IBEC
INTERNATIONAL BANK FOR ECONOMIC CO-OPERATION

International Bank for Economic Co-operation

Interim condensed financial statements

30 June 2020

Contents

Совершенствуя бизнес,
улучшаем мир

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Report on Review of Interim Financial Information

To the Council of International Bank for Economic Co-operation

Introduction

We have reviewed the accompanying interim condensed financial statements of International Bank for Economic Co-operation ("the Bank"), which comprise the interim statement of financial position as at 30 June 2020 and the interim statement of profit or loss and other comprehensive income, interim statement of changes in equity and interim statement of cash flows for the six-month period then ended, and notes to the interim condensed financial statements (interim financial information). Management of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information 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.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

G.A. Shinin
Partner
Ernst & Young LLC

24 August 2020

Details of the entity

Name: International Bank for Economic Co-operation
Acting under the Intergovernmental Agreement for the Organization and Activities of IBEC, registered with the Secretariat of the United Nations on 20 August 1964 and the Statutes of IBEC, registered with the Secretariat of the United Nations on 20 August 1964.
Address: Russia 107996, Moscow, Masha Poryvaeva str., 11, GSP-6.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Interim statement of financial position

as at 30 June 2020

(EUR thousand)

	Note	30 June 2020 (unaudited)	31 December 2019
Assets			
Cash and cash equivalents	5	19,306	17,286
Securities at fair value through profit or loss	6	15,758	4,412
- *held by the Bank*		*15,758*	*4,412*
- *pledged under repurchase agreements*		–	–
Securities at fair value through other comprehensive income	7	232,594	203,303
- *held by the Bank*		*201,992*	*159,002*
- *pledged under repurchase agreements*		*30,602*	*44,301*
Securities at amortized cost	8	64,514	62,532
- *held by the Bank*		*55,366*	*47,513*
- *pledged under repurchase agreements*		*9,148*	*15,019*
Loans and deposits to banks	9	140,160	110,943
- *loans issued to banks under trade financing*		*77,932*	*77,327*
- *term deposits with banks*		*27,897*	*19,723*
- *syndicated loans*		*34,331*	*13,893*
Loans to corporate customers	10	200,456	187,068
Derivative financial assets	11	1,093	5,689
Property, plant and equipment, intangible assets and right-of-use assets	12	56,745	57,013
Other assets	13	8,188	2,689
Total assets		**738,814**	**650,935**
Liabilities			
Due to credit institutions	14	168,886	129,382
Due to customers	15	89,564	97,266
Derivative financial liabilities	11	7,234	1,800
Debt securities issued	16	153,996	102,526
Other liabilities	13	2,826	6,781
Total liabilities		**422,506**	**337,755**
Equity			
Share capital	1	200,000	200,000
Revaluation reserve for securities at fair value through other comprehensive income		(949)	4,315
Revaluation reserve for property, plant and equipment		25,107	25,107
Cash flow hedge reserve	11	2,648	893
Retained earnings less net profit for the period		82,865	76,279
Net profit for the period		6,637	6,586
Total equity		**316,308**	**313,180**
Total liabilities and equity		**738,814**	**650,935**
Off-balance sheet commitments			
Credit-related commitments	17	96,950	61,949

Denis Ivanov   Chairman of the Board

Inna Zheleznova   Director of the Financial Department

24 August 2020

The accompanying notes 1-28 are an integral part of these interim condensed financial statements.

Interim statement of profit or loss and other comprehensive income

for the six months ended 30 June 2020

(EUR thousand)

	Note	For the six months ended 30 June (unaudited) 2020	2019
Interest income calculated using the EIR method		8,743	5,525
Other interest income		217	196
Interest expense		(3,635)	(1,515)
Net interest income	18	**5,325**	**4,206**
Allowance for expected credit losses from financial assets	22	(2,266)	(359)
Net interest income after allowance for expected credit losses		**3,059**	**3,847**
Fee and commission income		380	232
Fee and commission expense		(105)	(45)
Net fee and commission income	19	**275**	**187**
Net gains from operations with securities at fair value through profit or loss		1,189	883
Net gains from operations with securities at fair value through other comprehensive income	20	4,337	1,455
Net gains (losses) from operations with derivative financial instruments and foreign currency			
- dealing		854	(62)
- revaluation of currency items		(1,704)	(791)
Lease income		785	993
Other banking income	10	4,267	610
Administrative and management expenses	21	(6,277)	(6,455)
Other provisions	23	(35)	–
Other banking expenses		(113)	(47)
Profit for the period		**6,637**	**620**

The accompanying notes 1-28 are an integral part of these interim condensed financial statements.

