	–
- *Romania*	25,844	–	25,844	–
- *Mongolia*	21,890	–	21,890	–
- *Slovak Republic*	15,334	–	15,334	–
- *Other*	18,249	–	18,249	–
Uncollectible loans				
- *Slovak Republic*	8,103	(3,000)	5,103	37
- *Republic of Bulgaria*	6,755	(6,755)	–	100
	175,497	**(9,755)**	**165,742**	**5.6**
Total loans	**316,094**	**(9,755)**	**306,339**	**3.1**

(Thousands of Euros)

23. Risk management (continued)

Credit risk (continued)

2014	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	89,874	–	89,874	–
- *Mongolia*	26,986	–	26,986	–
- *Socialist Republic of Vietnam*	15,172	–	15,172	–
	132,032	**–**	**132,032**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Slovak Republic*	40,238	–	40,238	–
- *Republic of Bulgaria*	31,094	–	31,094	–
- *Mongolia*	23,822	–	23,822	–
- *Romania*	5,958	–	5,958	–
- *Russian Federation*	2,646	–	2,646	–
Uncollectible loans				
- *Slovak Republic*	8,107	(3,589)	4,518	44
	111,865	**(3,589)**	**108,276**	**3**
Total loans	**243,897**	**(3,589)**	**240,308**	**–**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

Impairment assessment

The Group creates allowance for impairment of loans that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for impairment of loans only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the borrower's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Due to a limited number of borrowers, the Group considers each loan as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, or more frequently, unless unforeseen circumstances require more careful attention.

The total amount of impairment allowance is approved by the Credit Committee on a monthly basis.

(Thousands of Euros)

23. Risk management (continued)

Liquidity risk

Liquidity risk is the risk of loss resulting from the Group's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from improper balance between the Group's financial assets and financial liabilities by period and amount (including due to untimely discharge of its financial obligations by one or several counterparties of the Group) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

Liquidity management is an integral part of general policy for the Group's assets and liabilities management (ALM) and operates within the established limits and restrictions related to management of risks (liquidity, interest rate and currency risk) and the Group's balance sheet items, and in accordance with the documents of strategic, tactic and operating planning.

Procedures for the Group's liquidity position management, ensuring the Group's ability to meet its obligations in full and on a timely basis and efficient resources management, are stipulated in the *Regulations for IIB's Liquidity Position Management* that enables the development of the liquidity position management function provided for by the *IIB's Assets and Liabilities Management Policy*, as an integral part of general function of the Group's management.

Decision making matrix related to liquidity management includes a strategic level of liquidity management (the Council), tactic level (the Board and special-purpose committees) and operational level (responsible structural divisions). In 2014, the Group updated its approaches to the assets and liabilities management. Starting from 2015, Department for Analytical Support of Treasury Operations (DASKO or ALM Unit) became responsible for organizing and aligning management of the Group's liquidity position. The Group manages its liquidity position in accordance with planning horizons (up to 6 months) and possible scenarios of movements in liquidity position (stable, stressed).

Main instrument of liquidity position management under the stable scenario is a Plan of cash flows defining the cash flow by balance sheet products/instruments and taking into account the plan of future financial operations. The Bank determines the balance sheet gaps, payment schedule and need in financing of future operations based on the Plan of cash flows. As a result of application of these instruments, DASKO issues appropriate recommendations to responsible structural divisions.

The Group has implemented a liquidity buffer to manage the Group's liquidity under the stressed scenario. Application of the liquidity buffer enables the Group to promptly monitor the sustainability and stability of the Group's balance sheet structure in case of liquidity shortage that is critical to the Group's solvency.

The liquidity buffer is formed primarily by liquidity reverses, namely securities recognized on the Group's balance sheet and included in the Lombard lists of the European Central Bank and Bank of Russia. The Group calculates its liquidity reserves as at the reporting date and for the next six monthly reporting dates (forecast). Liquidity buffer may be used to close the negative net position. As at 31 December 2015, the liquidity buffer amounts to EUR 65.1 mln (31 December 2014: EUR 64.6 mln).

The table below shows the contractual expiry by maturity of the Group’s off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	2015	***2014***
Less than 1 month	52,376	69,296
1 to 3 months	178	–
3 months to 1 year	7,254	–
1 to 5 years	3,920	–
Off-balance credit-related commitments	**63,728**	**69,296**

(Thousands of Euros)

23. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date: Quoted available-for-sale debt securities were included in "Less than 1 month" category as they are highly liquid investment securities, which the Group may sell in the short-term on the arm-length basis. Available-for-sale investment securities pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of respective contractual obligations of the Group.

	2015								*2014*							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets																
Cash and cash equivalents	59,519	–	–	–	–	–	–	**59,519**	65,918	–	–	–	–	–	–	**65,918**
Deposits with banks and other financial institutions	15,352	15,627	54,346	15,067	–	–	–	**100,392**	8,327	20,347	5,697	–	–	–	–	**34,371**
Financial assets at fair value through profit or loss	69	–	1,775	–	–	–	–	**1,844**	311	–	–	–	–	–	–	**311**
Available-for-sale investment securities	93,027	230	65	22,733	11,948	4	–	**116,059**	42	7,669	750	13,599	16,813	3	–	**38,876**
Held-to-maturity investment securities	64	972	2,981	76,728	30,535	–	–	**123,228**	70	942	1,146	39,791	81,685	–	–	**123,634**
Long-term loans to banks	–	3,160	41,112	76,374	19,951	–	–	**140,597**	–	1,531	13,139	117,362	–	–	–	**132,032**
Loans to customers	982	1,872	26,573	85,268	45,944	–	5,103	**165,742**	–	901	24,168	53,763	24,926	–	4,518	**108,276**
Other assets	69	81	473	–	–	–	–	**623**	58	75	994	10	–	–	–	**1,137**
Total assets	**169,082**	**21,942**	**127,325**	**276,170**	**108,378**	**4**	**5,103**	**708,004**	**74,726**	**31,465**	**45,894**	**224,525**	**123,424**	**3**	**4,518**	**504,555**
Liabilities																
Due to banks and other financial institutions	(28,421)	–	(20,196)	(64,756)	–	–	–	**(113,373)**	(45,436)	(13,233)	–	–	–	–	–	**(58,669)**
Current customer accounts	(7,430)	–	–	–	–	–	–	**(7,430)**	(4,788)	–	–	–	–	–	–	**(4,788)**
Financial liabilities at fair value through profit or loss	–	–	(16,191)	(13,707)	–	–	–	**(29,898)**	–	–	(21,705)	–	–	–	–	**(21,705)**
Long-term loans of banks	(102)	–	(24,529)	(19,556)	–	–	–	**(44,187)**	(97)	–	–	(20,443)	–	–	–	**(20,540)**
Debt securities issued	–	–	(40,111)	(172,613)	–	–	–	**(212,724)**	–	–	(82,884)	(29,875)	–	–	–	**(112,759)**
Other liabilities	(475)	(1,103)	(2,460)	–	–	–	–	**(4,038)**	(1,356)	(49)	(2,251)	–	–	–	–	**(3,656)**
Total liabilities	**(36,428)**	**(1,103)**	**(103,487)**	**(270,632)**	**–**	**–**	**–**	**(411,650)**	**(51,677)**	**(13,282)**	**(106,840)**	**(50,318)**	**–**	**–**	**–**	**(222,117)**
Net position	**132,653**	**20,839**	**23,838**	**5,538**	**108,378**	**4**	**5,103**	**296,354**	**23,049**	**18,183**	**(60,946)**	**174,207**	**123,424**	**3**	**4,518**	**282,438**
Accumulated net position	**132,653**	**153,493**	**177,331**	**182,869**	**291,247**	**291,251**	**296,354**		**23,049**	**41,232**	**(19,714)**	**154,493**	**277,917**	**277,920**	**282,438**	

(Thousands of Euros)

23. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group’s financial liabilities at 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations except for gross settled derivatives which are shown by contractual maturity. Debt securities with put options (offers) are presented as if investors will exercise their options at the earliest possible date. The Group expects that it will have to make payment on current bond offers.

As at 31 December 2015	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Financial liabilities					
Due to banks and other financial institutions	–	28,443	20,293	69,386	**118,122**
Current customer accounts	–	7,430	–	–	**7,430**
Net settled derivative liabilities	(69)	–	–	–	**(69)**
Gross settled derivative financial instruments					
- Contractual amounts payable	–	–	118,408	160,641	**279,049**
- Contractual amounts receivable	–	–	(117,884)	(151,321)	**(269,205)**
Long-term loans of banks	–	–	23,473	22,303	**45,776**
Debt securities issued	–	–	50,936	201,220	**252,156**
Other liabilities	475	1,103	2,460	–	**4,038**
Total undiscounted financial liabilities	**406**	**36,976**	**97,686**	**302,229**	**437,297**

As at 31 December 2014	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Financial liabilities					
Due to banks and other financial institutions	–	58,746	–	–	**58,746**
Current customer accounts	–	4,788	–	–	**4,788**
Net settled derivative liabilities	(310)	–	–	–	**(310)**
Gross settled derivative financial instruments					
- Contractual amounts payable	–	–	132,244	–	**132,244**
- Contractual amounts receivable	–	–	(113,142)	–	**(113,142)**
Long-term loans of banks	–	–	284	21,019	**21,303**
Debt securities issued	–	–	87,926	35,072	**122,998**
Other liabilities	1,356	518	2,493	–	**4,367**
Total undiscounted financial liabilities	**1,046**	**63,583**	**109,563**	**56,091**	**230,283**

Market risk

Market risk is the risk that the Group may incur losses due to adverse fluctuations in market rate of financial instruments, interest rates, foreign exchanges, and securities' prices. Market risk includes equity risk on securities, interest rate risk and currency risk.

The Group is exposed to market risk due to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

The Board of the Bank performs overall management of market risk.

The Finance Committee coordinates the Group's market risk management policy and reviews and provides recommendations on management of market risks to the Management Board.

The Treasury Department performs strategic management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits in order to increase the Group's income on a daily basis.

Currency risk and price risk

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies. Price risk is the risk that the fair values of securities decrease as the result of changes in the levels of indices and the value of individual securities.

(Thousands of Euros)

23. Risk management (continued)

Market risk (continued)

The Group applies a VaR methodology to assess currency and equity risks. VaR is a method used in measuring maximum risk of the Group, i.e. the level of losses on a certain position in relation to a financial instrument/currency/precious metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group assumes that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days. The assessment of value at risk in relation to currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

At estimating value at risk, the Group uses a parameter method, which allows assessing the volatility of yield on the basis of the most current market data.

The choice of a respective approach to value at risk estimation is made on the basis of data on statistical analysis of changes in fair values of financial instruments and exchange rates.

Selection period used by the Group for modeling purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of above-mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 31 December 2015 and 31 December 2014, final data on value at risk assessment (VaR) in relation to currency and price risks assumed by the Group are represented as follows:

	2015	*2014*
Fixed income securities price risk	1,536	364
Currency risk	126	945

Despite measurement of value at risk is a standard industry method for risk assessment, this method has a number of limitations:

- ► Analysis based on value at risk assessment is correct in case current market conditions remain unchanged.
- ► Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data.
- ► If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account.
- ► 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of value at risk assessment may be incorrect in case of market liquidity deterioration.

Fluctuations that may occur in the course of the day are not taken into account at calculating value at risk on the basis of the results of a business day.

(Thousands of Euros)

23. Risk management (continued)

Market risk (continued)

The Group's exposure to currency risk as at 31 December 2015 and 31 December 2014 is presented below:

	2015					*2014*				
	EUR	***USD***	***RUB***	***Other currencies***	***Total***	***EUR***	***USD***	***RUB***	***Other currencies***	***Total***
Assets										
Cash and cash equivalents	37,363	20,147	1,907	102	**59,519**	33,801	31,655	360	102	**65,918**
Deposits with banks and other financial institutions	99,990	–	402	–	**100,392**	32,895	1,044	432	–	**34,371**
Available-for-sale investment securities	89,426	26,633	–	–	**116,059**	32,355	6,521	–	–	**38,876**
Held-to-maturity investment securities	55,416	63,636	4,176	–	**123,228**	55,566	63,561	4,507	–	**123,634**
Long-term loans to banks	106,063	34,534	–	–	**140,597**	110,815	21,217	–	–	**132,032**
Loans to customers	124,751	40,991	–	–	**165,742**	108,276	–	–	–	**108,276**
Other assets	12	–	171	440	**623**	111	2	1,024	–	**1,137**
	513,021	**185,941**	**6,656**	**542**	**706,160**	**373,819**	**124,000**	**6,323**	**102**	**504,244**
Liabilities										
Due to banks and other financial institutions	(52,785)	(59,706)	(882)	–	**(113,373)**	(16,804)	(41,181)	(684)	–	**(58,669)**
Current customer accounts	(7,220)	(210)	–	–	**(7,430)**	(4,605)	(183)	–	–	**(4,788)**
Long-term loans of banks	(7,494)	(36,693)	–	–	**(44,187)**	–	(20,540)	–	–	**(20,540)**
Debt securities issued	(30,030)	–	(158,099)	(24,595)	**(212,724)**	(30,079)	–	(82,680)	–	**(112,759)**
Other liabilities	(3,103)	(51)	(852)	(32)	**(4,038)**	(2,879)	(74)	(703)	–	**(3,656)**
	(100,632)	**(96,660)**	**(159,833)**	**(24,627)**	**(381,752)**	**(54,367)**	**(61,978)**	**(84,067)**	**–**	**(200,412)**
Net balance sheet position	**412,389**	**89,281**	**(153,177)**	**(24,085)**	**324,408**	**319,452**	**62,022**	**(77,744)**	**102**	**303,832**
Derivative financial instruments										
Claims	61,068	–	156,879	24,108	**242,055**	33,310	–	76,915	–	**110,225**
Liabilities	(210,884)	(59,225)	–	–	**(270,109)**	(97,564)	(34,056)	–	–	**(131,620)**
Net balance sheet position including derivative financial instruments	**262,573**	**30,056**	**3,702**	**23**	**296,354**	**255,198**	**27,966**	**(829)**	**102**	**282,437**

(Thousands of Euros)

23. Risk management (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such fluctuations but may also reduce or create losses in the event that unexpected movements arise.

Analysis of the Group's equity sensitivity to changes in interest rates (based on simplified scenario of the 100 basis points (bp) parallel shifts (up and down) in yield curves and positions of available-for-sale debt securities as at 31 December 2015 and 31 December 2014) is as follows:

	2015	***2014***
	The Group's equity	***The Group's equity***
100 bp parallel shift up	(6,758)	(1,387)
100 bp parallel shift down	6,758	1,387

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Group's property.

Generally, the Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Group continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

24. Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Thousands of Euros)

24. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy.

	Valuation date	*Level 1 2015*	*Level 2 2015*	*Level 3 2015*	*Total 2015*
Assets measured at fair value					
Derivative financial assets	31 December 2015	–	1,844	–	**1,844**
Government bonds of member countries and bonds of regional governments	31 December 2015	114,673	–	–	**114,673**
Corporate bonds	31 December 2015	1,382	–	–	**1,382**
Quoted equity instruments	31 December 2015	–	4	–	**4**
Investment property	31 December 2015	–	–	33,819	**33,819**
Property and equipment - buildings	31 December 2015	–	–	62,807	**62,807**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2015	–	29,898	–	**29,898**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	–	–	59,519	**59,519**
Deposits with banks and other financial institutions	31 December 2015	–	–	100,392	**100,392**
Held-to-maturity investment securities	31 December 2015	114,876	–	–	**114,876**
Long-term loans to banks	31 December 2015	–	–	139,891	**139,891**
Loans to customers	31 December 2015	–	–	165,742	**165,742**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2015	–	–	113,373	**113,373**
Current customer accounts	31 December 2015	–	–	7,430	**7,430**
Long-term loans of banks	31 December 2015	–	–	44,187	**44,187**
Debt securities issued	31 December 2015	–	214,734	–	**214,734**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2014:

	Valuation date	*Level 1 2014*	*Level 2 2014*	*Level 3 2014*	*Total 2014*
Assets measured at fair value					
Derivative financial assets	31 December 2014	–	311	–	**311**
Government bonds of member countries and bonds of regional governments	31 December 2014	28,500	–	–	**28,500**
Corporate bonds	31 December 2014	10,373	–	–	**10,373**
Quoted equity instruments	31 December 2014	–	3	–	**3**
Investment property	31 December 2014	–	–	52,879	**52,879**
Property and equipment - buildings	31 December 2014	–	–	50,739	**50,739**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2014	–	21,705	–	**21,705**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	–	–	65,918	**65,918**
Deposits with banks and other financial institutions	31 December 2014	–	–	34,371	**34,371**
Held-to-maturity investment securities	31 December 2014	99,872	–	–	**99,872**
Long-term loans to banks	31 December 2014	–	–	126,485	**126,485**
Loans to customers	31 December 2014	–	–	108,276	**108,276**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2014	–	–	58,669	**58,669**
Current customer accounts	31 December 2014	–	–	4,788	**4,788**
Long-term loans of banks	31 December 2014	–	–	20,540	**20,540**
Debt securities issued	31 December 2014	–	106,351	–	**106,351**

(Thousands of Euros)

24. Fair values of financial instruments (continued)

Fair value of financial assets and liabilities not recorded at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2015	*Fair value 2015*	*Unrecognized gain/(loss) 2015*	*Carrying amount 2014*	*Fair value 2014*	*Unrecognized gain/(loss) 2014*
Financial assets						
Cash and cash equivalents	59,519	59,519	–	65,918	65,918	–
Deposits with banks and other financial institutions	100,392	100,392	–	34,371	34,371	–
Held-to-maturity investment securities	123,228	114,876	(8,352)	123,634	99,872	(23,762)
Long-term loans to banks	140,957	139,891	(706)	132,032	126,485	(5,547)
Loans to customers	165,742	165,742	–	108,276	108,276	–
Financial liabilities						
Due to banks and other financial institutions	113,373	113,373	–	58,669	58,669	–
Current customer accounts	7,430	7,430	–	4,788	4,788	–
Long-term loans of banks	44,187	44,187	–	20,540	20,540	–
Debt securities issued	212,724	214,734	(2,010)	112,759	106,351	6,408
Total unrecognized change in unrealized fair value			**(11,068)**			**(22,901)**

Fair value measurements

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted derivatives, investment property, and buildings, and for non-recurring measurement, such as inventories.