Interim statement of profit or loss and other comprehensive income

for the six months ended 30 June 2020 (continued)

		For the six months ended 30 June (unaudited)	
	Note	***2020***	***2019***
Other comprehensive (loss) income			
Items that are or may be subsequently reclassified to profit or loss			
Unrealized (losses) gains from operations with securities at fair value through other comprehensive income		(1,529)	8,216
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	20	(4,354)	(1,446)
Change in allowance for expected credit losses		619	98
Net gains from cash flow hedges	11	1,755	–
Total items that are or may be subsequently reclassified to profit or loss		**(3,509)**	**6,868**
Total other comprehensive (loss) income		**(3,509)**	**6,868**
Total comprehensive income for the period		**3,128**	**7,488**

The accompanying notes 1-28 are an integral part of these interim condensed financial statements.

Interim statement of changes in equity
for the six months ended 30 June 2020

(EUR thousand)

	Share capital	*Revaluation reserve for securities at fair value through other comprehensive income*	*Revaluation reserve for property, plant and equipment*	*Cash flow hedge reserve*	*Retained earnings*	*Total equity*
1 January 2020	**200,000**	**4,315**	**25,107**	**893**	**82,865**	**313,180**
Net profit for the period	–	–	–	–	6,637	**6,637**
Other comprehensive loss						
Items that are or may be subsequently reclassified to profit or loss						
Unrealized losses from operations with securities at fair value through other comprehensive income	–	(1,529)	–	–	–	**(1,529)**
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	–	(4,354)	–	–	–	**(4,354)**
Change in allowance for expected credit losses	–	619	–	–	–	**619**
Net unrealized gains (losses) from cash flow hedges	–	–	–	(4,426)	–	**(4,426)**
Net gains (losses) from cash flow hedges, reclassified to profit or loss	–	–	–	6,181	–	**6,181**
Total items that are or may be subsequently reclassified to profit or loss	**–**	**(5,264)**	**–**	**1,755**	**–**	**(3,509)**
Total other comprehensive loss	**–**	**(5,264)**	**–**	**1,755**	**–**	**(3,509)**
Total comprehensive income for the period	**–**	**(5,264)**	**–**	**1,755**	**6,637**	**3,128**
30 June 2020 (unaudited)	**200,000**	**(949)**	**25,107**	**2,648**	**89,502**	**316,308**

The accompanying notes 1-28 are an integral part of these interim condensed financial statements.

Interim statement of changes in equity

for the six months ended 30 June 2020 (continued)

	Share capital	*Revaluation reserve for securities at fair value through other comprehen-sive income*	*Revaluation reserve for property, plant and equipment*	*Cash flow hedge reserve*	*Retained earnings*	*Total equity*
1 January 2019	**200,000**	**(3,024)**	**32,388**	**–**	**68,998**	**298,362**
Net profit for the period	–	–	–	–	620	**620**
Other comprehensive income						
Items that are or may be subsequently reclassified to profit or loss						
Unrealized gains from operations with securities at fair value through other comprehensive income	–	8,216	–	–	–	**8,216**
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	–	(1,446)	–	–	–	**(1,446)**
Change in allowance for expected credit losses	–	98	–	–	–	**98**
Total items that are or may be subsequently reclassified to profit or loss	**–**	**6,868**	**–**	**–**	**–**	**6,868**
Total other comprehensive income	**–**	**6,868**	**–**	**–**	**–**	**6,868**
Total comprehensive income for the period	**–**	**6,868**	**–**	**–**	**620**	**7,488**
30 June 2019 (unaudited)	**200,000**	**3,844**	**32,388**	**–**	**69,618**	**305,850**

The accompanying notes 1-28 are an integral part of these interim condensed financial statements.

Interim statement of cash flows
for the six months ended 30 June 2020

(EUR thousand)

		For the six months ended 30 June (unaudited)	
	Note	***2020***	***2019***
Cash flows from operating activities			
Profit for the period		**6,637**	**620**
Adjustments for:			
Accrued interest receivable		303	628
Accrued interest payable		(1,137)	249
Other accrued income receivable		(1,681)	(150)
Other accrued expenses payable		559	(68)
Depreciation and amortization	21	616	738
Allowance for expected credit losses from financial assets	22	2,266	359
Other provisions	23	35	–
Remeasurement of securities at fair value through profit or loss		(180)	(643)
Revaluation of currency items		179	791
Fair value remeasurement of hedges		1,525	–
Net gains from operations with securities at fair value through other comprehensive income	20	(4,337)	(1,455)
Cash from operating activities before changes in operating assets and liabilities		**4,785**	**1,069**
(Increase) decrease in operating assets			
Securities at fair value through profit or loss		(11,486)	(1,377)
Loans and deposits to banks		(29,694)	(7,722)
Loans to corporate customers		(16,316)	(5,406)
Other assets		(3,655)	(689)
Increase (decrease) in operating liabilities			
Due to credit institutions		(12,564)	29,801
Due to customers		(4,152)	30,541
Other liabilities		(4,335)	(119)
Net cash (used in) from operating activities		**(77,417)**	**46,098**
Cash flows from investing activities			
Purchases of securities at fair value through other comprehensive income		(223,447)	(136,700)
Sales of securities at fair value through other comprehensive income		192,588	102,940
Purchases of securities at amortized cost		(9,491)	(26,258)
Proceeds from redemption of securities at amortized cost		6,401	8,617
Purchases of property, plant and equipment		(362)	(140)
Net cash used in investing activities		**(34,311)**	**(51,541)**

The accompanying notes 1-28 are an integral part of these interim condensed financial statements.

Interim statement of cash flows

for the six months ended 30 June 2020 (continued)

		For the six months ended 30 June (unaudited)	
	Note	***2020***	***2019***
Cash flows from financing activities			
Proceeds from bonds issued	16	63,564	–
Proceeds from long-term financing raised from banks		51,136	–
Payments for lease liabilities		(2)	–
Net cash from financing activities		**114,698**	**–**
Net increase (decrease) in cash and cash equivalents before translation differences		**2,970**	**(5,443)**
Effect of changes in exchange rates on cash and cash equivalents		(950)	346
Effect of changes in expected credit losses from cash and cash equivalents		–	–
Net increase (decrease) in cash and cash equivalents		**2,020**	**(5,097)**
Cash and cash equivalents at 31 December of the year preceding the reporting period	5	**17,286**	**18,288**
Cash and cash equivalents at 30 June of the reporting year	5	**19,306**	**13,191**
Additional information:			
Interest received		9,263	6,349
Interest paid		(4,772)	(1,266)

The accompanying notes 1-28 are an integral part of these interim condensed financial statements.

(EUR thousand)

1. Principal activities of the Bank

The International Bank for Economic Co-operation (hereinafter, "IBEC" or the "Bank") was established in 1963 and is headquartered in Moscow, the Russian Federation.

The Bank is an international financial institution established and operating in accordance with an Intergovernmental Agreement Concerning the Organization and Activities of IBEC (registered with the United Nations Secretariat on 20 August 1964) (hereinafter, the "Agreement") and the Statutes of IBEC.

The main aims of the Bank are as follows:

- To promote the development of foreign economic ties among the Bank's member countries, business entities operating in such countries and business entities of other countries;
- To promote the establishment and activities of joint ventures, primary with the participation of enterprises of the Bank's member countries;
- To facilitate participation of the Bank's member countries in the development of market-oriented economic relations among business entities in the Bank's member countries and other countries.

In accordance with IBEC's Statutes, the Bank is authorized to conduct a full range of banking operations in line with the Bank's aims and objectives, including:

- Opening and maintaining customer accounts, receiving and placing customer funds in accounts with the Bank, handling documents and performing import and export payment and settlement operations, performing conversion, arbitrage, cash, guarantee and documentary operations, and providing banking consulting and other services;
- Attracting deposits and loans, issuing securities;
- Granting loans and bank guarantees, placing deposits and other borrowings, financing capital investments, discounting promissory notes, purchasing and selling securities, participating in the capital of banks and financial and other institutions;
- Other banking operations.

In accordance with the Agreement, the authorized share capital consists of equity contributions from IBEC member countries and amounts to EUR 400,000 thousand. The paid portion in the share capital of IBEC as at 30 June 2020 amounts to EUR 200,000 thousand (31 December 2019: EUR 200,000 thousand).