External appraisers are involved for valuation of significant assets, such as building and property. Involvement of external appraisers is decided upon by the Bank's Finance Department. Unquoted derivatives are measured by the Finance Department.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

In the course of audit procedures, the Bank's Finance Department presents the valuation results to the Group's independent auditors upon requests. This includes a discussion of the major assumptions used in the valuations.

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not recorded at fair value in these financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that at 31 December 2015 and 31 December 2014 the fair value of deposits with banks and other financial institutions, and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the existing practice of renegotiating interest rates to reflect current market conditions, and, therefore, a majority of balances carry interest at rates approximating market interest rates.

(Thousands of Euros)

24. Fair values of financial instruments (continued)

Methodologies and assumptions (continued)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates at their initial recognition with current market rates for similar financial instruments.

The estimated fair value of fixed rate long-term loans to banks, loans to customers, and deposits in banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. Management has estimated that at 31 December 2015 and 31 December 2014 the fair value of loans to customers and long-term loans of banks was not significantly different from their respective carrying amount.

Investment property

The Group engages an independent appraiser for the investment property fair value measurement. As at the valuation date (31 December 2015), the fair values of investment property were based on the results of valuation performed by an accredited independent appraiser and the prices of market transactions using the market, cost and income approaches to fair value measurement.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less expenses related to vacant premises, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs, and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Property and equipment – buildings

Fair value of the properties was determined by using the market approach. This means that valuations performed by the appraiser are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the valuation date (31 December 2015), the properties' fair values are based on valuations performed by an accredited independent appraiser and the prices of market transactions using the market, cost and income approaches to fair value measurement.

Significant unobservable inputs used in determining the fair value of real estate properties

As at the valuation date (31 December 2015), the significant unobservable inputs used in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 2,899 per sq. m (range minimum) to EUR 4,023 per sq. m (range maximum), and lease rates ranging from EUR 365 per sq. m a year (minimum) to EUR 486 per sq. m a year (maximum).

There were no transfers of financial instruments between level 2 and level 1 in 2015 and 2014.

Movements in level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	At 1 January 2015	*Total gain/ (loss) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Transfer in property and equipment*	*At 31 December 2015*
Assets						
Property and equipment – buildings	50,739	(935)	(3,642)	52	16,593	62,807
Investment property	52,879	(2,500)	–	33	(16,593)	33,819
Total	**103,618**	**(3,435)**	**(3,642)**	**85**	**–**	**96,626**

(Thousands of Euros)

24. Fair values of financial instruments (continued)

Movements in level 3 assets and liabilities at fair value (continued)

	At 1 January 2014	*Total gain/ (loss) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Transfer in property and equipment*	*At 31 December 2014*
Assets						
Property and equipment – buildings	48,641	(783)	1,720	149	1,012	50,739
Investment property	53,480	257	–	154	(1,012)	52,879
Total	**102,121**	**(526)**	**1,720**	**303**	**–**	**103,618**

25. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Group under repurchase agreements in such a way that all the transferred financial assets do not qualify for derecognition:

	Available-for-sale investment securities		*Held-to-maturity investment securities*		
Transferred financial asset	*Government bonds of member countries 2015*	*Corporate bonds 2015*	*Government bonds of member countries 2015*	*Corporate bonds 2015*	*Total 2015*
Carrying amount of assets	21,646	1,382	10,489	62,705	**96,222**
Carrying amount of associated liabilities	(16,350)	(930)	(6,998)	(40,478)	**(64,756)**
Net position	**5,296**	**452**	**3,491**	**22,227**	**31,466**

	Available-for-sale investment securities		*Held-to-maturity investment securities*		
Transferred financial asset	*Government bonds of member countries 2014*	*Corporate bonds 2014*	*Government bonds of member countries 2014*	*Corporate bonds 2014*	*Total 2014*
Carrying amount of assets	13,903	–	–	42,634	**56,537**
Carrying amount of associated liabilities	(12,488)	–	–	(28,832)	**(41,320)**
Net position	**1,415**	**–**	**–**	**13,802**	**15,217**

Securities sold under repurchase agreements are transferred to a third party and the Group receives cash in exchange. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional collateral in the form of cash and/or other securities. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

The fair value of investment securities available for sale sold under repurchase agreements is equal to their carrying amount. The fair value of bonds classified as investments securities held to maturity and sold under repurchase agreements is disclosed in respective Notes (Note 24).

The related liabilities, which are recorded against the cash received for such transactions, are presented in amounts due to banks and other financial institutions in the consolidated statement of financial position as at 31 December 2015 (as at 31 December 2014: in amounts due to banks and other financial institutions).

(Thousands of Euros)

26. Segment information

For management purposes, the Group identifies the following three operating segments based on its lines of services:

Credit investment activity	Investment banking services, including long-term corporate and interbank financing
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments and foreign currency, and liquidity management
Other operations	Operational leasing services, other operations

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. The following table presents income, profit, assets and liabilities of the Group's operating segments:

2015	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	15,080	11,904	148	**27,132**
Net gains from available-for-sale investment securities	–	3,204	–	**3,204**
Net gains from held-to-maturity investment securities		45		**45**
Income from lease of investment property	–	–	5,214	**5,214**
Recovery of provision	–	–	89	**89**
Other segment income	460	–	79	**539**
Total income	**15,540**	**15,153**	**5,530**	**36,223**
Interest expenses	(7,260)	(10,484)	–	**(17,744)**
Net losses from trading in foreign currencies	–	(5,302)	(25)	**(5,327)**
Allowance for impairment of loans	(6,166)	–	–	**(6,166)**
Net gains from revaluation of investment property	–	–	(2,500)	**(2,500)**
Other segment expenses	–	(114)	(1,344)	**(1,458)**
Segment results	**2,114**	**(747)**	**1,661**	**3,028**
Other unallocated income				**15,936**
Other unallocated expenses				**(16,908)**
Profit for the year				**2,056**
Segment assets	306,339	400,201	102,863	**809,403**
Segment liabilities	116,138	291,474	4,088	**411,700**
Other segment information				
Capital expenditures	–	–	85	**85**

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(Thousands of Euros)

26. Segment information (continued)

2014	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	8,725	7,966	108	**16,799**
Net gains from trading in foreign currencies	–	3,426	–	**3,426**
Net gains from available-for-sale investment securities	–	5,165	–	**5,165**
Income from lease of investment property	–	–	8,116	**8,116**
Recovery of provision	–	–	17	**17**
Net gains from revaluation of investment property	–	–	257	**257**
Revenue from sales of inventories	–	–	3,569	**3,569**
Other segment income	42	–	280	**322**
Total income	**8,767**	**16,557**	**12,347**	**37,671**
Interest expenses	(1,622)	(3,155)	–	**(4,777)**
Allowance for impairment of loans	(3,589)	–	–	**(3,589)**
Losses from impairment of investments in subsidiary	–	–	(4,305)	**(4,305)**
Other segment expenses	(47)	(640)	(5,120)	**(5,807)**
Segment results	**3,509**	**12,762**	**2,922**	**19,193**
Other unallocated income				**1,976**
Other unallocated expenses				**(16,931)**
Profit for the year				**4,238**
Segment assets	240,308	262,399	108,825	**611,532**
Segment liabilities	56,569	161,892	3,656	**222,117**
Other segment information				
Capital expenditures	–	–	303	**303**

In 2015 and 2014, the Group’s revenue from lease operations with one external counterparty exceeded 20% of the Group’s total revenue (2015: EUR 3,196 thousand; 2014: EUR 5,718 thousand).

Geographical information

Allocation of the Group’s revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the years ended 31 December 2015 and 31 December 2014 is presented in the table below:

	2015				*2014*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income	12,147	11,721	3,264	**27,132**	7,987	8,096	716	**16,799**
Income from lease of investment property	5,214	–	–	**5,214**	8,116	–	–	**8,116**
Revenue from sales of inventories					3 569	–	–	**3,569**
Non-current assets	100,212	–	–	**100,212**	106,086	–	–	**106,086**

Non-current assets include property and equipment, and investment property.

(Thousands of Euros)

26. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's assets and liabilities based on the location of the Group's counterparties as at 31 December 2015 is presented below:

	2015									
	Russian Federation	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Hungary***	***Mongolia***	***Socialist Republic of Vietnam***	***Czech Republic***	***Other countries***	***Total***
Assets										
Cash and cash equivalents	2,026	219	17	15	–	–	–	–	57,242	**59,519**
Deposits with banks and other financial institutions	6,049	–	–	–	–	30,539	–	–	63,804	**100,392**
Financial instruments at fair value through profit or loss	669	–	–	–	–	–	–	–	1,175	**1,844**
Investment securities:										
- available-for-sale	–	26,889	31,150	13,208	12,056	13,746	11,506	6,118	1,386	**116,059**
- held-to-maturity	105,785	–	–	–	–	–	–	–	17,443	**123,228**
Long-term loans to banks less allowances for impairment	64,223	–	–	–	–	43,044	33,330	–	–	**140,597**
Loans to customers less allowances for impairment	28,160	51,162	25,844	20,437	–	21,890	–	–	18,249	**165,742**
Assets	**206,912**	**78,270**	**57,011**	**33,660**	**12,056**	**109,219**	**44,836**	**6,118**	**159,299**	**707,381**
Liabilities										
Due to banks and other financial institutions	992	–	–	7,508	–	–	–	20,086	84,787	**113,373**
Financial instruments at fair value through profit or loss	18,723	–	864	–	–	–	–	–	10,311	**29,898**
Long-term loans of banks	22,953	13,740	–	7,494	–	–	–	–	–	**44,187**
Long-term securities issued	158,067	–	24,557	30,100	–	–	–	–	–	**212,724**
Liabilities	**200,735**	**13,740**	**25,421**	**45,102**	**–**	**–**	**–**	**20,086**	**95,098**	**400,182**

(Thousands of Euros)

26. Segment information (continued)

Geographical information (continued)

	2014									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	23,698	–	–	8,241	–	–	–	16,464	17,515	**65,918**
Deposits with banks and other financial institutions	432	–	–	–	–	30,460	–	–	3,479	**34,371**
Financial instruments at fair value through profit or loss	311	–	–	–	–	–	–	–	–	**311**
Investment securities:										
- available-for-sale	10,381	14,642	2,584	1,177	–	1,948	1,702	3,567	2,875	**38,876**
- held-to-maturity	106,097	–	–	–	–	–	–	–	17,537	**123,634**
Long-term loans to banks less allowances for impairment	89,874	–	–	–	–	26,986	15,172	–	–	**132,032**
Loans to customers less allowances for impairment	2,646	31,094	5,958	44,756	–	23,822	–	–	–	**108,276**
Assets	**233,439**	**45,736**	**8,542**	**54,174**	**–**	**83,216**	**16,874**	**20,031**	**41,406**	**503,418**
Liabilities										
Due to banks and other financial institutions	–	29,837	–	–	–	–	–	–	28,832	**58,669**
Financial instruments at fair value through profit or loss	21,143	–	–	–	–	–	–	–	562	**21,705**
Long-term loans of banks	20,540	–	–	–	–	–	–	–	–	**20,540**
Long-term securities issued	82,679	–	–	30,080	–	–	–	–	–	**112,759**
Liabilities	**124,362**	**29,837**	**–**	**30,080**	**–**	**–**	**–**	**–**	**29,394**	**213,673**

Other countries include members of the Organization for Economic Co-operation and Development (OECD).

(Thousands of Euros)

27. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 31 December 2015:

2015	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	96,222	–	96,222	(64,756)	–	**31,466**
Total	**96,222**	**–**	**96,222**	**(64,756)**	**–**	**31,466**
Financial liabilities						
Repurchase agreements with banks	64,756	–	64,756	(64,756)	–	–
Total	**64,756**	**–**	**64,756**	**(64,756)**	**–**	**–**

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position as at 31 December 2014 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

2014	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	56,537	–	56,537	(41,320)	–	**15,217**
Total	**56,537**	**–**	**56,537**	**(41,320)**	**–**	**15,217**
Financial liabilities						
Repurchase agreements with banks	41,320	–	41,320	(41,320)	–	–
Total	**41,320**	**–**	**41,320**	**(41,320)**	**–**	**–**

28. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and settlements with related parties were carried out on conditions similar to those which prevail in transactions between independent parties.

(Thousands of Euros)

28. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for 2015 and 2014 are as follows:

		31 December 2015		*31 December 2014*	
	Related party	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Consolidated statement of financial position					
Current customer accounts	Key management personnel	493	–	369	–

		2015	***2014***
	Related party	***Income/ (expense)***	***Income/ (expense)***
Consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(95)	(42)
Employee benefits	Key management personnel	(1,524)	(1,451)
Compensation for travel expenses and medical insurance	Key management personnel	(89)	(71)
		(1,708)	**(1,564)**

29. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of credit institutions and is estimated as ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Council.

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 31 December 2015, this minimum level was 8% (2014: 8%).

Besides, taking into account the Bank's status as the multilateral development institution as well as the structure of the Bank's member countries and the respective decision of the Council, the capital adequacy ratio was set for the Bank at the level of not less than 25% as at 31 December 2015 (2014: 25%).

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II) as at 31 December 2015 and 31 December 2014.

	2015	***2014***
Capital		
Tier 1 capital	365,978	351,305
Tier 2 capital	29,789	33,871
Total regulatory capital	**395,767**	**385,176**
Risk-weighted assets		
Credit risk	560,094	384,656
Market risk	70,461	58,352
Operational risk	55,548	50,141
Total risk-weighted assets	**686,103**	**493,149**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	57.68%	78.11%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	53.34%	71.24%

(Thousands of Euros)

30. Events after the reporting period

On 9 March, in accordance with the Memorandum of Understanding signed at the 102nd IIB Council Meeting (20-21 November 2014), Hungary fully met its obligation to contribute EUR 10,000,000 to the Bank's authorized capital. As a result, the paid-in capital of the International Investment Bank came to EUR 313,053,000, and Hungary increased its share to 12.78%.

(The end)

International Investment Bank

Interim condensed consolidated financial statements

Six months ended 30 June 2015

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Report on the review of interim condensed consolidated financial statements

To the Council of the International Investment Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of the International Investment Bank and its subsidiaries (the "Group"), which comprise interim condensed consolidated statement of financial position as at 30 June 2015, the related interim condensed consolidated statements of income and comprehensive income for the six-month then ended, interim condensed consolidated statements of changes in equity and cash flows for the six-month then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

CJSC Ernst & Young Vneshaudit

20 August 2015

Moscow, Russia

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

(Thousands of euros)

	Note	*30 June 2015 (unaudited)*	*31 December 2014*
Assets			
Cash and cash equivalents	5	55,410	65,918
Deposits with banks and other financial institutions	6	59,840	34,371
Financial assets at fair value through profit or loss	7	674	311
Available-for-sale investment securities	8	70,790	24,973
Available-for-sale investment securities pledged under repurchase agreements	8	18,569	13,903
Held-to-maturity investment securities	9	95,291	81,000
Held-to-maturity investment securities pledged under repurchase agreements	9	33,873	42,634
Long-term loans to banks	10	129,657	132,032
Loans to customers	11	126,350	108,276
Inventories – real estate property		56	50
Investment property		52,890	52,879
Property and equipment		53,608	53,207
Other assets	12	4,917	1,978
Total assets		**701,925**	**611,532**
Liabilities			
Due to banks and other financial institutions	13	96,043	58,669
Financial liabilities at fair value through profit or loss		14,103	21,705
Current customer accounts		5,077	4,788
Long-term loans from banks		43,382	20,540
Debt securities issued	15	139,777	112,759
Other liabilities	12	4,030	3,656
Total liabilities		**302,412**	**222,117**
Equity	16		
Subscribed capital		1,300,000	1,300,000
Callable capital		(1,007,382)	(1,027,382)
Paid-in capital		**292,618**	**272,618**
Revaluation reserve for available-for-sale investment securities		(2,885)	(999)
Revaluation reserve for property and equipment		35,095	35,095
Foreign currency translation reserve		511	(224)
Retained earnings less net income for the period		72,925	78,687
Net income for the period		1,249	4,238
Total equity		**399,513**	**389,415**
Total equity and liabilities		**701,925**	**611,532**

Signed and authorized for release on behalf of the Board of the Bank

Nikolay Kosov — Chairman of the Board

Eugeny Atanassov — Managing Director of the Financial Department

20 August 2015

The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2015

(Thousands of euros)

	Note	*For the six-month period ended 30 June (unaudited)* 2015	2014
Financial result from continuing operations			
Interest income	19	12,139	7,491
Interest expenses	19	(7,607)	(1,209)
Net interest income		**4,532**	**6,282**
(Allowance)/reversal of allowance for impairment of loans to customers	11	(3,595)	(3,574)
Net interest income/(expense) after allowance for loan impairment		**937**	**2,708**
Fee and commission income		85	31
Fee and commission expense		(65)	(29)
Net fee and commission income		**20**	**2**
Net income from derivatives		14,060	2,630
Net loss from revaluation of assets and liabilities in foreign currencies		(9,916)	(2,828)
Net gain from available-for-sale investment securities		2,375	4,650
Income from lease of investment property		3,085	4,091
Revenue from sale of inventories		–	579
Other income/(expense)		53	51
Net non-interest income		**9,657**	**9,173**
Operating income		**10,614**	**11,883**
Reversal of allowance for impairment of other assets		–	1
General and administrative expenses	20	(8,375)	(8,349)
Cost of inventories sold		–	(609)
Other operating expenses		(990)	(194)
Operating expenses		**(9,365)**	**(9,151)**
Profit/(loss) before income tax		**1,249**	**2,732**
Income tax		–	–
Net income/(loss) for the period		**1,249**	**2,732**

The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 6 months ended 30 June 2015

(Thousands of euros)

		For the six-month period ended 30 June (unaudited)	
	Note	***2015***	***2014***
Net income/(loss) for the period		**1,249**	**2,732**
Other comprehensive (loss)/income			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods			
Movements in unrealized (losses)/gains on available-for-sale investment securities		(1,886)	(850)
Translation differences		735	(186)
Net other comprehensive (loss)/ income to be reclassified to profit or loss in subsequent periods		**(1,151)**	**(1,036)**
Other comprehensive (loss)/income		**(1,151)**	**(1,036)**
Total comprehensive (loss)/income for the period		**98**	**1,696**