The Bank's member countries are eight countries located in Europe and Asia: the Republic of Bulgaria, the Socialist Republic of Vietnam, Mongolia, the Republic of Poland, the Russian Federation, Romania, the Slovak Republic and the Czech Republic. The allocation of shares of IBEC member countries in the Bank's paid-in share capital is provided below:

	30 June 2020 (unaudited)	*%*	*31 December 2019*	*%*
Russian Federation	103,179	51.59	103,179	51.59
Czech Republic	26,684	13.34	26,684	13.34
Republic of Poland	24,016	12.01	24,016	12.01
Republic of Bulgaria	15,121	7.56	15,121	7.56
Romania	14,232	7.12	14,232	7.12
Slovak Republic	13,342	6.67	13,342	6.67
Mongolia	2,668	1.33	2,668	1.33
Socialist Republic of Vietnam	758	0.38	758	0.38
Total	**200,000**	**100**	**200,000**	**100**

On 31 July 2014, the EU Council imposed sectoral sanctions against the Russian Federation. The preambles of the EU Council Decision of 31 July 2014 (paragraph 9) and Council Regulation (EU) No. 833/2014 of 31 July 2014 (paragraph 5) developed on its basis specifically stipulate that the imposed sanctions do not apply to "Russia-based institutions with international status established by intergovernmental agreements with Russia as one of the shareholders." Thus, IBEC is expressly excluded from the list of financial institutions to which restrictive measures of the Council of the European Union are applied.

(EUR thousand)

1. Principal activities of the Bank (continued)

The Bank operates in accordance with its charter and objectives established by the Bank's Development Strategy:

- In January 2020, Moody's international credit rating agency assigned to IBEC a long-term foreign currency issuer default rating at Baa3 with a stable outlook. It is the second investment grade rating assigned to the Bank after the initiation of IBEC's Updated Development Strategy until the end of 2020 and the implementation of a new business profile.
- In February 2020, IBEC entered into a cooperation agreement with the Russian Agency of Technological Development. The agreement provides for a joint support of initiatives to create and promote advanced technologies, cooperation to improve availability of financial and administrative resources for implementing investment projects in Russia and the Bank's member countries, and information and analytical partnership. The cooperation will be promoted in the following priority industries: machine building, pharmaceuticals, energy, oil and chemistry, biotechnologies, telecommunications and agriculture.
- In February 2020, IBEC and Golomt bank (Mongolia) signed a Memorandum of Understanding, which is aimed at developing "green economy" and setting out joint plans of financial institutions to finance environmental projects in Mongolia, IBEC member countries and regions where it operates. The Memorandum is based on the UN sustainable development goals: affordable and clean energy, responsible consumption and production and climate action.
- In March 2020, Fitch Ratings international credit rating agency revised its outlook for IBEC's long-term issuer default rating from Stable to Positive and confirmed the issuer default rating at BBB-. IBEC's short-term rating was confirmed at F3. In June 2020, Fitch Ratings international credit rating agency confirmed the positive outlook for IBEC's rating in the ongoing global crisis environment caused by the COVID-19 pandemic.
- Chairman of IBEC's Management Board joined the Business Council of Financial and Banking Association of Euro-Asian Cooperation (FBA EAC). FBA EAC's primary goal is to assist its members in creating favorable conditions for effective operation in Eurasia. FBA EAC's area of interest includes small and medium businesses, commercial banks, public private partnerships.
- In May 2020, Analytical Credit Rating Agency (ACRA) assigned to IBEC the A- credit rating, outlook stable, under the international scale, and the AAA(RU) rating, outlook stable, under the national scale for the Russian Federation. In accordance with the ACRA national rating scale, AAA(RU) is the highest possible rating for the Russian Federation.
- In May 2020, ACRA Europe a.s rating agency assigned to IBEC the BBB long-term foreign currency rating with a stable outlook. ACRA Europe a.s. (Bratislava, the Slovak Republic) is a member of ACRA Group and a subsidiary of ACRA (JSC). Ratings assigned by ACRA Europe a.s. may be accepted, inter alia, by the governmental authorities as risk measurement tools across the European Union.
- In June 2020, IBEC and Eurasian Development Bank signed a Memorandum of Cooperation. The banks intend to cooperate under environmental protection projects, resource sustainability projects, "green economy" development and programs aimed at achieving the UN Sustainable Development Goals for the period up to 2030.
- On 15 June 2020, IBEC successfully placed the second of issue of bonds (series 001R-02) on the Moscow Exchange. Investors reacted positively – the issue with a total nominal value of RUB 5 billion was placed in full.