The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

(Thousands of euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 1 January 2014	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**(1,219)**	**78,687**	**352,372**
Income for the period	–	–	–	–	–	2,732	**2,732**
Other comprehensive loss for the period	–	–	(850)	–	(186)	–	**(1,036)**
Total comprehensive (loss)/income	**–**	**–**	**(850)**	**–**	**(186)**	**2,732**	**1,696**
Callable capital withdrawal (Note 16)	–	16,294	–	–	–	–	**16,294**
At 30 June 2014 (unaudited)	**1,300,000**	**(1,042,391)**	**(636)**	**33,375**	**(1,405)**	**81,419**	**370,362**
At 1 January 2015	**1,300,000**	**(1,027,382)**	**(999)**	**35,095**	**(224)**	**82,925**	**389,415**
Income for the period	–	–	–	–	–	1,249	**1,249**
Other comprehensive loss for the period	–	–	(1,886)	–	735	–	**(1,151)**
Total comprehensive (loss)/income	**–**	**–**	**(1,886)**	**–**	**735**	**1,249**	**98**
Callable capital withdrawal (Note 16)	–	20,000	–	–	–	(10,000)	**10,000**
At 30 June 2015 (unaudited)	**1,300,000**	**(1,007,382)**	**(2,885)**	**35,095**	**511**	**74,174**	**399,513**

The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

(Thousands of euros)

	Note	*For the six-month period ended 30 June (unaudited)* 2015	2014
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		7,688	3,599
Interest, fees and commissions paid		(437)	(426)
Net receipts/(payments) from trading with foreign currencies		6,106	(384)
Cash flows from lease of investment property		3,085	4,091
General and administrative expenses		(6,760)	(6,813)
Other operating expenses on banking operations		(468)	(145)
Cash flows from operating activities before changes in operating assets and liabilities		**9,214**	**(78)**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(26,677)	(5,899)
Long-term loans to banks		4,301	(37,632)
Loans to customers		(21,140)	(13,939)
Other assets		(2,483)	658
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		34,510	6,429
Current customer accounts		274	831
Other liabilities		569	469
Net cash flows from operating activities		**(1,432)**	**(49,161)**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(150,049)	(241,980)
Proceeds from sale and redemption of available-for-sale investment securities		101,453	232,363
Proceeds from redemption of held-to-maturity investment securities		3,816	241
Investment in investment property		(12)	(21)
Acquisition of property and equipment		(1,044)	(573)
Net cash flows from investing activities		**(45,836)**	**(9,970)**
Cash flows from financing activities			
Raising long-term loans from banks		21,448	17,852
Redemption of long-term loans from banks		(327)	–
Issue of debt securities	15	51,633	40,441
Repayment and repurchase of debt securities issued		(45,239)	–
Contributions to paid-in capital	16	10,000	16,294
Net cash flows from financing activities		**37,515**	**74,587**
Effect of exchange rate changes on cash and cash equivalents		(755)	(548)
Net increase/(decrease) in cash and cash equivalents		**(10,508)**	**14,908**
Cash and cash equivalents, beginning		**65,918**	**20,045**
Cash and cash equivalents, ending	5	**55,410**	**34,953**

The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.

(Thousands of euros)

1. Principal activities

These interim condensed consolidated financial statements include the financial statements of the International Investment Bank (the “Bank”) and its subsidiaries. The Bank and its subsidiaries are hereinafter referred together as the “Group”. The International Investment Bank is the parent company of the Group. The list of the Bank’s subsidiaries is presented in Note 2.

The Bank is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the “Agreement”) and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

On 31 July 2014, the EU Council imposed sectoral sanctions against Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No. 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover Russia-based institutions with international status established by intergovernmental agreements with Russia as one of the shareholders. Therefore, the International Investment Bank is not subject to the restrictive measures.

Despite the complicated international environment and persisting instability of the external operating environment in the country where the Bank’s head office is located, the Group continues to expand its operations.

- The Bank continues to diversify the geography of its loan portfolio.
- In mid-January 2015, Fitch Ratings placed the IIB on Rating Watch Evolving. On 18 February 2015, the Bank’s investment-grade credit rating was confirmed at BBB-, with a stable outlook. Recognizing the IIB’s record of achievement, Fitch Ratings developed its ratings based on the Bank’s internal performance.
- On 19 March 2015, the international credit rating agency Moody’s changed the Bank’s rating from A3 to Baa1 with a stable outlook. The downgrading resulted from the deterioration of the Bank’s external environment and in particular the negative forecasts of economic growth in Russia (whose rating has been downgraded three times since August 2014) as well as in Bulgaria and Mongolia.
- On 14 April 2015, the first branch of the Bank, European Regional Subdivision, was opened in Bratislava (the Slovak Republic).
- In April 2015, the Bank issued a bond loan. The issue was made for RUB 3 billion.
- In May 2015, Hungary became a full-fledged member of the International Investment Bank having completed domestic procedures and made a contribution to the Bank’s charter capital, with its share in the paid-in capital totaling EUR 20 million or 6.8%.

Member countries of the Bank

The member countries of the Bank include (share in the paid-in capital of the Bank, %):

Member countries	*30 June 2015, %*	*31 December 2014, %*
Russian Federation	51.270	55.031
Republic of Bulgaria	14.423	15.481
Czech Republic	10.380	11.142
Slovak Republic	7.341	7.880
Hungary	6.835	–
Romania	6.307	6.769
Republic of Cuba	1.832	1.966
Socialist Republic of Vietnam	1.254	1.346
Mongolia	0.358	0.385
	100.000	**100.000**

(Thousands of euros)

1. Principal activities (continued)

Member countries of the Bank (continued)

In accordance with the Agreement, each member country of the Bank may withdraw from membership by giving notice to the Council of the Bank at least six months in advance. In this case the Bank must settle all obligations to the relevant member country.

The member countries of the Bank may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

The procedure of signing the Protocol on introducing changes to the Agreement on the Establishment of the IIB and the Statutes is at the closing stage (the Czech Republic, who announced that it would sign the Protocol soon, will close the procedure).

Conditions of the Bank's financial and business operations in the member countries

In the member countries, the Bank is not subject to taxation and enjoys all privileges available to diplomatic representations.

The Bank is not subject to regulation by the Central Banks of the member countries, including the country of residence.

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, that do not typically exist in developed markets.

The accompanying interim condensed consolidated financial statements reflect the management's assessment of the impact of the member countries' business environment on the results of operations and financial position of the Group. Future evolution of the conditions in which the Group operates may differ from the assessment made by the management for the purposes of these consolidated financial statements.

2. Basis of preparation

General

These interim condensed consolidated financial statements have been prepared for the six months ended 30 June 2015 in accordance with International Accounting Standard 34 *Interim Financial Reporting*, approved by the International Accounting Standards Board.

The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2014.

Subsidiaries

As at 30 June 2015, the Bank is a parent company of the Group which owns CJSC IIB Capital (a 100% subsidiary) established in 2012 to deal with issues related to the IIB activities in Russia including provision of trustee services to the Bank. The share capital of the subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Bank made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand. In June 2015, the subsidiary's charter capital was decapitalized in the amount of EUR 4,464 thousand.

(Thousands of euros)

2. Basis of preparation (continued)

Basis of measurement

These interim condensed consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period. Available-for-sale financial instruments are stated at fair value, and buildings and investment property are stated at revalued amounts.

Functional and presentation currency

In accordance with the Statutes of the Bank, the management has determined the Group's functional and presentation currency of the interim condensed consolidated financial statements to be the euro ("EUR") as it reflects the economic substance of the underlying operations conducted by the Group and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Group are denominated in EUR. The functional currency of the Group's subsidiary is the Russian ruble.

These interim condensed consolidated financial statements are presented in thousands of euros ("thousands of euros" or "EUR thousand"), unless otherwise indicated.

3. Changes in accounting policies

The accounting policies, calculation methods and basis of measurement adopted in the preparation of these interim condensed consolidated financial statements are consistent with those adopted and described in the consolidated financial statements of the Group for the year ended 31 December 2014, except for the adoption of new standards and interpretations as at 1 January 2015, noted below. The new standards, amendments and interpretations to the existing standards which have been issued but not yet effective were not adopted early by the Group.

The substance and effect of such changes are given below. Although these new standards and amendments apply for the first time in 2015, they do not have a material effect on the interim condensed separate financial statements of the Bank. The nature and the impact of each new standard or amendment are described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments are effective for annual periods beginning on or after 1 July 2014. These amendments had no impact on the Group, since the Group has defined benefit plans with contributions from employees or third parties.

Annual IFRS improvements: 2010-2012

These improvements are effective from 1 July 2014 The Group has applied these amendments for the first time in these interim condensed consolidated statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

(Thousands of euros)

3. Changes in accounting policies (continued)

Annual IFRS improvements: 2010-2012 (continued)

The above approaches are the same used by the Group to define performance and service conditions that are vesting conditions. Thus, this amendment does not impact the accounting policy of the Group.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, if applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar";
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group doesn't disclose reconciliation of segment assets to total assets in these interim condensed consolidated financial statements as the reconciliation is not reported to the chief operating decision maker for the purpose of her decision making.

IFRS 13 Short-term Receivables and Payables – amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued with reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current interim period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is not relevant to the Group as it does not receive any management services from other entities.

Annual IFRS improvements: 2011-2013

These improvements are effective from 1 July 2014. The Group has applied these amendments for the first time in these interim condensed consolidated statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not only joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

(Thousands of euros)

3. Changes in accounting policies (continued)

Annual IFRS improvements: 2011-2013 (continued)

The amendment is not relevant to the Bank and its subsidiaries, as the IIB Group is not a joint venture.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the exception provided in IFRS 13 for companies holding a group of financial assets and liabilities (portfolio) and managing this group as a whole.

IAS 40 Investment Property

The description of ancillary services in IAS 30 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

Meaning of 'Effective IFRS' – amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided that either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Group's accounting policies, management has made its professional judgments and used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and professional judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Assumptions and estimates adopted by the management of the Group in the process of applying the accounting policies are consistent with those described in the consolidated financial statements of the Group for the year ended 31 December 2014.

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is presented in the following notes:

- Note 7 – Financial liabilities at fair value through profit or loss;
- Note 8 – Available-for-sale investment securities;
- Note 11 – Loans to customers.

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(Thousands of euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Cash on hand	**108**	**392**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	–	11
Credit rating from A- to A+	549	13,377
Credit rating from BBB- to BBB+	18,914	25
Credit rating from BB- to BB+	66	–
No credit rating	773	–
Total Nostro accounts with banks and other financial institutions	**20,302**	**13,413**
Short-term deposits with banks		
Term deposits with banks		
Credit rating from AA- to AA+	–	16,464
Credit rating from A- to A+	–	8,232
Credit rating from BBB- to BBB+	–	255
Credit rating from BB- to BB+	15,933	10,005
Credit rating from B- to B+	19,067	17,157
Total short-term deposits with banks	**35,000**	**52,113**
Cash and cash equivalents	**55,410**	**65,918**

Cash and cash equivalents are neither impaired, nor past due.

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Term deposits with banks up to 1 year		
Credit rating from A- to A+	2,304	–
Credit rating from BBB- to BBB+	–	3,479
Credit rating from BB- to BB+	2,400	432
Credit rating B- to B+	55,136	30,460
Deposits with banks and other financial institutions	**59,840**	**34,371**

Amounts due from the National Bank of the Republic of Cuba

	30 June 2015 (unaudited)	*31 December 2014*
Term deposits with the National Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the National Bank of the Republic of Cuba	**–**	**–**

Concentration of deposits with banks and other financial institutions

As at 30 June 2015, the Group had three counterparties (31 December 2014: one counterparty) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

(Thousands of euros)

7. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have an either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

Foreign currency transactions

The tables below show the fair value of derivative financial instruments as at 30 June 2015 and 31 December 2014 and notional amounts of term contracts for the purchase and sale of foreign currency specifying the weighted average contractual exchange rates:

	30 June 2015 (unaudited)				
	Notional amount		***Weighted average***	***Fair value***	
	Purchase	***Sale***	***exchange rate***	***Assets***	***Liabilities***
Swaps	RUB 6,282,720 thousand	EUR 114,873 thousand	–	674	11,256
Term foreign currency transactions	EUR 51,000 thousand	USD 60,335 thousand	1.18	–	2,847
Financial instruments at fair value through profit or loss				**674**	**14,103**

	31 December 2014				
	Notional amount		***Weighted average***	***Fair value***	
	Purchase	***Sale***	***exchange rate***	***Assets***	***Liabilities***
Swaps	RUB 3,700,000 thousand	EUR 67,565 thousand	–	–	16,494
Term foreign currency transactions	RUB 1,930,050 thousand	EUR 30,000 thousand	64.34	–	4,155
	EUR 2,800 thousand	RUB 195,020 thousand	69.65	311	–
	EUR 33,000 thousand	USD 41,345 thousand	1.25	–	1,056
Financial instruments at fair value through profit or loss				**311**	**21,705**

Due to issuing RUB-denominated bond loans (Note 15), the Group concluded cross-currency interest rate swaps and a currency forward on an arm’s length basis with three Russian credit institutions. These swaps regulate the long-term currency risks of the Group. Payment netting is not applied to the parties’ obligations with respect to interest and principal payments.

The notional amount, recorded gross, is the amount of a derivative’s underlying asset and liability and is the basis upon which changes in the value of derivatives are measured. Notional amounts reflect the volume of operations pending at the year end and do not reflect the credit risk.

As at 30 June 2015 and 31 December 2014, the Group has positions in the following types of derivatives:

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

(Thousands of euros)

7. Financial assets at fair value through profit or loss (continued)

Foreign currency transactions (continued)

Fair value measurement is based on the corresponding forward curves that depend on exchange rates, interest rates and swap contract maturity. For the fair value of swaps, the discount rate was calculated on the basis of the zero coupon yield curve and credit risk. Changes in the fair value of swaps were mainly due to the increase in the forward EUR to RUB exchange rate.

8. Available-for-sale investment securities

Available-for-sale investment securities comprise the following:

	30 June 2015 (unaudited)	***31 December 2014***
Held by the Group		
Quoted debt securities		
Government bonds of member countries and bonds of regional governments		
Eurobonds issued by governments of member countries	69,832	11,202
Bonds of regional governments	–	3,395
Government bonds of member countries and bonds of regional governments	**69,832**	**14,597**
Corporate bonds		
Credit rating from BBB- to BBB+	954	10,373
Corporate bonds	**954**	**10,373**
Total quoted debt securities	**70,786**	**24,970**
Quoted equity instruments		
No credit rating	4	3
Total quoted equity instruments	**4**	**3**
Available-for-sale investment securities	**70,790**	**24,973**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	18,569	13,903
Total quoted debt securities	**18,569**	**13,903**
Available-for-sale investment securities pledged under repurchase agreements	**18,569**	**13,903**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2027 (31 December 2014: in 2017-2024). The annual coupon rate for these bonds varies from 2.0% to 6.0% (31 December 2014: from 2.9% to 5.0%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2025 (31 December 2014: maturing in 2015-2020). The annual coupon rate for these bonds is 4.5% (31 December 2014: from 5.0% to 8.1%).

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(Thousands of euros)

9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise the following:

	30 June 2015 (unaudited)	*31 December 2014*
Held by the Group		
Quoted debt securities		
Eurobonds issued by governments of member countries	12,340	11,951
Bonds issued by governments of member countries	**12,340**	**11,951**
Corporate bonds		
Credit rating from A- to A+	–	17,536
Credit rating from BBB- to BBB+	18,023	45,683
Credit rating BB+	64,928	5,830
Corporate bonds	**82,951**	**69,049**
Total quoted held-to-maturity debt securities	**95,291**	**81,000**
Pledged under repurchase agreements		
Quoted debt securities		
Corporate bonds rated BBB-	11,659	42,634
Corporate bonds rated BB+	18,214	–
Total Eurobonds issued by governments of member countries	**33,873**	**42,634**
Held-to-maturity investment securities pledged under repurchase agreements	**33,873**	**42,634**

Government bonds of member countries represent EUR-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2020 (31 December 2014: in 2018-2020). The annual coupon rate for these bonds varies from 3.6% to 7.9% (31 December 2014: from 3.6% to 7.9%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2016-2025 (31 December 2014: in 2016-2025). The annual coupon rate for these bonds varies from 3.0% to 7.9% (31 December 2014: from 3.0% to 7.9%).

10. Long-term loans to banks

In the first half of 2015, the Group continued its lending activity, taking into account the priorities set in 2014. The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing socially important infrastructure projects in these countries. The Bank considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2015, the Group provided long-term loans to banks operating in the following countries:

	30 June 2015 (unaudited)	*31 December 2014*
Russian Federation	89,943	89,874
Mongolia	24,546	26,986
Socialist Republic of Vietnam	15,168	15,172
Total long-term loans to banks	**129,657**	**132,032**

As at 30 June 2015 and 31 December 2014, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

(Thousands of euros)

10. Long-term loans to banks (continued)

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 30 June 2015 and 31 December 2014:

	30 June 2015 (unaudited)		*31 December 2014*	
	Long-term loans to banks	*Share in the total loans, %*	*Long-term loans to banks*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	5,218	4.0	5,964	4.5
Uncollateralized part of the loans	124,439	96.0	126,068	95.5
Total loans to banks	**129,657**	**100.0**	**132,032**	**100.0**

The amounts shown in the table above represent the carrying amount of the portfolio of long-term loans to banks, and do not necessarily represent the fair value of the collateral.

Concentration of long-term loans to banks

As at 30 June 2015, long-term loans to five banks (31 December 2014: five borrowers) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Group's statement of financial position. As at 30 June 2015, these loans totaled EUR 85,103 thousand (31 December 2014: EUR 85,049 thousand).

11. Loans to customers

The Group issued loans to customers operating in the following countries:

	30 June 2015 (unaudited)	*31 December 2014*
Slovak Republic	47,162	48,345
Republic of Bulgaria	30,532	31,094
Russian Federation	26,999	2,646
Mongolia	22,876	23,822
Romania	5,965	5,958
Total loans to customers	**133,534**	**111,865**
Less: allowance for loan impairment	(7,184)	(3,589)
Loans to customers	**126,350**	**108,276**

A summary of overdue loans as at 30 June 2015 and 31 December 2014 is presented below:

	30 June 2015 (unaudited)	*31 December 2014*
Total loans for which the principal and/or interest is overdue	14,775	8,107
Less: allowance for loan impairment	(7,184)	(3,589)
Overdue loans to customers	**7,591**	**4,518**

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(Thousands of euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

Movements in allowances for loan impairment by country are as follows:

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2015	**3,589**	**–**	**3,589**
Net charge/(reversal) for the period	(611)	4,206	**3,595**
At 30 June 2015 (unaudited)	**2,978**	**4,206**	**7,184**
Individual impairment	**2,978**	**4,206**	**7,184**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,107**	**6,668**	**14,775**

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2014	**–**	**–**	**–**
Net charge/(reversal) for the period	3,589	(15)	**3,574**
Reversal of allowance previously written off	–	15	**15**
At 30 June 2014 (unaudited)	**3,589**	**–**	**3,589**
Individual impairment	**3,589**	**–**	**3,589**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,107**	**–**	**8,107**

Analysis of collateral

The following table provides an analysis of the loan portfolio, net of allowance for impairment, by type of collateral as at 30 June 2015 and 31 December 2014:

	30 June 2015 (unaudited)		*31 December 2014*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
Charges over right of claim	42,540	33.7	12,517	11.6
Pledge of real property (mortgage) and title	23,454	18.6	29,508	27.3
Pledge of shares	11,940	9.4	25,947	24
Pledge of equipment and goods in turnover	5,850	4.6	1,706	1.6
Uncollateralized part of the loans	42,566	33.7	38,598	35.6
Total loans to customers	**126,350**	**100.0**	**108,276**	**100.0**

The amounts shown in the table above represent the carrying amount of the customer loan portfolio, and do not necessarily represent the fair value of the collateral.

Concentration of loans to customers

As at 30 June 2015, customer loans to five borrowers (31 December 2014: four borrowers) with the total amount of loans to each of the borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 30 June 2015, these loans totaled EUR 90,214 thousand (31 December 2014: EUR 65,405 thousand) and allowances were not created (31 December 2014: no allowances).

(Thousands of euros)

11. Loans to customers (continued)

Analysis of loans to customers by industry

The Group issued loans to borrowers operating in the following industries:

	30 June 2015 (unaudited)	*31 December 2014*
Leasing and insurance	26,718	19,427
Production of vehicles	22,362	14,892
Chemical production	22,164	–
Construction of buildings	21,047	20,948
Pipelines	16,407	25,080
Food and beverage	8,498	9,443
Specialized construction	8,107	8,107
Trade	4,834	2,646
Manufacturing of electrical equipment	3,111	–
Communication service	–	11,056
Other	286	266
	133,534	**111,865**
Less allowance for loan impairment	(7,184)	(3,589)
Loans to customers	**126,350**	**108,276**

12. Other assets and liabilities

Other assets comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Other accounts receivable	6,281	2,900
Advance payments and future period expenses	698	841
	6,979	**3,741**
Less allowance for impairment of accounts receivable	(2,062)	(1,763)
Other assets	**4,917**	**1,978**

The movements in other impairment allowance are as follows:

	30 June 2015 (unaudited)	*31 December 2014*
Allowance at 1 January	**1,763**	**411**
Net charge for the period	–	1,730
Change in allowance resulting from changes in exchange rates	299	(378)
Allowance at the end of the period	**2,062**	**1,763**

Other liabilities comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Other accounts payable	2,858	2,482
Settlements with employees	1,133	931
Deferred income	10	–
Other	29	243
Other liabilities	**4,030**	**3,656**

(Thousands of euros)

13. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Term deposits of banks and other financial institutions	53,961	17,349
Repurchase agreements payable	42,082	41,320
Due to banks and other financial institutions	**96,043**	**58,669**

The Group monitors repurchase agreements and the cost of collateral on a daily basis and pledges/returns additional collateral, if necessary.

Concentration of deposits from banks and other financial institutions

As at 30 June 2015, the Group has two counterparties accounting for over 20% of the Group's total deposits from banks and other financial institutions (31 December 2014: four counterparties) in the amount of EUR 65,538 thousand (31 December 2014: EUR 53,669 thousand).

14. Long-term loans from banks

As at 30 June 2015, three long-term loans provided to the Bank in the amount of EUR 43,382 thousand (31 December 2014: EUR 20,540 thousand), maturing in April, September 2016 and May 2020, were recorded on the Group's balance sheet (31 December 2014: April 2016). The Group raised long-term loans from the banks operating in the following countries:

	30 June 2015 (unaudited)	*31 December 2014*
Russian Federation	22,349	20,540
Republic of Bulgaria	13,540	–
Slovak Republic	7,493	–
Other liabilities	**43,382**	**20,540**

15. Debt securities issued

On 29 April 2015, the Bank placed RUB-denominated bonds, series 02, in the amount of RUB 3 billion (EUR 51,633 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 13.25% p.a. and is payable twice a year, with the first coupon payment to be paid on 28 October 2015. As at 30 June 2015, the amount of RUB-denominated bonds issued recorded at amortized cost was EUR 49,170 thousand. The Group used receipts from the placement of these bonds including for the accumulation the loan portfolio.

In June 2015, the Group purchased RUB-denominated bonds in the amount of 2.31 billion (EUR 39,283 thousand) by execution investors' put options and also set the coupon rate at 12.00% p.a. from second to fifth coupon periods.

At the dates of placement of RUB-denominated bonds, the Group entered into cross-currency interest rate swaps for the purpose of regulating currency risks (Note 7).

16. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 thousand, which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

(Thousands of euros)

16. Equity (continued)

Subscribed and paid-in capital (continued)

As at 30 June 2015, an unpaid portion of the Bank's subscribed capital in the amount of EUR 1,007,382 thousand (31 December 2014: EUR 1,027,382 thousand) is the amount of contributions from the Bank's member countries that has not yet been made yet, as well as the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2014: EUR 296,900 thousand).

On 18 May 2015, the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity to resume its full membership. In accordance with the Memorandum of Understanding signed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Bank added EUR 10,000 thousand to the contribution of Hungary out of the retained earnings of previous years.

As a result, the paid-in capital of the International Investment Bank totaled EUR 292,618 thousand (31 December 2014: EUR 272,618 thousand).

17. Contingencies and loan commitments

Legal issues

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group. In accordance with the Agreement on the establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

The Group takes all necessary legal and other actions to collect the bad debt and to realize the respective repossession rights. When the estimated amount of costs resulting from the Group's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected, and also when the Group holds the necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 30 June 2015, commitments and contingencies of the Bank comprised off-balance credit-related commitments, and in particular undrawn loan facilities and reimbursement obligations.

Off-balance credit-related commitments are presented in the below table as at 30 June 2015 and 31 December 2014.

	30 June 2015 (unaudited)	*31 December 2014*
Undrawn credit facilities	16,748	69,296
Reimbursement obligations	2,014	–
Total off-balance commitments	**18,762**	**69,296**

18. Leases

Group as lessor

The Group provides its real estate for operating leases. As at 30 June 2015, the Group's non-cancellable operating lease rentals amount to EUR 1,743 thousand (31 December 2014: EUR 4,742 thousand) and will be settled within one year.

(Thousands of euros)

19. Interest income and interest expenses

Net interest income comprises:

	For the six-month period ended 30 June (unaudited)	
	2015	*2014*
Available-for-sale investment securities and held-to-maturity investment securities	3,732	2,583
Loans to customers	3,547	1,781
Long-term loans to banks	3,275	1,995
Deposits with banks and other financial institutions, including cash and cash equivalents	1,585	1,132
Interest income	**12,139**	**7,491**
Debt securities issued	(6,731)	(723)
Long-term loans from banks	(516)	(100)
Repurchase agreements payable	(191)	(43)
Current customer accounts	(110)	(65)
Due to banks and other financial institutions	(59)	(278)
Interest expenses	**(7,607)**	**(1,209)**
Net interest income	**4,532**	**6,282**

Interest income accrued on impaired loans issued for the six months ended 30 June 2015 amounted to EUR 119 thousand (for the six months ended 30 June 2014: EUR 192 thousand).

20. General and administrative expenses

General and administrative expenses comprise:

	For the six-month period ended 30 June (unaudited)	
	2015	*2014*
Employee compensations and employment taxes	5,708	5,454
IT-expenses, inventory and occupancy expenses	786	725
Depreciation of property and equipment	702	684
Expenses related to business travel, representative and accommodation expenses	583	689
Professional services	224	84
Other	372	713
General and administrative expenses	**8,375**	**8,349**

21. Risk management

Risk management framework

The Group's risk management policy is based on conservative assessments and is mainly aimed at mitigating the adverse impact of risks on the Bank's operating results, i.e., on the safety and reliability of fund allocation while maintaining a reasonable level of return on equity. The prudent assessment assumes that the Bank does not enter into potential transactions with a high or undeterminable risk level, regardless of profitability.

(Thousands of euros)

21. Risk management (continued)

Risk management framework (continued)

The Group's risk management activities are intended to:

- Identify, analyze and manage the risks faced by the Bank;
- Establish ratios and limits that restrict the level of the appropriate types of risks;
- Monitor the level of the risk and its compliance with the established limits;
- Develop and implement regulative and methodological documents as well as software applications that ensure professional risk management for bank transactions.

Risk management policies and procedures are reviewed regularly to reflect the changing situation on the financial markets.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment;
- Exercising control over the Group's exposure by means of compliance with the established limits, regular assessment of the Group's risk exposure, and an internal audit of the risk management systems.

The Group identifies the following major risks inherent in its various activities:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Group, or discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on- and off-balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual borrower or counterparty default risk.

The portfolio of long-term loans to banks and other financial institutions and customers (less allowance for impairment) by type of collateral is analyzed in Notes 10 and 11.

Credit quality per class of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

The assessment of the credit quality of loans is based on a five grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of an assessment of the client's financial position, payment discipline, credit history, compliance with business plan and production discipline, and additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of position in the market, competitive potential, administrative resources, industry specifics and country rating.

As at 30 June 2015 and 31 December 2014, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard.

(Thousands of euros)

21. Risk management (continued)

Credit risk (continued)

The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 30 June 2015:

30 June 2015 (unaudited)	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	89,943	–	89,943	–
- *Mongolia*	24,546	–	24,546	–
- *Socialist Republic of Vietnam*	15,168	–	15,168	–
	129,657	**–**	**129,657**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Slovak Republic*	39,055	–	39,055	–
- *Russian Federation*	26,999	–	26,999	–
- *Republic of Bulgaria*	23,864	–	23,864	–
- *Mongolia*	22,876	–	22,876	–
- *Romania*	5,965	–	5,965	–
Uncollectible loans				
- *Slovak Republic*	8,107	(2,978)	5,129	36.7
- *Republic of Bulgaria*	6,668	(4,206)	2,462	63.1
	133,534	**(7,184)**	**126,350**	**5.4**
Total loans	**263,191**	**(7,184)**	**256,007**	**2.7**

The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 31 December 2014:

31 December 2014	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	89,874	–	89,874	–
- *Mongolia*	26,986	–	26,986	–
- *Socialist Republic of Vietnam*	15,172	–	15,172	–
	132,032	**–**	**132,032**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Slovak Republic*	40,238	–	40,238	–
- *Republic of Bulgaria*	31,094	–	31,094	–
- *Mongolia*	23,822	–	23,822	–
- *Romania*	5,958	–	5,958	–
- *Russian Federation*	2,646	–	2,646	–
Uncollectible loans				
- *Slovak Republic*	8,107	(3,589)	4,518	44.3
	111,865	**(3,589)**	**108,276**	**3.2**
Total loans	**243,897**	**(3,589)**	**240,308**	**1.5**

(Thousands of euros)

21. Risk management (continued)

Credit risk (continued)

Where possible, the Group seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

Liquidity risk

Liquidity risk is the risk of loss resulting from the Group's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from an improper balance between the Group's financial assets and financial liabilities by period and amount (including due to the untimely discharge of its financial obligations by one or several counterparties of the Group) and/or the unforeseen need for the immediate and simultaneous discharge of its financial obligations.

Liquidity management is an integral part of the general policy for the Group's assets and liabilities management (ALM) and operates within the established limits and restrictions related to the management of risks (liquidity, interest rate and currency risk) and the Group's balance sheet items, and in accordance with the documents of strategic, tactical and operating planning.

Procedures for the Group's liquidity position management, ensuring the Group's ability to meet its obligations in full and on a timely basis and efficient resources management, are stipulated in the Treatment for the IIB's liquidity position management that enables the development of the liquidity position management function provided for by the IIB's assets and liabilities management policy, as an integral part of the general function of the Group's management.

The decision making matrix related to liquidity management includes a strategic level of liquidity management (Council), tactical level (Management and special-purpose committees) and operational level (responsible structural divisions). In 2014, the Group has been working on the modernization of approaches for the Group's assets and liabilities management. Beginning in 2015 the department for the analytical support of treasury operations (DASKO or ALM Unit) was imposed responsible for organizing and coordinating measures related to the management of the liquidity position. The Group manages its liquidity position in accordance with planning horizons (up to six months) and possible scenarios of movements in the liquidity position (stable, stressed).

The main instrument of liquidity position management under a stable scenario is a "Cash flow plan" defining the cash flow by balance-sheet products/instruments and taking into account the plan of future financial operations. Based on the Plan of cash flow movements, balance sheet gaps, payment schedule and need in financing of future operations. As a result of applying these instruments, DASKO gives the appropriate recommendations to the responsible structural divisions.

The Group has implemented a liquidity buffer to manage the Group's liquidity during crisis. The application of the liquidity buffer enables the Bank to efficiently monitor the sustainability and stability of the Bank's balance sheet structure in the event of a liquidity shortage, which is critical to the Bank's solvency.

The liquidity buffer is formed primarily due to liquidity reserves, namely securities recognized in the Bank's balance sheet and included in the Lombard list of the European Central Bank and Bank of Russia, calculated as of the reporting date and for the next six-month reporting dates in addition(estimates). The liquidity buffer may be used to close a negative net position. As at 30 June 2015, the liquidity buffer amounts to EUR 93.4 mln (31 December 2014: EUR 64.6 thousand).

The table below shows the contractual expiry by maturity of the Bank's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	30 June 2015 (unaudited)	*31 December 2014*
Less than 1 month	18,208	69,296
1 to 5 years	554	–
Off-balance credit-related commitments	**18,762**	**69,296**

(Thousands of euros)

21. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the balance sheet date to the contractual maturity date. Quoted high liquid available-for-sale debt investment securities are classified in the period of "less than 1 month" as the Group may realize them at any short-term moment on market terms. Available-for-sale securities pledged under repurchase agreements are presented on the basis of remaining period from the balance sheet date to the completion of the relevant contractual liabilities of the Group under repurchase agreements.

	30 June 2015 (unaudited)								***31 December 2014***							
	Less than 1 month	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***No stated maturity***	***Overdue***	***Total***	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***No stated maturity***	***Overdue***	***Total***
Assets																
Cash and cash equivalents	55,410	–	–	–	–	–	–	**55,410**	65,918	–	–	–	–	–	–	**65,918**
Deposits with banks and other financial institutions	–	15,404	41,459	2,977	–	–	–	**59,840**	8,327	20,347	5,697	–	–	–	–	**34,371**
Financial assets at fair value through profit or loss	–	–	–	674	–	–	–	**674**	311	–	–	–	–	–	–	**311**
Available-for-sale investment securities	80,784	–	–	8,571	–	4	–	**89,359**	42	7,669	750	13,599	16,813	3	–	**38,876**
Held-to-maturity investment securities	282	756	675	58,317	69,134	–	–	**129,164**	70	942	1,146	39,791	81,685	–	–	**123,634**
Long-term loans to banks	–	1,607	28,535	99,515	–	–	–	**129,657**	–	1,531	13,139	117,362	–	–	–	**132,032**
Loans to customers	578	929	8,780	89,974	18,498	–	7,591	**126,350**	–	901	24,168	53,763	24,926	–	4,518	**108,276**
Other assets	3,644	8	471	95	–	–	–	**4,218**	58	75	994	10	–	–	–	**1,137**
Total assets	**140,698**	**18,704**	**79,920**	**260,123**	**87,632**	**4**	**7,591**	**594,672**	**74,726**	**31,465**	**45,894**	**224,525**	**123,424**	**3**	**4,518**	**504,555**
Liabilities																
Due to banks and other financial institutions	(63,532)	(9,999)	(10,000)	(12,512)	–	–	–	**(96,043)**	(45,436)	(13,233)	–	–	–	–	–	**(58,669)**
Current customer accounts	(5,077)	–	–	–	–	–	–	**(5,077)**	(4,788)	–	–	–	–	–	–	**(4,788)**
Financial liabilities at fair value through profit or loss	(555)	–	(9,700)	(3,848)	–	–	–	**(14,103)**	–	–	(21,705)	–	–	–	–	**(21,705)**
Long-term loans from banks	(77)	–	(23,223)	(20,082)	–	–	–	**(43,382)**	(97)	–	–	(20,443)	–	–	–	**(20,540)**
Debt securities issued	–	–	(34,738)	(105,039)	–	–	–	**(139,777)**	–	–	(82,884)	(29,875)	–	–	–	**(112,759)**
Other liabilities	(971)	(82)	(2,966)	–	–	–	–	**(4,019)**	(1,356)	(49)	(2,251)	–	–	–	–	**(3,656)**
Total liabilities	**(70,212)**	**(10,081)**	**(80,627)**	**(141,481)**	**–**	**–**	**–**	**(302,401)**	**(51,677)**	**(13,282)**	**(106,840)**	**(50,318)**	**–**	**–**	**–**	**(222,117)**
Net position	**70,486**	**8,623**	**(707)**	**118,642**	**87,632**	**4**	**7,591**	**292,271**	**23,049**	**18,183**	**(60,946)**	**174,207**	**123,424**	**3**	**4,518**	**282,438**
Accumulated net position	**70,486**	**79,109**	**78,402**	**197,044**	**284,676**	**284,680**	**292,271**		**23,049**	**41,232**	**(19,714)**	**154,493**	**277,917**	**277,920**	**282,438**	

(Thousands of euros)

21. Risk management (continued)

Market risk

Market risk is the risk that the Group shall incur losses due to adverse fluctuations in market rate of financial instruments, interest rates, foreign exchanges, and securities' prices. Market risk includes equity risk on securities, interest rate risk and currency risk.

The Group is exposed to market risk due to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

Currency risk

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies.