2. Operating environment of the Bank

In the first half of 2020, the world economy faced serious adverse consequences of the COVID-19 pandemic, as well as restrictive quarantine measures to prevent its spread. All over the world, business activity declined in an unprecedented way, consumption and investments collapsed, especially in economic sectors requiring social interaction. In Q1 2020, an average GDP growth rate in IBEC member countries was negative and equaled (0.67)%. According to forecasts of the World Bank Group and the IMF, negative consequences of the crisis, which affected both developed and emerging economies, will result in the decrease of global GDP by 4.9-5.2% in 2020.

The crisis seriously affected the global trade as well. On the back of the weak demand, the collapse of cross border tourism (which has accounted for about 6.5% of the global export of goods and services in the recent years) and supply disruptions due to the shutdown of businesses, in Q1 2020 the global trade volumes decreased nearly by 3.5% year-on-year. Currently, the magnitude of the global trade decline in 2020 is estimated at 11.9-13.4%.

A downward pressure on prices caused by a decrease in total demand, together with the consequences of a drop in fuel prices in the reporting period, was more than enough to compensate for increasing costs due to supply disruptions. Therefore, the inflation rate in developed and emerging economies reduced to 0.4% and 4.2%, respectively.

After a sharp deterioration in February-March 2020, financial markets started to gradually recover, which was mainly due to significant liquidity maintenance measures taken by the central banks, including direct provision of loans to large investment companies, expansion of the list of assets pledged as collateral, and a large-scale purchase of assets. These support measures taken by the central banks helped increase liquidity and limit the growth of the cost of borrowings. In addition, actions of the financial regulators, such as changes in bank loan repayment conditions and the provision of opportunities to use buffer capital or liquidity reserves helped support loan offer in the national economies.

(EUR thousand)

3. Basis of preparation of the interim condensed financial statements and significant accounting policies

These interim condensed financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed financial statements do not include all the information and data to be disclosed in the annual financial statements and should be read in conjunction with the Bank's annual financial statements as at 31 December 2019.

Certain notes were included to explain events and operations that are significant for the understanding of changes in the Bank's financial position and performance, which have occurred since the date of the last annual financial statements.

The Bank has no subsidiaries or associates, and the interim condensed financial statements have therefore been prepared on a standalone basis.

The euro is the functional and presentation currency of the Bank's interim condensed financial statements. All amounts in the interim condensed financial statements are rounded to the nearest thousand euro.

The interim condensed financial statements are prepared on a going concern basis. Using this assumption, the Bank's Board considers the current intentions, the profitability of operations and available financial resources.

The interim condensed financial statements have been prepared under the historical cost convention, except for securities at fair value through profit or loss, securities at fair value through other comprehensive income, derivative financial instruments at fair value and a building recorded at a revalued amount.

The effect of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in early 2020, governments of many countries took various outbreak control measures, including travel restrictions, quarantine, closure of enterprises and institutions, and lockdown in certain regions. These measures affected the global supply system, the demand for goods and services, and business activity in general. The pandemic and measures to mitigate its consequences are expected to affect businesses across various industries. Since March 2020, extreme volatility on stock exchange, currency and commodity markets and a drop in oil prices have been observed.

In the context of a more complicated economic situation and the crisis negatively affecting individual industries and the global economy as a whole, the banking community and international rating agencies are more focused on the assessment of negative economic developments, their effect on possible losses and the amount of the respective provisions.

The Bank assesses the effect of the pandemic and changes in micro- and macroeconomic conditions on its business, financial position and financial performance.

In accordance with IFRS 9 *Financial Instruments*, the Bank applies the expected credit loss model to measure potential losses and reviews forecast information in a way that reflects "an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes" and "reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions." The Bank also determines to what extent, inter alia, the high level of uncertainty and any unexpected changes in short-term economic forecasts may result in negative consequences. The Bank reflects changes in economic conditions in applied macroeconomic scenarios and their respective weight coefficients. To calculate provisions for expected credit losses as at 30 June 2020, the Bank considered the following:

- The development analysis of the economies of IBEC member countries and other countries where IBEC operates, including the analysis of changes in GDP and CPI rates, etc. and availability of governmental support;
- Forecasts of the exchange rate of IBEC's functional currency to major foreign currencies;
- The effect of changes in economic conditions on various industries;
- A decline in income of legal entities due to economic restrictions.