The Group applies a VaR methodology to assess currency and equity risks. VaR is a method used in measuring maximum risk of the Group, i.e., the level of losses on a certain position in relation to a financial instrument / currency / precious metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group uses an assumption that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days. The assessment of value at risk in relation to currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

At estimating value at risk, the Bank uses a parameter method, which allows assessing the volatility of yield on the basis of the most current market data.

The choice of a respective approach to value at risk estimation is made on the basis of data on statistical analysis of changes in fair values of financial instruments and exchange rates.

The selection period used by the Bank for modeling purposes depends on the type of instruments and amounts to 250 days for currency and securities. In order to monitor the accuracy of assessment of the above mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 30 June 2015, final data on value at risk assessment in relation to currency risks assumed by the Group are represented as follows:

	30 June 2015 (unaudited)	***31 December 2014***
Price risk on fixed income securities	476	364
Currency risk	1,189	945

Despite measurement of value at risk is a standard industry method for risk assessment, this method has a number of limitations:

- Analysis based on value at risk assessment is correct in case the current market conditions remain unchanged.
- Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data.
- If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account.
- 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of value at risk assessment may be incorrect in case of market liquidity deterioration.

Fluctuations that may occur in the course of the day are not taken into account at calculating value at risk on the basis of the results of a business day.

(Thousands of euros)

21. Risk management (continued)

Market risk (continued)

The Group's exposure to currency risk as at 30 June 2015 and 31 December 2014 is presented below:

	30 June 2015 (unaudited)					*31 December 2014*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Assets										
Cash and cash equivalents	53,661	635	969	145	**55,410**	33,801	31,655	360	102	**65,918**
Deposits with banks and other financial institutions	59,313	–	527	–	**59,840**	32,895	1,044	432	–	**34,371**
Available-for-sale investment securities	67,190	22,169	–	–	**89,359**	32,355	6,521	–	–	**38,876**
Held-to-maturity investment securities	54,961	68,860	5,343	–	**129,164**	55,566	63,561	4,507	–	**123,634**
Long-term loans to banks	110,159	19,498	–	–	**129,657**	110,815	21,217	–	–	**132,032**
Loans to customers	104,186	22,164	–	–	**126,350**	108,276	–	–	–	**108,276**
Other assets	3,685	–	533	–	**4,218**	111	2	1,024	–	**1,137**
	453,155	**133,326**	**7,372**	**145**	**593,998**	**373,819**	**124,000**	**6,323**	**102**	**504,244**
Liabilities										
Due to banks and other financial institutions	(52,533)	(43,510)	–	–	**(96,043)**	(16,804)	(41,181)	(684)	–	**(58,669)**
Current customer accounts	(4,880)	(197)	–	–	**(5,077)**	(4,605)	(183)	–	–	**(4,788)**
Long-term loans from banks	(7,493)	(35,889)	–	–	**(43,382)**	–	(20,540)	–	–	**(20,540)**
Debt securities issued	(30,584)	–	(109,193)	–	**(139,777)**	(30,079)	–	(82,680)	–	**(112,759)**
Other liabilities	(3,220)	(112)	(687)	–	**(4,019)**	(2,879)	(74)	(703)	–	**(3,656)**
	(98,710)	**(79,708)**	**(109,880)**	**–**	**(288,298)**	**(54,367)**	**(61,978)**	**(84,067)**	**–**	**(200,412)**
Net balance sheet position	**354,445**	**53,618**	**(102,508)**	**145**	**305,700**	**319,452**	**62,022**	**(77,744)**	**102**	**303,832**
Derivative financial instruments										
Claims	21,000	–	104,293	–	**125,293**	33,310	–	76,915	–	**110,225**
Liabilities	(114,875)	(23,847)	–	–	**(138,722)**	(97,564)	(34,056)	–	–	**(131,620)**
Net balance sheet position including derivative financial instruments	**260,570**	**29,771**	**1,785**	**145**	**292,271**	**255,198**	**27,966**	**(829)**	**102**	**282,437**

(Thousands of euros)

22. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by the quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, professional judgment is necessarily required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

	Valuation date	*Level 1 30 June 2015 (unaudited)*	*Level 2 30 June 2015 (unaudited)*	*Level 3 30 June 2015 (unaudited)*	*Total 30 June 2015 (unaudited)*
Assets measured at fair value					
Derivative financial assets	30 June 2015	–	674	–	**674**
Government bonds of member countries and bonds of regional governments	30 June 2015	88,401	–	–	**88,401**
Corporate bonds	30 June 2015	954	–	–	**954**
Quoted equity instruments	30 June 2015	–	4	–	**4**
Investment property	30 June 2015	–	–	52,890	**52,890**
Property and equipment	30 June 2015	–	–	53,608	**53,608**
Liabilities measured at fair value					
Derivative financial liabilities	30 June 2015	–	14,103	–	**14,103**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2014:

	Valuation date	*Level 1 31 December 2014*	*Level 2 31 December 2014*	*Level 3 31 December 2014*	*Total 31 December 2014*
Assets measured at fair value					
Derivative financial assets	31 December 2014	–	311	–	**311**
Government bonds of member countries and bonds of regional governments	31 December 2014	28,500	–	–	**28,500**
Corporate bonds	31 December 2014	10,373	–	–	**10,373**
Quoted equity instruments	31 December 2014	–	3	–	**3**
Investment property	31 December 2014	–	–	52,879	**52,879**
Property and equipment	31 December 2014	–	–	53,207	**53,207**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2014	–	21,705	–	**21,705**

(Thousands of euros)

22. Fair value of financial instruments (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and the fair values of the Bank's financial instruments that are carried in the interim condensed separate financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount at 30 June 2015 (unaudited)	*Fair value at 30 June 2015 (unaudited)*	*Unrecognized gain/(loss) for 6 months 2015 (unaudited)*	*Carrying amount at 31 December 2014*	*Fair value at 31 December 2014*	*Unrecognized gain/(loss) for 2014*
Financial assets						
Cash and cash equivalents	55,410	55,410	–	65,918	65,918	–
Deposits with banks and other financial institutions	59,840	59,840	–	34,371	34,371	–
Held-to-maturity investment securities	129,164	116,729	(12,435)	123,634	99,872	(23,762)
Long-term loans to banks	129,657	127,646	(2,011)	132,032	126,485	(5,547)
Loans to customers	126,350	126,350	–	108,276	108,276	–
Financial liabilities						
Due to banks and other financial institutions	96,043	96,043	–	58,669	58,669	–
Current customer accounts	5,077	5,077	–	4,788	4,788	–
Long-term loans from banks	43,382	43,382	–	20,540	20,540	–
Debt securities issued	139,777	139,460	317	112,759	106,351	6,408
Total unrecognized change in unrealized fair value			**(14,129)**			**(22,901)**

Methodologies and assumptions

The methodologies and assumptions used to determine the fair values of those financial instruments which are not recorded at fair value in these interim condensed financial statements are in line with those described in the Bank's financial statements for the year ended 31 December 2014.

23. Segment reporting

For management purposes, the Group identifies the following three operating segments based on its lines of services:

Lending and investment activity	Lending and investment banking services include long-term corporate and interbank financing
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments, foreign currency and liquidity management
Other operations	Lease services, other activities

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(Thousands of euros)

23. Segment reporting (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. The following table presents revenue, income, assets and liabilities of the Group's operating segments:

For the six-month period ended 30 June 2015 (unaudited)	***Lending and investment activity***	***Treasury***	***Other operations***	***Total***
Income				
External customers				
Interest income	6,822	5,272	45	**12,139**
Net gain from trading in foreign currencies	–	6,108	–	**6,108**
Net gain from available-for-sale investment securities	–	2,375	–	**2,375**
Income from lease of investment property	–	–	3,085	**3,085**
Other segment income	70	–	63	**133**
Total income	**6,892**	**13,755**	**3,193**	**23,840**
Interest expenses	(3,292)	(4,315)	–	**(7,607)**
Net loss from foreign currencies	–	–	(13)	**(13)**
Allowance for loan impairment	(3,595)	–	–	**(3,595)**
Other segment expenses	–	(56)	(994)	**(1,050)**
Segment performance results	**5**	**9,384**	**2,186**	**11,575**
Other unallocated expenses				**(10,326)**
Income for the period				**1,249**
Segment assets as at 30 June 2015	256,007	333,871	112,047	**701,925**
Segment liabilities as at 30 June 2015	83,201	215,181	4,030	**302,412**
Other segment information				
Capital expenditures	–	–	22	**22**

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(Thousands of euros)

23. Segment reporting (continued)

For the six-month period ended 30 June 2014 (unaudited)	*Lending and investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	3,776	3,648	67	**7,491**
Net gain from available-for-sale investment securities	–	4,650	–	**4,650**
Income from lease of investment property	–	–	4,091	**4,091**
Other segment income	31	–	631	**662**
Total income	**3,807**	**8,298**	**4,789**	**16,894**
Interest expenses	(297)	(912)	–	**(1,209)**
Net loss from foreign currencies	–	(198)	–	**(198)**
Allowance for loan impairment	(3,574)	–	–	**(3,574)**
Other segment expenses	(8)	(15)	(809)	**(832)**
Segment performance results	**(72)**	**7,173**	**3,980**	**11,081**
Other unallocated expenses				**(8,349)**
Income for the period				**2,732**
Segment assets as at 30 June 2014	144,946	239,284	115,789	**500,019**
Segment liabilities as at 30 June 2014	22,416	101,660	5,581	**129,657**
Other segment information				
Capital expenditures	–	–	40	**40**

As at 30 June 2015, the Group had one counterparty that provided lease income above 20% of the Bank's total income (30 June 2014: one). As at 30 June 2015, income from this counterparty amounted to EUR 1,895 thousand (30 June 2014: EUR 2,832 thousand).

Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the six months ended 30 June 2015 and 30 June 2014 is presented in the tables below:

	For the six-month period ended 30 June (unaudited)							
	2015				*2014*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income from external customers	6,113	5,001	1,025	**12,139**	3,355	3,567	568	**7,491**
Income from lease of investment property	3,085	–	–	**3,085**	4,091	–	–	**4,091**
Revenue from sale of inventories	–	–	–	**–**	579	–	–	**579**
Non-current assets	106,498	–	–	**106,498**	103,385	–	–	**103,385**

Non-current assets include property and equipment and investment property.

(Thousands of euros)

23. Segment information (continued)

Geographical information (continued)

Geographical concentration information is based on geographical location of the Group's counterparties. As at 30 June 2015 and 31 December 2014, the geographical concentration of the Group's assets and liabilities is set out below:

	30 June 2015 (unaudited)									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Hungary*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	20,169	–	–	9	–	–	–	–	35,232	**55,410**
Deposits with banks and other financial institutions	2,400	–	–	–	40,133	–	–	–	17,307	**59,840**
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	–	–	674	**674**
Available-for-sale investment securities	–	19,780	21,381	12,664	10,522	11,647	6,845	5,562	958	**89,359**
Held-to-maturity investment securities	112,113	–	–	–	–	–	–	–	17,051	**129,164**
Long-term loans to banks less allowances for impairment	89,943	–	–	–	24,546	15,168	–	–	–	**129,657**
Loans to customers less allowances for impairment	26,999	26,326	5,965	44,184	22,876	–	–	–	–	**126,350**
Assets	**251,624**	**46,106**	**27,346**	**56,857**	**98,077**	**26,815**	**6,845**	**5,562**	**71,222**	**590,454**
Liabilities										
Due to banks and other financial institutions	–	22,998	–	7,508	–	–	40,020	–	25,517	**96,043**
Financial instruments at fair value through profit or loss	14,103	–	–	–	–	–	–	–	–	**14,103**
Long-term loans from banks	22,349	13,540	–	7,493	–	–	–	–	–	**43,382**
Debt securities issued	109,160	–	–	30,617	–	–	–	–	–	**139,777**
Liabilities	**145,612**	**36,538**	**–**	**45,618**	**–**	**–**	**40,020**	**–**	**25,517**	**293,305**

(Thousands of euros)

23. Segment information (continued)

Geographical information (continued)

	31 December 2014								
	Russian Federation	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Mongolia***	***Socialist Republic of Vietnam***	***Czech Republic***	***Other countries***	***Total***
Assets									
Cash and cash equivalents	23,698	–	–	8,241	–	–	16,464	17,515	**65,918**
Deposits with banks and other financial institutions	432	–	–	–	30,460	–	–	3,479	**34,371**
Financial instruments at fair value through profit or loss	311	–	–	–	–	–	–	–	**311**
Available-for-sale investment securities	10,381	14,642	2,584	1,177	1,948	1,702	3,567	2,875	**38,876**
Held-to-maturity investment securities	106,097	–	–	–	–	–	–	17,537	**123,634**
Long-term loans to banks less allowances for impairment	89,874	–	–	–	26,986	15,172	–	–	**132,032**
Loans to customers less allowances for impairment	2,646	31,094	5,958	44,756	23,822	–	–	–	**108,276**
Assets	**233,439**	**45,736**	**8,542**	**54,174**	**83,216**	**16,874**	**20,031**	**41,406**	**503,418**
Liabilities									
Due to banks and other financial institutions	–	29,837	–	–	–	–	–	28,832	**58,669**
Financial instruments at fair value through profit or loss	21,143	–	–	–	–	–	–	562	**21,705**
Long-term loans from banks	20,540	–	–	–	–	–	–	–	**20,540**
Debt securities issued	82,679	–	–	30,080	–	–	–	–	**112,759**
Liabilities	**124,362**	**29,837**	**–**	**30,080**	**–**	**–**	**–**	**29,394**	**213,673**

(Thousands of euros)

24. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 30 June 2015:

30 June 2015	*Gross amount of recognized financial assets (unaudited)*	*Gross amount of recognized financial liabilities set off in the statement of financial position (unaudited)*	*Net amount of financial assets presented in the statement of financial position (unaudited)*	*Related amounts not set off in the statement of financial position (unaudited)*		*Net amount (unaudited)*
				Financial instruments	*Financial liabilities*	
Financial assets						
Financial assets pledged under repurchase agreements	52,442	–	52,442	–	(42,082)	**10,360**
Total	**52,442**	**–**	**52,442**	**–**	**(42,082)**	**10,360**
Financial liabilities						
Direct repurchase agreements with banks	42,082	–	42,082	–	(42,082)	–
Total	**42,082**	**–**	**42,082**	**–**	**(42,082)**	**–**

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 31 December 2014:

31 December 2014	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Financial liabilities*	
Financial assets						
Financial assets pledged under repurchase agreements	56,537	–	56,537	–	(41,320)	**15,217**
Total	**56,537**	**–**	**56,537**	**–**	**(41,320)**	**15,217**
Financial liabilities						
Direct repurchase agreements with banks	41,320	–	41,320	–	(41,320)	–
Total	**41,320**	**–**	**41,320**	**–**	**(41,320)**	**–**

25. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

Transactions and settlements with related parties were carried out on conditions similar to those, which prevail in transactions between independent parties.

(Thousands of euros)

25. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances as at 30 June 2015 and 31 December 2014, and related expense and income for the six months of 2015 and 2014 are as follows:

		30 June 2015 (unaudited)		*31 December 2014*	
	Related party	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Consolidated statement of financial position					
Other liabilities	Key management personnel	402	–	369	–

		For the six-month period ended 30 June (unaudited)	
		2015	***2014***
	Related party	***Income/ (expense)***	***Income/ (expense)***
Consolidated income statement			
Interest expense on current customer accounts	Key management personnel	(37)	(17)
Net interest expense after allowance for loan impairment		**(37)**	**(17)**
Operating loss		**(37)**	**(17)**
Employee benefits	Key management personnel	(710)	(734)
Compensation for travel expenses and medical insurance	Key management personnel	(74)	(71)
Operating expenses		**(784)**	**(805)**
Net loss for the period		**(821)**	**(822)**

26. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of the credit institutions and is estimated as ratio of capital base to risk weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Council.

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 30 June 2015, this minimum level was 8% (31 December 2014: 8%).

Besides, taking into account the Bank's status as the multilateral development institution and the structure of the Bank's member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as of 30 June 2015 (31 December 2014: 25%).

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(Thousands of euros)

26. Capital adequacy (continued)

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II), as at 30 June 2015 and 31 December 2014.

	30 June 2015 (unaudited)	*31 December 2014*
Equity		
Tier 1 capital	365,543	351,305
Tier 2 capital	32,210	33,871
Total regulatory capital	**397,753**	**385,176**
Risk-weighted assets		
Credit risk	482,962	384,656
Market risk	52,514	58,352
Operational risk	55,648	50,141
Total risk-weighted assets	**591,124**	**493,149**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	67.29%	78.11%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")	61.84%	71.24%

27. Events after the reporting date

On 29 July in accordance with the Memorandum of Understanding signed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Bank fulfilled its obligation to increase the contribution of Hungary to the Bank's charter capital in the amount of EUR 10,000 thousand out of the retained earnings of previous years in respect of additional contribution of Hungary to the Bank's charter capital. As a result the paid-in capital of the International Investment Bank amounted to EUR 302,618 thousand and Hungary's share in paid-in capital of the Bank increased to 9.91%.