(EUR thousand)

3. Basis of preparation of the interim condensed financial statements and significant accounting policies (continued)

Significant accounting estimates and professional judgments

In preparing these interim condensed financial statements, management used professional judgments, assumptions and estimates affecting the application of the accounting policies and the amounts of reported assets and liabilities, income and expenses. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to estimates are recognized in the reporting period in which the estimates are revised and in any future periods affected.

To the extent that information was available as at 30 June 2020, the Bank recorded revised estimates of expected future cash flows in its measurement of expected credit losses (Note 22) and fair value measurement of financial instruments (Note 25).

Key significant accounting estimates and judgments used in applying accounting policies are disclosed in the financial statements for the year ended 31 December 2019. Management did not identify any areas where new accounting estimates or judgments could be applied.

Changes in accounting policies

The accounting policies and calculation methods used in the preparation of these interim condensed financial statements are consistent with those used and described in the Bank's annual financial statements for the year ended 31 December 2019 (in Summary of accounting policies), except for the new standards below that have been applied since 1 January 2020. The nature and effect of these changes are disclosed below. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2020, but they do not have any impact on the Bank's interim condensed financial statements.

4. Adoption of new or revised standards, interpretations and reclassifications

The amendments and interpretations below have no significant impact on the interim condensed financial statements of the Bank:

- Amendments to IFRS 3: *Definition of a Business*;
- Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 and IAS 8: *Definition of Material*;
- *Conceptual Framework for Financial Reporting* issued on 29 March 2018.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Cash on hand	1,025	900
Correspondent accounts with banks in IBEC member countries	1,909	1,145
Correspondent accounts with banks in other countries	16,372	15,241
Total cash and cash equivalents	**19,306**	**17,286**
Allowance for expected credit losses	–	–
Cash and cash equivalents less allowance for expected credit losses	**19,306**	**17,286**

As at 30 June 2020, balances due to three major counterparties amounted to EUR 17,503 thousand and accounted for 90.66% of total cash and cash equivalents (31 December 2019: EUR 15,405 thousand, or 89.12% of total cash and cash equivalents).

(EUR thousand)

5. Cash and cash equivalents (continued)

The table below shows an analysis of cash and cash equivalents (other than cash on hand) by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available):

Cash and cash equivalents (other than cash on hand)	***30 June 2020 (unaudited)***	***31 December 2019***
Amounts due from central banks	15,063	13,657
Correspondent accounts with banks		
Internationally rated		
from AAA to A-	*2,156*	*165*
from BBB+ to BB-	*974*	*2,228*
from B+ to B-	*49*	*330*
from CCC+ to C	*6*	*6*
Internally rated only		
from BBB+ to BB-	*33*	*–*
Total	**18,281**	**16,386**
Allowance for expected credit losses	–	–
Carrying amount	**18,281**	**16,386**

As at 30 June 2020 and 31 December 2019, all balances of cash and cash equivalents are allocated to Stage 1.

The credit quality and interest rate risk of cash and cash equivalents are presented in Note 24.

6. Securities at fair value through profit or loss

Securities at fair value through profit or loss comprise:

	30 June 2020 (unaudited)	***31 December 2019***
Held by the Bank		
Eurobonds of other countries	4,430	–
from BBB+ to BB-	*4,430*	*–*
Corporate Eurobonds	4,368	–
from BBB+ to BB-	*4,368*	*–*
Eurobonds of banks	4,017	–
from BBB+ to BB-	*4,017*	*–*
Eurobonds of IBEC member countries	2,943	–
from BBB+ to BB-	*2,943*	*–*
Corporate bonds	–	4,412
from BBB+ to BB-	*–*	*4,412*
	15,758	**4,412**
Securities at fair value through profit or loss	**15,758**	**4,412**

Eurobonds of other countries are issued in euros, mature in June 2035 and bear a coupon rate of 1.75% p.a.

Corporate Eurobonds are issued in euros and Russian rubles, mature from June 2023 to June 2025 and coupon rates range from 2.7% to 6.3% p.a.

Eurobonds of banks are issued in euros, mature in June 2025 and bear a coupon rate of 1.375% p.a.

Eurobonds of IBEC member countries are issued in euros, mature in January 2050 and bear a coupon rate of 3.375% p.a.

As at 31 December 2019, corporate bonds are issued in Russian rubles, mature from October 2022 to October 2025 and coupon rates range from 7.7% to 7.9% p.a.

For the interest rate risk of securities at fair value through profit or loss please, refer to Note 24.

(EUR thousand)

7. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Held by the Bank		
Corporate Eurobonds	119,914	102,349
from BBB+ to BB-	*95,184*	*92,477*
from B+ to B-	*24,730*	*9,872*
Eurobonds of IBEC member countries	34,028	19,354
from AAA to A-	*2,686*	*3,517*
from BBB+ to BB-	*30,462*	*11,256*
from B+ to B-	*880*	*4,581*
Eurobonds of international financial institutions	14,942	2,113
from AAA to A-	*14,942*	*2,113*
Corporate bonds	12,744	23,651
from BBB+ to BB-	*10,142*	*23,651*
from B+ to B-	*2,602*	–
Bonds of IBEC member countries	8,626	–
from AAA to A-	*8,626*	–
Eurobonds of other countries	5,473	–
from AAA to A-	*3,000*	–
from BBB+ to BB-	*2,473*	–
Bonds of other countries	3,859	–
from B+ to B-	*3,859*	–
Bonds of banks	1,326	2,550
from AAA to A-	*1,005*	–
from BBB+ to BB-	*321*	*2,550*
Eurobonds of banks	1,080	2,395
from AAA to A-	–	*201*
from BBB+ to BB-	*1,080*	*2,194*
Eurobonds of funds	–	6,590
from AAA to A-	–	*6,590*
	201,992	**159,002**
Pledged under repurchase agreements		
Eurobonds of IBEC member countries	15,496	15,826
from AAA to A-	*12,783*	*6,464*
from BBB+ to BB-	*2,713*	*9,362*
Corporate Eurobonds	11,241	21,595
from BBB+ to BB-	*11,241*	*15,852*
from B+ to B-	–	*5,743*
Eurobonds of banks	2,692	6,880
from AAA to A-	–	*3,814*
from BBB+ to BB-	*2,692*	*3,066*
Eurobonds of international financial institutions	1,125	–
from AAA to A-	*1,125*	–
Eurobonds of other countries	38	–
from BBB+ to BB-	*38*	–
Bonds of IBEC member countries	10	–
from AAA to A-	*10*	–
	30,602	**44,301**
Securities at fair value through other comprehensive income	**232,594**	**203,303**

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(EUR thousand)

7. Securities at fair value through other comprehensive income (continued)

An analysis of changes in the gross carrying amount and changes in the allowance for expected credit losses from securities at fair value through other comprehensive income is presented below:

Securities at fair value through other comprehensive income	*Stage 1*	*Stage 2*	*Total*
Gross carrying amount at 1 January 2020	**203,303**	**–**	**203,303**
New originated or purchased assets	225,414	–	**225,414**
Transfer to Stage 2	(6,029)	6,029	**–**
Assets derecognized or redeemed (excluding write-offs)	(194,059)	–	**(194,059)**
Changes in currency exchange rates	(2,064)	–	**(2,064)**
Gross carrying amount at 30 June 2020 (unaudited)	**226,565**	**6,029**	**232,594**
Allowance for expected credit losses at 1 January 2020	**794**	**–**	**794**
New originated or purchased assets	283	–	**283**
Transfer to Stage 2	(584)	584	**–**
Assets derecognized or redeemed (excluding write-offs)	(346)	–	**(346)**
Changes to models and inputs used for ECL calculations	685	–	**685**
Changes in currency exchange rates	(3)	–	**(3)**
Allowance for expected credit losses at 30 June 2020 (unaudited)	**829**	**584**	**1,413**
Gross carrying amount at 1 January 2019	**130,747**	**–**	**130,747**
New originated or purchased assets	147,276	–	**147,276**
Assets derecognized or redeemed (excluding write-offs)	(105,873)	–	**(105,873)**
Changes in currency exchange rates	262	–	**262**
Gross carrying amount at 30 June 2019 (unaudited)	**172,412**	**–**	**172,412**
Allowance for expected credit losses at 1 January 2019	**602**	**–**	**602**
New originated or purchased assets	306	–	**306**
Assets derecognized or redeemed (excluding write-offs)	(301)	–	**(301)**
Changes to models and inputs used for ECL calculations	92	–	**92**
Changes in currency exchange rates	1	–	**1**
Allowance for expected credit losses at 30 June 2019 (unaudited)	**700**	**–**	**700**

Securities at fair value through other comprehensive income comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 30,602 thousand as at 30 June 2020 (31 December 2019: EUR 44,301 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

Corporate Eurobonds are debt securities denominated in euros, US dollars, Russian rubles and Swiss francs issued by financial and industrial entities of IBEC member countries for circulation on markets external to the issuer and for trade on exchange markets. Corporate Eurobonds mature from December 2022 to February 2030 (31 December 2019: from December 2022 to October 2028), and coupon rates range from 0.84% to 6.75% p.a. (31 December 2019: 0.875% to 7.75% p.a.).