(The end)

International Investment Bank

Interim condensed consolidated financial statements

Six months ended 30 June 2016

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Report on review of interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Report on review of interim condensed consolidated financial statements

To the Council of the International Investment Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of International Investment Bank (hereinafter, the "Bank") and its subsidiaries (hereinafter, the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management of the Group is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Ernst & Young Vneshaudit LLC

18 August 2016

Moscow, Russia

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

(Thousands of euros)

	Note	*30 June 2016 (unaudited)*	*31 December 2015*
Assets			
Cash and cash equivalents	5	54,119	59,519
Deposits with banks and other financial institutions	6	69,192	100,392
Financial assets at fair value through profit or loss	7	3,021	1,844
Available-for-sale investment securities	8	140,116	93,031
Available-for-sale investment securities pledged under repurchase agreements	8	23,733	23,028
Held-to-maturity investment securities	9	40,962	50,034
Held-to-maturity investment securities pledged under repurchase agreements	9	72,496	73,194
Long-term loans to banks	10	123,183	140,597
Loans to customers	11	293,197	165,742
Investment property		33,851	33,819
Property and equipment		66,250	66,393
Other assets	12	1,497	1,810
Total assets		**921,617**	**809,403**
Liabilities			
Due to banks and other financial institutions	13	170,858	113,373
Financial liabilities at fair value through profit or loss	7	16,878	29,898
Current customer accounts		8,361	7,430
Long-term loans from banks	14	72,167	44,187
Debt securities issued	15	234,245	212,724
Other liabilities	12	4,124	4,088
Total liabilities		**506,633**	**411,700**
Equity			
Subscribed capital	16	1,300,000	1,300,000
Callable capital		(986,947)	(996,947)
Paid-in capital		**313,053**	**303,053**
Revaluation reserve for available-for-sale investment securities		551	(1,664)
Revaluation reserve for property and equipment		31,453	31,453
Foreign currency translation reserve		(84)	(120)
Retained earnings less net income for the period		64,981	62,925
Net income for the period		5,030	2,056
Total equity		**414,984**	**397,703**
Total equity and liabilities		**921,617**	**809,403**

Signed and authorized for release on behalf of the Board of the Group

Rumyana Kyuchukova — Acting Chairman of the Board

Eugeny Atanassov — Managing Director of the Financial Department

18 August 2016

The accompanying notes 1-25 are an integral part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016

(Thousands of euros)

	Note	For the six months ended 30 June (unaudited) 2016	2015
Interest income	18	16,237	12,139
Interest expense	18	(13,184)	(7,607)
Net interest income		**3,053**	**4,532**
Reversal of allowance/(allowance) for loan impairment	11	89	(3,595)
Net interest income after allowance for loan impairment		**3,142**	**937**
Fee and commission income		525	85
Fee and commission expense		(66)	(65)
Net fee and commission income/(expense)		**459**	**20**
Net gains from revaluation of derivative financial instruments		14,198	7,965
Net losses from revaluation of assets and liabilities in foreign currencies		(21,046)	(9,916)
Net gains from foreign currencies and foreign exchange derivatives		11,026	6,095
Net gains from available-for-sale investment securities		3,186	2,375
Income from lease of investment property		1,782	3,085
Other income/(expenses)		627	53
Net non-interest income		**9,773**	**9,657**
Operating income		**13,374**	**10,614**
Reversal of allowance for impairment of other financial assets		14	–
General and administrative expenses	19	(8,174)	(8,375)
Other operating expenses on banking operations		(184)	(990)
Operating expenses		**(8,344)**	**(9,365)**
Income before tax		**5,030**	**1,249**
Income tax		**–**	**–**
Net income for the period		**5,030**	**1,249**

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

(Thousands of euros)

	Note	*For the six months ended 30 June (unaudited)* 2016	2015
Net income for the period		**5,030**	**1,249**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Net unrealized losses on available-for-sale investment securities		2,215	(1,886)
Translation differences		36	735
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**2,251**	**(1,151)**
Other comprehensive income/(loss)		**2,251**	**(1,151)**
Total comprehensive income/(loss) for the period		**7,281**	**98**

The accompanying notes 1-25 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

(Thousands of euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2014	**1,300,000**	**(1,027,382)**	**(999)**	**35,095**	**(224)**	**82,925**	**389,415**
Profit for the period	–	–	–	–	–	1,249	**1,249**
Other comprehensive loss for the period	–	–	(1,886)	–	735	–	**(1,151)**
Total comprehensive (loss)/income	**–**	**–**	**(1,886)**	**–**	**735**	**1,249**	**98**
Contributions to capital (Note 16)	–	20,000	–	–	–	**(10,000)**	**10,000**
At 30 June 2015	**1,300,000**	**(1,007,382)**	**(2,885)**	**35,095**	**511**	**74,174**	**399,513**
At 31 December 2015	**1,300,000**	**(996,947)**	**(1,664)**	**31,453**	**(120)**	**64, 981**	**397,703**
Profit for the period	–	–	–	–	–	5,030	**5,030**
Other comprehensive income for the period	–	–	2,215	–	36	–	**2,251**
Total comprehensive income	**–**	**–**	**2,215**	**–**	**36**	**5,030**	**7,281**
Contributions to capital (Note 16)	–	10,000	–	–	–	–	**10,000**
At 30 June 2016	**1,300,000**	**(986,947)**	**551**	**31,453**	**(84)**	**70,011**	**414,984**

The accompanying notes 1-25 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

(Thousands of euros)

	Note	*For the six months ended 30 June (unaudited)* 2016	2015
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		11,602	7,669
Interest, fees and commissions paid		(2,163)	(527)
Net receipts/(payments) from trading with foreign currencies and derivative financial instruments		11,053	6,106
Cash flows from lease of investment property		1,782	3,085
General and administrative expenses		(4,498)	(6,698)
Other operating income/(expenses) on banking operations		5	(468)
Cash flows from operating activities before changes in operating assets and liabilities		**17,781**	**9,167**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		29,022	(26,297)
Long-term loans to banks		16,642	4,301
Loans to customers		(129,716)	(21,140)
Other assets		(501)	(3,226)
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		58,519	35,899
Current customer accounts		2,211	274
Other liabilities		227	(191)
Net cash flows from operating activities		**(5,815)**	**(1,213)**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(300,436)	(150,049)
Proceeds from sale and redemption of available-for-sale investment securities		267,412	101,453
Proceeds from redemption of held-to-maturity investment securities		3,478	3,816
Investments in investment property		–	(12)
Acquisition of property and equipment		(757)	(1,044)
Net cash flows from investing activities		**(30,303)**	**(45,836)**
Cash flows from financing activities			
Long-term interbank financing raised		60,000	21,448
Long-term interbank financing repaid		(29,569)	(327)
Placement of bonds		–	51,633
Redemption and repurchase of bonds		(10,336)	(45,239)
Contributions to capital		10,000	10,000
Net cash flows from financing activities		**30,095**	**37,515**
Effect of exchange rate changes on cash and cash equivalents		623	(752)
Net (decrease)/increase in cash and cash equivalents		**(5,400)**	**(10,286)**
Cash and cash equivalents, beginning		**59,519**	**65,675**
Cash and cash equivalents, ending	5	**54,119**	**55,389**

The accompanying notes 1-25 are an integral part of these interim condensed consolidated financial statements.

(Thousands of euros)

1. Principal activities

These interim condensed consolidated financial statements include the financial statements of the International Investment Bank (the “Bank”) and its subsidiarн. The Bank and its subsidiarн are hereinafter referred together as the “Group”. The International Investment Bank is the parent company of the Group. The list of the Bank's subsidiary is presented in Note 2.

The International Investment Bank (the “Bank”) was founded in 1970 and has operated since 1 January 1971.

The Bank is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the “Agreement”) and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia and European regional office in Bratislava (Eurovea Central 1, Pribinova 4, Bratislava, 81109, Slovak Republic.)

On 31 July 2014, the EU Council imposed sectoral sanctions against Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover Russia-based institutions with international status established by intergovernmental agreements in which Russia is one of the parties. Therefore, International Investment Bank is not subject to the restrictive measures.

The Group continues to expand its operations despite the ongoing market volatility in member countries:

- Hungary re-entered the Bank in 2015 and in 2016 made the ahead-of-schedule final contribution to the Bank's equity. As at the end of June 2016, Hungary's share in the Bank's paid-in capital was EUR 40 million or 12.78%.
- As a result of the Hungary's re-entering, the respective share of the EU countries in the Bank's equity grew up to 48.72% exceeding the share of the Russian Federation, which decreased to 47.92%.
- The Bank continues to implement a new corporate governance structure and introduce the respective changes to its constituent documents. Following the signing of the Protocol on introducing changes to the Agreement on the Establishment of the International Investment Bank and the Statutes in the end of 2015, the member countries are currently implementing the respective ratification procedures.
- The Bank is assigned the following investment grade ratings: BBB- (outlook stable) by Fitch Ratings, Baa1 (outlook stable) by Moody's and A (outlook stable) by Dagong Global Credit Rating. In June 2016, the Bank was assigned the BBB rating (outlook stable) by Standard&Poor’s.
- In June 2016, the Bank concluded Cooperation agreement on fund raising with the Central Bank of Cuba. The document confirms special status of the International Investment Bank on the territory of Cuba.
- The International Investment Bank completed a large-scale IT-project to upgrade its core banking system (CBS), a digital platform to manage, process and protect the Bank's data. A data-processing center was launched in the International Investment Bank European Regional Office in Bratislava to ensure security and uninterrupted service of the new CBS.

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(Thousands of euros)

1. Principal activities (continued)

Member countries of the Bank

The member countries of the Bank include (share in the paid-in capital of the Bank, %):

Member countries	***30 June 2016 %***	***31 December 2015 %***
Russian Federation	47.923	49.505
Republic of Bulgaria	13.481	13.926
Hungary	12.778	9.899
Czech Republic	9.703	10.023
Slovak Republic	6.862	7.088
Romania	5.895	6.089
Republic of Cuba	1.712	1.769
Socialist Republic of Vietnam	1.172	1.211
Mongolia	0.474	0.490
	100.000	**100.000**

Conditions of the Bank‘s financial and business operations in the member countries

In the member countries, the Bank is not subject to taxation and enjoys all privileges available to diplomatic representations.

The Group is not subject to regulation by the Central Banks of the member countries, including the country of residence.

Business environment in the member countries

Political and economic developments in the Bank's member countries may have an impact on enterprises operating in these countries. Considering this fact, the Group performs its operations with reference to the local specific of its member countries to ensure comprehensive assessment and control of credit and operational risks.

The accompanying interim condensed consolidated financial statements reflect the management’s assessment of the impact of the member countries’ business environment on the results of operations and financial position of the Group. Future evolution of the conditions in which the Group operates may differ from the assessment made by the management for the purposes of these interim condensed consolidated financial statements.

2. Basis of preparation

General

These interim condensed consolidated financial statements have been prepared for the six months ended 30 June 2016 in accordance with International Financial Reporting Standard (“IFRS”) IAS 34 *Interim Financial Reporting*, approved by the International Accounting Standards Board.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2015.

Subsidiary

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012 for the purpose of the acting of the Bank, in particular, for the property trust of the Bank) as at 30 June 2016.

(Thousands of euros)

2. Basis of preparation (continued)

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

Functional and presentation currency

Euro ("EUR") is the Group's functional and presentation currency as it reflects the economic substance of the underlying operations conducted by the Group and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Group are denominated in EUR.

These interim condensed consolidated financial statements are presented in thousands of euros ("thousands of euros"), unless otherwise indicated.

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new standards effective as at 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material effect on the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as consolidated line items on the statement of financial position and present movements in these account balances as consolidated line items in the statement of profit or loss and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard would not apply.

Amendments to IFRS 11 – Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 *Business Combinations* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

(Thousands of euros)

3. Summary of accounting policies (continued)

Amendments to IAS 16 and IAS 38:Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture.* Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 and be measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Consolidated Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their consolidated financial statements. Entities already applying IFRS and electing to change to the equity method in its consolidated financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their consolidated financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group's consolidated financial statements.

Annual improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

(Thousands of euros)

3. Summary of accounting policies (continued)

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI.

These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

(Thousands of euros)

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Group's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the interim condensed consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Assumptions and estimates adopted by management of the Group in the process of applying the accounting policies are consistent with those described in the consolidated financial statements of the Group for the year ended 31 December 2015.

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is presented in the following notes:

- Note 7 – Financial liabilities at fair value through profit or loss
- Note 8 – Available-for-sale investment securities
- Note 10 – Long-term loans to banks
- Note 11 – Loans to customers
- Note 17 – Contingencies and lending commitments.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Cash on hand	**132**	**66**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	30,568	21,106
Credit rating from BBB- to BBB+	10,475	3,059
Credit rating from BB- to BB+	658	350
Total Nostro accounts with banks and other financial institutions	**41,701**	**24,515**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from BBB- to BBB+	8,990	18,304
Credit rating from BB- to BB+	1,293	16,634
Credit rating from B- to B+	2,003	–
Total short-term deposits with banks	**12,286**	**34,938**
Cash and cash equivalents	**54,119**	**59,519**

Cash and cash equivalents are neither impaired, nor past due.

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(Thousands of euros)

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Term deposits up to 1 year		
Credit rating from BB- to BB+	113	6,049
Credit rating from B- to B+	60,705	79,276
Total term deposits up to 1 year	**60,818**	**85,325**
Term deposits over 1 year		
Credit rating from A- to A+	4,365	15,067
Credit rating from BB- to BB+	4,009	–
Total term deposits over 1 year	**8,374**	**15,067**
Total deposits with banks and other financial institutions	**69,192**	**100,392**

Amounts due from the Central Bank of the Republic of Cuba

	30 June 2016 (unaudited)	*31 December 2015*
Term deposits with the Central Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the Central Bank of the Republic of Cuba	**–**	**–**

Concentration of deposits with banks and other financial institutions

As at 30 June 2016, the Group had three counterparties (31 December 2015: one) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with the Central Bank of the Republic of Cuba.

7. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

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(Thousands of euros)

7. Financial instruments at fair value through profit or loss (continued)

Foreign currency transactions

The table below shows the fair value of derivative financial instruments as at 30 June 2016 and 31 December 2015 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates.

	30 June 2016 (unaudited)				
	Notional amount		*Weighted average exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Foreign currency transactions and swaps					
Swaps	12,136,720 RUB'000	185,913 EUR'000	65.28	2,422	14,303
	110,300 RON'000	24,972 EUR'000	4.42	–	621
	95,000 EUR'000	107,391 USD'000	1.13	–	1,849
	2,830 EUR'000	21,000 CNY'000	7.42	–	11
Term foreign currency transactions	34,000 EUR'000	37,282 USD'000	1.10	599	94
Financial instruments at fair value through profit or loss				**3,021**	**16,878**

	31 December 2015				
	Notional amount		*Weighted average exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Foreign currency transactions and swaps					
Swaps	12,136,720 RUB'000	185,914 EUR'000	65.28	–	29,034
	110,300 RON'000	24,972 EUR'000	4.42	–	864
	61,000 EUR'000	64,982 USD'000	1.07	1,775	–
Term foreign currency transactions	30,000 EUR'000	32,721 USD'000	1.09	69	–
Financial instruments at fair value through profit or loss				**1,844**	**29,898**

Due to issuing bond loans denominated in currencies other than the functional currency of the Group (Note 15), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis with major international and Russian credit institutions. These swaps are used to regulate long-term currency risks of the Group. Payment netting is not applied to the parties' obligations in respect of interest and principal payments.

The notional amount, recorded gross, is the amount of a derivative's underlying asset and liability and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

As at 30 June 2016 and 31 December 2015, the Group has positions in the following types of derivatives:

Forwards: Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps: Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

(Thousands of euros)

7. Financial instruments at fair value through profit or loss (continued)

Foreign currency transactions (continued)

Fair value measurement is based on the corresponding forward curves that depend on exchange rates, interest rates and swap contract maturity. For the fair value of swaps, the discount rate was calculated on the basis of zero coupon yield curve and credit risk. Changes in the fair value of swaps were mainly due to changes in the forward EUR to RUB exchange rate.

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Owned by the Group		
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	98,854	93,027
Government bonds of member countries and bonds of regional governments	**98,854**	**93,027**
Corporate bonds		
Credit rating from AAA- to AAA+	1,866	–
Credit rating from AA- to AA+	916	–
Credit rating from A- to A+	37,546	–
Credit rating from BB- to BB+	930	–
Corporate bonds	**41,258**	**–**
Total quoted debt securities	**140,112**	**93,027**
Quoted equity instruments		
No credit rating	4	4
Total quoted equity instruments	**4**	**4**
Available-for-sale investment securities	**140,116**	**93,031**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	22,317	21,646
Total Eurobonds issued by governments of member countries	**22,317**	**21,646**
Corporate bonds		
Credit rating from BBB- to BBB+	1,416	1,382
Corporate bonds	**1,416**	**1,382**
Total quoted available-for-sale debt securities pledged under repurchase agreements	**23,733**	**23,028**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2027 (31 December 2015: maturing in 2018-2027). The annual coupon rate for these bonds varies from 2.0% to 6.3% (31 December 2015: from 2.0% to 6.0%).

Corporate bonds are represented by the bonds issued by European development banks and major international credit institutions maturing in 2020-2025 (31 December 2015: maturing in 2020). The annual coupon rate for these bonds varies from 0.6% to 5.0% (31 December 2015: 5.0%).

(Thousands of euros)

9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Owned by the Group		
Quoted debt securities		
Eurobonds issued by governments of member countries	1,438	1,272
Government bonds of member countries	**1,438**	**1,272**
Corporate bonds		
Credit rating from BBB- to BBB+	16,967	17,442
Credit rating from BB- to BB+	22,557	31,320
Corporate bonds	**39,524**	**48,762**
Total quoted held-to-maturity debt securities	**40,962**	**50,034**
Held-to-maturity investment securities pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	10,631	10,489
Government bonds of member countries	**10,631**	**10,489**
Corporate bonds		
Credit rating from BB- to BB+	61,865	62,705
Corporate bonds	**61,865**	**62,705**
Total held-to-maturity investment securities pledged under repurchase agreements	**72,496**	**73,194**

Government bonds of member countries represent EUR-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2020 (31 December 2015: maturing in 2018-2020). The annual coupon rate for these bonds varies from 3.6% to 7.9% (31 December 2015: from 3.6% to 7.9%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2017-2023 (31 December 2015: maturing in 2016-2023). The annual coupon rate for these bonds varies from 3.0% to 7.8% (31 December 2015: from 3.0% to 7.9%).

10. Long-term loans to banks

The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

The Group provided long-term loans to banks operating in the following countries:

	30 June 2016 (unaudited)	*31 December 2015*
Mongolia	50,778	43,044
Russian Federation	39,361	64,223
Socialist Republic of Vietnam	33,044	33,330
Total long-term loans to banks	**123,183**	**140,597**

As at 30 June 2016 and 31 December 2015, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

(Thousands of euros)

10. Long-term loans to banks (continued)

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 30 June 2016 and 31 December 2015:

	30 June 2016 (unaudited)		*31 December 2015*	
	Long-term loans to banks	*Share in the total loans, %*	*Long-term loans to banks*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	8,695	7.1	6,933	4.9
Uncollateralized part of the loans	114,488	92.9	133,664	95.1
Total long-term loans to banks	**123,183**	**100.0**	**140,597**	**100.0**

The amounts shown in the table above represent the carrying amount of the portfolio of long-term loans to banks, and do not necessarily represent the fair value of the collateral.

Concentration of long-term loans to banks

As at 30 June 2016, long-term loans to five banks (31 December 2015: five banks) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Group 's statement of financial position. As at 30 June 2016, the total amount of such major loans was EUR 82,159 thousand (31 December 2015: EUR 85,238 thousand) and no impairment allowances (31 December 2015: no allowances) has been made for them.

11. Loans to customers

The Group issued loans to customers operating in the following countries:

	30 June 2016 (unaudited)	*31 December 2015*
Republic of Bulgaria	115,220	57,917
Romania	32,324	25,844
Russian Federation	28,959	28,160
Mongolia	20,947	21,890
Czech Republic	19,911	–
Slovak Republic	8,406	23,437
Other countries	77,096	18,249
Loans to customers	**302,863**	**175,497**
Less: allowance for loan impairment	(9,666)	(9,755)
Loans to customers less allowance for impairment	**293,197**	**165,742**

The information on the overdue loans as at 30 June 2016 and 31 December 2015 is stated below:

	30 June 2016 (unaudited)	*31 December 2015*
Loans with overdue principal and/or interest	14,769	14,858
Less: allowance for loan impairment	(9,666)	(9,755)
Overdue loans to customers	**5,103**	**5,103**

As at 30 June 2016 and 31 December 2015, there were no overdue but not impaired loans.

(Thousands of euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2016	**3,000**	**6,755**	**9,755**
Net (reversal)/charge for the period	–	(89)	**(89)**
At 30 June 2016 (unaudited)	**3,000**	**6,666**	**9,666**
Individual impairment	**3,000**	**6,666**	**9,666**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,666**	**14,769**

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2015	**3,589**	–	**3,589**
Net (reversal)/charge for the period	(589)	6,755	**6,166**
At 31 December 2015	**3,000**	**6,755**	**9,755**
Individual impairment	**3,000**	**6,755**	**9,755**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,755**	**14,858**

Analysis of collateral

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2016 and 31 December 2015:

	30 June 2016 (unaudited)		*31 December 2015*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
State guarantees	71,241	24.3	18,249	11.0
Pledge of real property (mortgage) and title	33,252	11.3	35,896	21.6
Corporate guarantees	19,911	6.8	–	–
Pledge of right of claim	19,343	6.6	18,492	11.2
Pledge of shares	14,917	5.1	29,952	18.1
Pledge of equipment and goods in turnover	12,865	4.4	13,281	8.0
Pledge of vehicles	3,308	1.1	–	–
Uncollateralized part of the loans	118,360	40.4	49,872	30.1
Total loans to customers	**293,197**	**100.0**	**165,742**	**100.0**

The amounts shown in the table above represent the carrying amount of the customer loan portfolio, and do not necessarily represent the fair value of the collateral.

During 2016, the Group financed the borrower in the amount EUR 50,251 thousand under syndicated bridge lending for the period of bond emission of the borrower. This loan was showed as uncollateralized in the table above.

Concentration of loans to customers

As at 30 June 2016, loans to three borrowers (31 December 2015: two borrowers) with the total amount of loans to each of the three borrowers exceeding 10% of total loans to customers were recorded on the Group's statement of financial position. As at 30 June 2016, these loans comprised EUR 121,511 thousand (31 December 2015: EUR 40,991 thousand) in total and no impairment allowances (31 December 2015: no allowances) has been made for them.

(Thousands of euros)

11. Loans to customers (continued)

Analysis of loans to customers by industry

The Group issued loans to borrowers operating in the following industries:

	30 June 2016 (unaudited)	*31 December 2015*
Production and transmission of electrical energy	86,231	14,688
Leases	54,326	44,114
Construction	29,090	29,179
Chemical production	22,393	22,743
Food and beverage	21,820	7,569
Manufacturing of electrical equipment	20,864	21,208
Metallurgic industry	19,911	–
Land transport	14,999	15,001
Oil refining	9,994	9,989
Agriculture	9,991	4,942
Wholesale trade	6,566	5,418
Production of pharmaceutical products	6,375	–
Other	303	298
Production of vehicles	–	348
Loans to customers	**302,863**	**175,497**
Less: allowance for loan impairment	(9,666)	(9,755)
Total loans to customers less allowance for loan impairment	**293,197**	**165,742**

12. Other assets and liabilities

Other assets comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Financial assets		
Settlements on bank transactions	1,698	1,525
Other accounts receivable on business operations	996	1,202
Other financial assets	116	–
	2,810	**2,727**
Less: allowance for impairment	(1,780)	(1,633)
Total financial assets less allowance for impairment	**1,030**	**1,094**
Non-financial assets		
Assets held for sale – property	89	–
Inventory	50	43
Other non-financial assets	328	673
Total non-financial assets	**467**	**716**
Total other assets	**1,497**	**1,810**

The movements in allowance for impairment of other financial assets are as follows:

	30 June 2016 (unaudited)	*31 December 2015*
Allowance at 1 January	**1,633**	**1,763**
Net reversal/(charge) for the period	14	(89)
Change in allowance resulting from changes in exchange rates	133	(41)
Allowance at the end of the period	**1,780**	**1,633**

(Thousands of euros)

12. Other assets and liabilities (continued)

Other liabilities comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Financial liabilities		
Other accounts payable on business operations	381	1,063
Other accounts payable on bank transactions	82	–
Total financial liabilities	**463**	**1,063**
Non-financial liabilities		
Settlements with employees	3,511	2,975
Other non-financial liabilities	150	50
Total non-financial liabilities	**3,661**	**3,025**
Total other liabilities	**4,124**	**4,088**

13. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Due to banks up to 1 year		
Term deposits from banks and other financial institutions	106,681	48,617
Total due to banks up to 1 year	**106,681**	**48,617**
Due to banks over 1 year		
Repurchase agreements	64,177	64,756
Total due to banks over 1 year	**64,177**	**64,756**
Total due to banks	**170,858**	**113,373**

The Group performs daily monitoring of the repurchase agreements and the value of collateral when placing/returning additional collateral, if necessary.

Concentration of deposits from banks and other financial institutions

As at 30 June 2016, the Group has three counterparties (31 December 2015: two counterparties) accounting for over 20% of the Group’s total deposits from banks and other financial institutions in the amount of EUR 155,168 thousand (31 December 2015: EUR 87,788 thousand).

14. Long-term loans from banks

Long-term loans from banks comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Syndicated loans	58,670	–
Loans from banks	13,497	44,187
Total long-term loans from banks	**72,167**	**44,187**

In June 2016, the Group received syndicated loan in the amount of EUR 60,000 thousand with a floating rate of EURIBOR (6 months) + 1.75% p.a., and maturing in May 2018.

(Thousands of euros)

15. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*30 June 2016 (unaudited)*	*31 December 2015*
RUB-denominated bonds	11.7-13.25	2024-2025	178,523	158,067
EUR-denominated bonds	3.5	2019	30,634	30,100
RON-denominated bonds	4.1	2018	25,088	24,557
Total bonds			**234,245**	**212,724**

At the dates of placement of RUB-denominated bonds, the Group entered into cross-currency interest rate swaps and a currency forward for the purpose of regulating currency risks (Note 7).

16. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 thousand which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

As at 30 June 2016, unpaid portion of the Bank's subscribed capital in the amount of EUR 986,947 thousand (31 December 2015: EUR 996,947 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2015: EUR 175,500 thousand).

On 9 March 2016, in accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity.

On 18 May 2015, the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity to resume its full membership. On 28 December 2015, the Government of Mongolia contributed EUR 434.8 thousand to the Bank's equity.

As a result, the paid-in capital of the International Investment Bank totaled EUR 313,053 thousand (31 December 2015: EUR 303,053 thousand).

Revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment

The movements in the revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2015	**(999)**	**35,095**
Net unrealized gains on available-for-sale investment securities	489	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(2,375)	–
At 30 June 2015 (unaudited)	**(2,885)**	**35,095**
At 1 January 2016	**(1,664)**	**31,453**
Net unrealized gains on available-for-sale investment securities	5,401	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,186)	–
At 30 June 2016 (unaudited)	**551**	**31,453**

(Thousands of euros)

17. Contingencies and loan commitments

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group. In accordance with the Agreement on the establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

The Group takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights. When the estimated amount of costs resulting from the Group's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Group holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

Insurance

The Group obtained insurance coverage for a group of buildings, equipment and car park as well as liability insurance against damages caused by operating assets of a hazardous nature. However, the Group did not obtain insurance coverage related to temporarily discontinued operations or the Group’s obligations to third parties.

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 30 June 2016, commitments and contingencies of the Group comprised off-balance credit-related commitments, in particular undrawn loan facilities and reimbursement obligations.

Off-balance credit-related commitments are presented in the table below as at 30 June 2016 and 31 December 2015.

	30 June 2016 (unaudited)	***31 December 2015***
Undrawn loan facilities	42,449	52,376
Reimbursement obligations	11,844	6,796
Guarantees issued	–	4,556
Total off-balance commitments	**54,293**	**63,728**

18. Interest income and interest expense

Net interest income comprises:

	For the six months ended 30 June (unaudited)	
	2016	***2015***
Loans to customers	6,279	3,547
Long-term loans to banks	3,398	3,275
Held-to-maturity investment securities	2,763	2,978
Deposits with banks and other financial institutions, including cash and cash equivalents	2,092	1,585
Available-for-sale investment securities	1,705	754
Interest income	**16,237**	**12,139**
Debt securities issued	(10,833)	(6,731)
Funds raised under repurchase agreements	(904)	(191)
Long-term loans from banks	(632)	(516)
Due to banks and other financial institutions	(597)	(59)
Current customer accounts	(179)	(110)
Other	(39)	–
Interest expense	**(13,184)**	**(7,607)**
Net interest income	**3,053**	**4,532**

For the six-month period of 2016, there were no interest income accrued on impaired loans (2015: EUR 185 thousand).

(Thousands of euros)

19. General and administrative expenses

General and administrative expenses comprise:

	For the six months ended 30 June (unaudited)	
	2016	***2015***
Employee compensations and employment taxes	5,864	5,708
Depreciation of property and equipment	870	702
IT-expenses, inventory and occupancy expenses	731	786
Expenses related to business travel, representative and accommodation expenses	279	583
Professional services	194	224
Other	236	372
General and administrative expenses	**8,174**	**8,375**

20. Risk management

Risk management framework

The Group's risk management policy is based on the conservative approach and is mainly aimed at mitigation of adverse impact of risks on the Group's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The conservative approach assumes that the Group does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

The Group's risk management activities are intended to:

- Identify, analyze and manage risks faced by the Group
- Establish ratios and limits that restrict level of the appropriate types of risks
- Monitor the level of the risk and its compliance with established limits
- Develop and implement regulative and methodological documents as well as software applications that ensure the professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets.

Integrated into the whole vertical organizational structure of the Group and all areas of the Group's activities, the risk management system makes it possible to identify in a timely manner and effectively manage different types of risks.

Risk management involves all of the Group's divisions in evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st line of defense): the Bank's divisions directly preparing and conducting transactions, involved in the identification, assessment, and monitoring of risks and comply with internal regulations on risk management, as well as give due consideration to the risk level in the preparation of transactions
- Risk management (2nd line of defense): the division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements
- Internal audit (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system

The Group's operations are managed taking into account the level of the risk appetite, approved by the Council of the Group and integrated into a system of limits and restrictions insuring the acceptable level of risk for aggregated positions, transparent distribution of total risk limit between the activities of the Group.

(Thousands of euros)

20. Risk management (continued)

Risk management framework (continued)

The Group identifies the following major risks inherent in its various activities:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Group, or discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of potential credit risk exposures such as individual borrower or counterparty default risk.

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

Assessment of credit quality of loans is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the customer's financial position, payment discipline, credit history, compliance with business plan and production discipline, additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, industry specifics and country rating.

As at 30 June 2016 and 31 December 2015, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard. The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 30 June 2016 and 31 December 2015:

30 June 2016 (unaudited)	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks:				
Standard loans				
- Mongolia	50,778	–	50,778	–
- Russian Federation	39,361	–	39,361	–
- Socialist Republic of Vietnam	33,044	–	33,044	–
	123,183	**–**	**123,183**	**–**
Loans to customers:				
Standard loans				
- Republic of Bulgaria	108,554	–	108,554	–
- Romania	32,324	–	32,324	–
- Russian Federation	28,959	–	28,959	–
- Mongolia	20,947	–	20,947	–
- Czech Republic	19,911	–	19,911	–
- Slovak Republic	303	–	303	–
Other	77,096	–	77,096	–
Uncollectible loans				
- Slovak Republic	8,103	(3,000)	5,103	37
- Republic of Bulgaria	6,666	(6,666)	–	100
	302,863	**(9,666)**	**293,197**	**3.2**
Total loans	**426,046**	**(9,666)**	**416,380**	**2.3**

(Thousands of euros)

20. Risk management (continued)

Credit risk (continued)

31 December 2015	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks:				
Standard loans				
- Russian Federation	64,223	–	64,223	–
- Mongolia	43,044	–	43,044	–
- Socialist Republic of Vietnam	33,330	–	33,330	–
	140,597	**–**	**140,597**	**–**
Loans to customers:				
Standard loans				
- Republic of Bulgaria	51,162	–	51,162	–
- Russian Federation	28,160	–	28,160	–
- Romania	25,844	–	25,844	–
- Mongolia	21,890	–	21,890	–
- Slovak Republic	15,334	–	15,334	–
Other	18,249	–	18,249	–
Uncollectible loans				
- Slovak Republic	8,103	(3,000)	5,103	37
- Republic of Bulgaria	6,755	(6,755)	–	100
	175,497	**(9,755)**	**165,742**	**5.6**
Total loans	**316,094**	**(9,755)**	**306,339**	**3.1**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated structured loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

Liquidity risk

Liquidity risk is the risk of loss resulting from the Group's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from improper balance between the Group's financial assets and financial liabilities by period and amount (including due to untimely discharge of its financial obligations by one or several counterparties of the Group) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

Liquidity management is an integral part of general policy for the Group's assets and liabilities management (ALM) and operates within the established limits and restrictions related to management of risks (liquidity, interest rate and currency risk) and the Group's balance sheet items, and in accordance with the documents of strategic, tactical and operating planning.

Procedures for the Group's liquidity position management, ensuring the Group's ability to meet its obligations in full and on a timely basis and efficient resources management, are stipulated in the Procedures for the IIB's Liquidity Position Management that enables the development of the liquidity position management function provided for by the IIB's Assets and Liabilities Management Policy, as an integral part of general function of the Group's management.

The Group manages its liquidity position in accordance with planning horizons (up to 6 months) and possible scenarios of movements in liquidity position (stable, stressed).

(Thousands of euros)

20. Risk management (continued)

Liquidity risk (continued)

The Group has implemented a liquidity buffer to manage the Group's liquidity under the stressed scenario. Application of the liquidity buffer enables the Group to promptly monitor the sustainability and stability of the Group's balance sheet structure in case of liquidity shortage that is critical to the Group's solvency.

The liquidity buffer is formed primarily by liquidity reverses, namely securities recognized on the Group's balance sheet and included in the Lombard lists of the European Central Bank and Bank of Russia. The Group calculates its liquidity reserves as at the reporting date and for the next six monthly reporting dates (forecast). Liquidity buffer may be used to close the negative net position. As at 30 June 2016, the liquidity buffer amounts to EUR 110.4 million (31 December 2015: EUR 65.1 million).

The table below shows the contractual expiry by maturity of the Group's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	30 June 2016 (unaudited)	*31 December 2015*
Less than 1 month	23,849	52,376
1 to 3 months	3,523	178
3 months to 1 year	26,921	7,254
1 to 5 years	–	3,920
Off-balance credit-related commitments	**54,293**	**63,728**

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(Thousands of euros)

20. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of financial assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted available-for-sale debt securities were included in "Less than 1 month" category as they are highly liquid investment securities, which the Group may sell in the short-term on the arm-length basis. Available-for-sale investment securities pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of respective contractual obligations of the Group.

	30 June 2016 (unaudited)								*31 December 2015*							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets																
Cash and cash equivalents	54,037	82	–	–	–	–	–	**54,119**	59,519	–	–	–	–	–	–	**59,519**
Deposits with banks and other financial institutions	15,390	–	52,152	1,650	–	–	–	**69,192**	15,352	15,627	54,346	15,067	–	–	–	**100,392**
Financial assets at fair value through profit or loss	599	–	2,028	394	–	–	–	**3,021**	69	–	1,775	–	–	–	–	**1,844**
Available-for-sale investment securities	140,112	17	149	1,398	22,169	4	–	**163,849**	93,027	230	65	22,733	–	4	–	**116,059**
Held-to-maturity investment securities	198	657	10,691	76,714	25,198	–	–	**113,458**	64	972	2,981	76,728	42,483	–	–	**123,228**
Long-term loans to banks	37	18,250	11,183	88,291	5,422	–	–	**123,183**	–	3,160	41,112	76,374	19,951	–	–	**140,597**
Loans to customers	14,798	266	93,506	122,992	56,532	–	5,103	**293,197**	982	1,872	26,573	85,268	45,944	–	5,103	**165,742**
Other assets	124	14	485	407	–	–	–	**1,030**	69	81	473	–	–	–	–	**623**
Total assets	**225,295**	**19,286**	**170,194**	**291,846**	**109,321**	**4**	**5,103**	**821,049**	**169,082**	**21,942**	**127,325**	**276,170**	**108,378**	**4**	**5,103**	**708,004**
Liabilities																
Due to banks and other financial institutions	(58,021)	–	(52,466)	(60,371)	–	–	–	**(170,858)**	(28,421)	–	(20,196)	(64,756)	–	–	–	**(113,373)**
Current customer accounts	(8,361)	–	–	–	–	–	–	**(8,361)**	(7,430)	–	–	–	–	–	–	**(7,430)**
Financial liabilities at fair value through profit or loss	(104)	(100)	(14,304)	(2,370)	–	–	–	**(16,878)**	–	–	(16,191)	(13,707)	–	–	–	**(29,898)**
Long-term loans from banks	–	–	(13,529)	(58,638)	–	–	–	**(72,167)**	(102)	–	(24,529)	(19,556)	–	–	–	**(44,187)**
Debt securities issued	–	–	(102,556)	(131,689)	–	–	–	**(234,245)**	–	–	(40,111)	(172,613)	–	–	–	**(212,724)**
Other liabilities	(19)	-	(442)	(2)	-	-	-	**(463)**	(43)	(988)	(32)	-	-	-	-	**(1,063)**
Total liabilities	**(66,505)**	**(100)**	**(183,297)**	**(253,070)**	**-**	**-**	**-**	**(502,972)**	**(35,996)**	**(988)**	**(101,059)**	**(270,632)**	**-**	**-**	**-**	**(408,675)**
Net position	**158,611**	**19,104**	**(13,103)**	**38,776**	**109,321**	**4**	**5,103**	**317,816**	**158,611**	**19,104**	**(13,103)**	**38,776**	**109,321**	**4**	**5,103**	**317,816**
Accumulated net position	**158,611**	**177,715**	**164,612**	**203,388**	**312,709**	**312,713**	**317,816**		**158,611**	**177,715**	**164,612**	**203,388**	**312,709**	**312,713**	**317,816**	

(Thousands of euros)

20. Risk management (continued)

Market risk

Market risk is the risk that the Group may incur losses due to adverse fluctuations in market rate of financial instruments, interest rates, foreign exchanges, and securities' prices. Market risk includes equity risk on securities, interest rate risk and currency risk.

The Group is exposed to market risk due to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

Currency risk

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies.

The Group applies a VaR methodology to assess currency risks. VaR is a method used in measuring maximum risk of the Group, i.e. the level of losses on a certain position in relation to a financial instrument/currency/precious metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group assumes that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days.

At estimating value at risk, the Group uses a parameter method, which allows assessing the volatility of yield on the basis of the most current market data.

The choice of a respective approach to value at risk estimation is made on the basis of data on statistical analysis of changes in fair values of financial instruments and exchange rates.

Selection period used by the Group for modeling purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of above mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 30 June 2016, final data on value at risk assessment in relation to currency risks assumed by the Group are represented as follows:

	30 June 2016 (unaudited)	*31 December 2015*
Fixed income securities price risk	1,303	1,536
Currency risk	243	126

Despite measurement of value at risk is a standard industry method for risk assessment, this method has a number of limitations:

- Analysis based on value at risk assessment is correct in case current market conditions remain unchanged
- Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data
- If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account
- 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of value at risk assessment may be incorrect in case of market liquidity deterioration.

Fluctuations that may occur in the course of the day are not taken into account at calculating value at risk on the basis of the results of a business day.

(Thousands of euros)

20. Risk management (continued)

Market risk (continued)

The Group has assets and liabilities denominated in several foreign currencies. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Non-monetary financial instruments and financial instruments denominated in functional currency are not exposed to currency risk.

The Group's exposure to currency risk as at 30 June 2016 and 31 December 2015 is presented below:

	30 June 2016 (unaudited)					*31 December 2015*				
Monetary items	***EUR***	***USD***	***RUB***	***Other currencies***	***Total***	***EUR***	***USD***	***RUB***	***Other currencies***	***Total***
Assets										
Cash and cash equivalents	42,257	10,240	1,459	163	**54,119**	37,363	20,147	1,907	102	**59,519**
Deposits with banks and other financial institutions	69,079	–	113	–	**69,192**	99,990	–	402	–	**100,392**
Available-for-sale investment securities	124,817	36,217	–	2,815	**163,849**	89,426	26,633	–	–	**116,059**
Held-to-maturity investment securities	54,826	56,071	2,561	–	**113,458**	55,416	63,636	4,176	–	**123,228**
Long-term loans to banks	83,113	40,070	–	–	**123,183**	106,063	34,534	–	–	**140,597**
Loans to customers	193,709	99,488	–	–	**293,197**	124,751	40,991	–	–	**165,742**
Other assets	141	79	417	393	**1,030**	12	–	171	440	**623**
Total monetary assets	**567,942**	**242,165**	**4,550**	**3,371**	**818,028**	**513,021**	**185,941**	**6,656**	**542**	**706,160**
Liabilities										
Due to banks and other financial institutions	(76,025)	(94,833)	–	–	**(170,858)**	(52,785)	(59,706)	(882)	–	**(113,373)**
Current customer accounts	(8,158)	(203)	–	–	**(8,361)**	(7,220)	(210)	–	–	**(7,430)**
Long-term loans from banks	(58,670)	(13,497)	–	–	**(72,167)**	(7,494)	(36,693)	–	–	**(44,187)**
Debt securities issued	(30,634)	–	(178,523)	(25,088)	**(234,245)**	(30,030)	–	(158,099)	(24,595)	**(212,724)**
Other liabilities	(46)	(32)	(380)	(5)	**(463)**	(212)	(1)	(818)	(32)	**(1,063)**
Total monetary liabilities	**(173,533)**	**(108,565)**	**(178,903)**	**(25,093)**	**(486,094)**	**(97,741)**	**(96,610)**	**(159,799)**	**(24,627)**	**(378,777)**
Net balance sheet position excluding derivative financial instruments	**394,409**	**133,600**	**(174,353)**	**(21,722)**	**331,934**	**415,280**	**89,331**	**(153,143)**	**(24,085)**	**327,383**
Derivative financial instruments										
Claims	97,830	–	174,032	24,351	**296,213**	61,068	–	156,879	24,108	**242,055**
Liabilities	(210,885)	(96,344)	–	(2,841)	**(310,070)**	(210,884)	(59,225)	–	–	**(270,109)**
Net balance sheet position including derivative financial instruments	**281,354**	**37,256**	**(321)**	**(212)**	**318,077**	**265,464**	**30,106**	**3,736**	**23**	**299,329**

(Thousands of euros)

21. Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy.

	Level 1 30 June 2016 (unaudited)	*Level 2 30 June 2016 (unaudited)*	*Level 3 30 June 2016 (unaudited)*	*Total 30 June 2016 (unaudited)*
Assets measured at fair value				
Derivative financial assets	–	3,021	–	**3,021**
Government bonds of member countries and bonds of regional governments	121,171	–	–	**121,171**
Corporate bonds	42,674	–	–	**42,674**
Quoted equity instruments	4	–	–	**4**
Investment property	–	–	33,851	**33,851**
Property and equipment – buildings	–	–	62,361	**62,361**
Liabilities measured at fair value				
Derivative financial liabilities	–	16,878	–	**16,878**
Assets for which fair values are disclosed				
Cash and cash equivalents	132	53,987	–	**54,119**
Deposits with banks and other financial institutions	–	–	69,192	**69,192**
Held-to-maturity investment securities	114,629	–	–	**114,629**
Long-term loans to banks	–	–	118,643	**118,643**
Loans to customers	–	–	291,996	**291,996**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	170,858	**170,858**
Current customer accounts	–	–	8,361	**8,361**
Long-term loans from banks	–	–	72,167	**72,167**
Debt securities issued	–	240,695	–	**240,695**

(Thousands of euros)

21. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2015:

	Level 1 2015	*Level 2 2015*	*Level 3 2015*	*Total 2015*
Assets measured at fair value				
Derivative financial assets	–	1,844	–	**1,844**
Government bonds of member countries and bonds of regional governments	114,673	–	–	**114,673**
Corporate bonds	1,382	–	–	**1,382**
Quoted equity instruments	–	4	–	**4**
Investment property	–	–	33,819	**33,819**
Property and equipment – buildings	–	–	62,807	**62,807**
Liabilities measured at fair value				
Derivative financial liabilities	–	29,898	–	**29,898**
Assets for which fair values are disclosed				
Cash and cash equivalents	66	59,453	–	**59,519**
Deposits with banks and other financial institutions	–	–	100,380	**100,380**
Held-to-maturity investment securities	114,876	–	–	**114,876**
Long-term loans to banks	–	–	139,891	**139,891**
Loans to customers	–	–	165,742	**165,742**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	113,373	**113,373**
Current customer accounts	–	–	7,430	**7,430**
Long-term loans from banks	–	–	44,187	**44,187**
Debt securities issued	–	214,734	–	**214,734**

Fair values of financial assets and liabilities not recorded at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are carried in the interim condensed consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount at 30 June 2016 (unaudited)	*Fair value at 30 June 2016 (unaudited)*	*Unrecognized gain/(loss) for 6 months of 2016 (unaudited)*	*Carrying amount at 31 December 2015*	*Fair value at 31 December 2015*	*Unrecognized gain/(loss) for 2015*
Financial assets						
Cash and cash equivalents	54,119	54,119	–	59,519	59,519	–
Deposits with banks and other financial institutions	69,192	69,192	–	100,392	100,392	–
Held-to-maturity investment securities	113,458	114,629	1,171	123,228	114,876	(8,352)
Long-term loans to banks	123,183	118,643	(4,540)	140,597	139,891	(706)
Loans to customers	293,197	291,996	(1,201)	165,742	165,742	–
Financial liabilities						
Due to banks and other financial institutions	170,858	170,858	–	113,373	113,373	–
Current customer accounts	8,361	8,361	–	7,430	7,430	–
Long-term loans from banks	72,167	72,167	–	44,187	44,187	–
Debt securities issued	234,245	240,695	(6,450)	212,724	214,734	(2,010)
Total unrecognized change in unrealized fair value			**(11,020)**			**(11,068)**

(Thousands of euros)

22. Segment information

For management purposes, the Group identifies the following three operating segments based on its lines of services:

Credit investment activity	Investment banking services, including long-term corporate and interbank financing
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments and foreign currency, and liquidity management
Other operations	Operational leasing services, other operations

Management monitors the operating results of its business units consolidated for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the interim condensed consolidated financial statements. The following table presents income, profit, assets and liabilities of the Group's operating segments:

30 June 2016 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	9,677	6,560	–	**16,237**
Net gains from trading in foreign currencies	–	11,026	–	**11,026**
Net gains from revaluation of derivative financial instruments	–	15,647	–	**15,647**
Net gains from available-for-sale investment securities	–	3,186	–	**3,186**
Net gains from held-to-maturity investment securities	–	251	–	**251**
Reversal of allowance for loan impairment	–	–	89	**89**
Income from lease of investment property	–	–	1,782	**1,782**
Reversal of allowance for impairment of other assets	–	–	14	**14**
Other segment income	471	–	298	**769**
Total income	**10,148**	**36,670**	**2,183**	**49,001**
Interest expense	(5,288)	(7,896)	–	**(13,184)**
Net losses from revaluation of derivative financial instruments	–	(1,449)	–	**(1,449)**
Net losses from revaluation of assets and liabilities in foreign currencies	–	(20,996)	(50)	**(21,046)**
Other segment expenses	(2)	(60)	(56)	**(118)**
Segment results	**4,858**	**6,269**	**2,077**	**13,204**
Other unallocated expenses				**(8,174)**
Profit for the period				**5,030**
Segment assets	416,380	403,401	101,836	**921,617**
Segment liabilities	141,326	361,182	4,125	**506,633**
Other segment information				
Capital expenditures	–	–	566	**566**

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(Thousands of euros)

22. Segment information (continued)

30 June 2015 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	6,822	5,272	45	**12,139**
Net gains from trading in foreign currencies	–	6,108	–	**6,108**
Net gains from available-for-sale investment securities	–	2,375	–	**2,375**
Income from lease of investment property	–	–	3,085	**3,085**
Other segment income	70	–	63	**133**
Total income	**6,892**	**13,755**	**3,193**	**23,840**
Interest expense	(3,292)	(4,315)	–	**(7,607)**
Net losses from trading in foreign currencies	–	–	(13)	**(13)**
Allowance for loan impairment	(3,595)	–	–	**(3,595)**
Other segment expenses	–	(56)	(994)	**(1,050)**
Segment results	**5**	**9,384**	**2,186**	**11,575**
Other unallocated expenses				**(10,326)**
Profit for the period				**1,249**
Segment assets	256,007	333,871	112,047	**701,925**
Segment liabilities	83,201	215,181	4,030	**302,412**
Other segment information				
Capital expenditures	–	–	22	**22**

At 30 June 2016, the Group’s revenue from lease operations with two external counterparties (30 June 2015: one counterparty) exceeded 20% of the Group’s total revenue (30 June 2016: EUR 1,443 thousand; 30 June 2015: EUR 960 thousand).

Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the six months ended 30 June 2016 and 30 June 2015 is presented in the table below:

	30 June 2016 (unaudited)				*30 June 2015(unaudited)*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income	4,677	7,961	3,599	**16,237**	6,113	5,001	1,025	**12,139**
Income from lease of investment property	1,782	–	–	**1,782**	3,085	–	–	**3,085**
Non-current assets	100,101	–	–	**100,101**	106,498	–	–	**106,498**

Non-current assets include property and equipment and investment property.

(Thousands of euros)

22. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's financial assets and liabilities based on the location of the Group’s counterparties as at 30 June 2016 and 31 December 2015 is presented below:

	30 June 2016 (unaudited)									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	5,066	190	17	25	–	–	–	–	48,821	**54,119**
Deposits with banks and other financial institutions	4,122	–	–	–	–	27,180	–	–	37,890	**69,192**
Financial instruments at fair value through profit or loss	707	–	–	–	–	–	–	–	2,314	**3,021**
Investment securities:										
- available-for-sale	–	30,504	24,124	10,254	29,652	14,283	12,064	1,222	41,746	**163,849**
- held-to-maturity	96,492	–	–	–	–	–	–	–	16,966	**113,458**
Long-term loans to banks less allowances for impairment	39,361	–	–	–	–	50,778	33,044	–	–	**123,183**
Loans to customers less allowances for impairment	28,959	108,554	32,324	5,406	–	20,947	–	19,911	77,096	**293,197**
Assets	**174,707**	**139,248**	**56,465**	**15,685**	**29,652**	**113,188**	**45,108**	**21,133**	**224,833**	**820,019**
Liabilities										
Due to banks and other financial institutions	–	–	–	7,507	8,992	–	–	40,038	114,321	**170,858**
Financial instruments at fair value through profit or loss	11,900	–	621	–	–	–	–	–	4,357	**16,878**
Long-term loans from banks	9,778	20,831	–	–	7,334	–	–	–	34,224	**72,167**
Long-term securities issued	178,523	–	25,088	30,634	–	–	–	–	–	**234,245**
Liabilities	**200,201**	**20,831**	**25,709**	**38,141**	**16,326**	**–**	**–**	**40,038**	**152,902**	**494,148**

(Thousands of euros)

22. Segment information (continued)

Geographical information (continued)

	31 December 2015									
	Russian Federation	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Hungary***	***Mongolia***	***Socialist Republic of Vietnam***	***Czech Republic***	***Other countries***	***Total***
Assets										
Cash and cash equivalents	2,026	219	17	15	–	–	–	–	57,242	**59,519**
Deposits with banks and other financial institutions	6,049	–	–	–	–	30,539	–	–	63,804	**100,392**
Financial instruments at fair value through profit or loss	669	–	–	–	–	–	–	–	1,175	**1,844**
Investment securities:										
- available-for-sale	–	26,889	31,150	13,208	12,056	13,746	11,506	6,118	1,386	**116,059**
- held-to-maturity	105,785	–	–	–	–	–	–	–	17,443	**123,228**
Long-term loans to banks less allowances for impairment	64,223	–	–	–	–	43,044	33,330	–	–	**140,597**
Loans to customers less allowances for impairment	28,160	51,162	25,844	20,437	–	21,890	–	–	18,249	**165,742**
Assets	**206,912**	**78,270**	**57,011**	**33,660**	**12,056**	**109,219**	**44,836**	**6,118**	**159,299**	**707,381**
Liabilities										
Due to banks and other financial institutions	992	–	–	7,508	–	–	–	20,086	84,787	**113,373**
Financial instruments at fair value through profit or loss	18,723	–	864	–	–	–	–	–	10,311	**29,898**
Long-term loans from banks	22,953	13,740	–	7,494	–	–	–	–	–	**44,187**
Long-term securities issued	158,067	–	24,557	30,100	–	–	–	–	–	**212,724**
Liabilities	**200,735**	**13,740**	**25,421**	**45,102**	**–**	**–**	**–**	**20,086**	**95,098**	**400,182**

Other countries include countries that not belong to Member countries of the Bank.

(Thousands of euros)

23. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 30 June 2016:

30 June 2016 (unaudited)	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	96,229	–	96,229	(64,177)	–	**32,052**
Total	**96,229**	**–**	**96,229**	**(64,177)**	**–**	**32,052**
Financial liabilities						
Repurchase agreements with banks	64,177	–	64,177	(64,177)	–	–
Total	**64,177**	**–**	**64,177**	**(64,177)**	**–**	**–**

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position as at 31 December 2015 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

31 December 2015	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	96,222	–	96,222	(64,756)	–	**31,466**
Total	**96,222**	**–**	**96,222**	**(64,756)**	**–**	**31,466**
Financial liabilities						
Repurchase agreements with banks	64,756	–	64,756	(64,756)	–	–
Total	**64,756**	**–**	**64,756**	**(64,756)**	**–**	**–**

24. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and settlements with related parties were carried out on conditions similar to those which prevail in transactions between independent parties.

(Thousands of euros)

24. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances as at 30 June 2016 and 31 December 2015, and related expense and income for the six months ended 30 June 2016 and 30 June 2015 are as follows:

		30 June 2016 (unaudited)		*31 December 2015*	
	Related party	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Consolidated statement of financial position					
Other liabilities	Key management personnel	346	–	493	–

		For the six months ended 30 June (unaudited)	
		2016	***2015***
	Related party	***Income/ (expense)***	***Income/ (expense)***
Interim consolidated income statement			
Interest expense on current customer accounts	Key management personnel	(34)	(37)
Net interest expense after allowance for loan impairment		**(34)**	**(37)**
Operating losses		**(34)**	**(37)**
Employee benefits	Key management personnel	(572)	(710)
Compensation for travel expenses and medical insurance	Key management personnel	(55)	(74)
Operating expenses		**(627)**	**(784)**
Net loss for the period		**(661)**	**(821)**

25. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of credit institutions and is estimated as ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Council.

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 30 June 2016, this minimum level was 8% (2015: 8%).

Besides, taking into account the Group's status as the multilateral development institution as well as the structure of the Bank's member countries, the Bank's Council set the capital adequacy ratio for the Bank at the level of not less than 25% as at 30 June 2016 (2015: 25%).

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(Thousands of euros)

25. Capital adequacy (continued)

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II) as at 30 June 2016 and 31 December 2015.

	30 June 2016 (unaudited)	***31 December 2015***
Capital		
Tier 1 capital	378,034	365,978
Tier 2 capital	32,004	29,789
Total regulatory capital	**410,038**	**395,767**
Risk-weighted assets		
Credit risk	622,988	560,094
Market risk	120,488	70,461
Operational risk	57,999	55,548
Total risk-weighted assets	**801,475**	**686,103**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	51.16%	57.68%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	47.17%	53.34%

(The end)

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