Eurobonds of IBEC member countries are issued in euros and US dollars for circulation on markets external to the issuing country and for trade in over-the-counter markets. Eurobonds mature from December 2022 to January 2032 (31 December 2019: from December 2022 to July 2031), and coupon rates range from 0% to 5.125% p.a. (31 December 2019: 1% to 5.125% p.a.).

Eurobonds of international financial institutions are denominated in euros and US dollars that are traded on exchange markets external to the issuing country. Eurobonds mature from January 2022 to November 2023 (31 December 2019: October 2020), and coupon rates range from 0.1640% to 1.4588% p.a. (31 December 2019: 1.4514% p.a.).

Corporate bonds denominated in Russian rubles and euros were issued by financial institutions of IBEC member countries for circulation on internal markets of the issuing countries and trade on exchange markets. Corporate bonds mature from December 2024 to March 2034 (31 December 2019: from October 2022 to March 2034), and coupon rates range from 1.75% to 9.1% p.a. (31 December 2019: 1.75% to 9.1% p.a.).

(EUR thousand)

7. Securities at fair value through other comprehensive income (continued)

Bonds of IBEC member countries were issued in euros for circulation on internal and exchange markets of the issuing countries and for trade on over-the-counter markets, mature from May 2025 to May 2032, and coupon rates range from 0.25% to 1% p.a.

Eurobonds of other countries are issued in euros, traded on exchange markets external to the issuing country, mature from June 2030 to April 2032 and coupon rate range from 0.125% to 1.625% p.a.

As at 30 June 2020, bonds of other countries were issued in Russian rubles for circulation on internal and exchange markets of the issuing countries and for trade on over-the-counter markets, mature in May 2025 and bear a coupon rate of 8.5% p.a.

Bonds of banks are debt securities denominated in Russian rubles and euros for circulation on internal markets of the issuing countries. Bonds of banks mature from November 2020 to June 2025 (31 December 2019: from November 2020 to November 2026), and coupon rates range from 0.01% to 8% p.a. (31 December 2019: 7.27% to 8% p.a.).

Eurobonds of banks are debt securities denominated in euros for circulation on markets external to the issuer. Eurobonds of banks mature in February 2023 (31 December 2019: from April 2021 to July 2029), and coupon rates is 4.0320% p.a. (31 December 2019: 0% to 5.15% p.a.).

As at 31 December 2019, Eurobonds of funds are denominated in euros and comprise Eurobonds issued by international financial funds that are traded on exchange markets external to the issuing country. Eurobonds of funds mature from January 2020 to July 2023, and coupon rates range from 0% to 1.5% p.a.

For the credit quality and interest rate risk of securities at fair value through other comprehensive income please refer to Note 24.

8. Securities at amortized cost

Securities at amortized cost comprise:

	30 June 2020 (unaudited)	***31 December 2019***
Held by the Bank		
Corporate Eurobonds	30,524	22,663
from BBB+ to BB-	*19,503*	*16,134*
from B+ to B-	*11,021*	*6,529*
Eurobonds of banks	16,857	17,170
from BBB+ to BB-	*12,256*	*12,515*
from B+ to B-	*4,601*	*4,655*
Eurobonds of IBEC member countries	5,129	−
from BBB+ to BB-	*5,129*	−
Corporate bonds	3,344	8,054
from BBB+ to BB-	*342*	*8,054*
from B+ to B-	*3,002*	−
	55,854	**47,887**
Pledged under repurchase agreements		
Corporate Eurobonds	9,236	9,949
from BBB+ to BB-	*9,236*	*9,949*
Eurobonds of IBEC member countries	11	5,163
from BBB+ to BB-	*11*	*5,163*
	9,247	**15,112**
Total securities at amortized cost	**65,101**	**62,999**
Allowance for expected credit losses	(587)	(467)
Securities at amortized cost	**64,514**	**62,532**

(EUR thousand)

8. Securities at amortized cost (continued)

As at 30 June 2020, securities at amortized cost comprise securities pledged as collateral under repurchase agreements with an amortized cost of EUR 9,148 thousand (31 December 2019: EUR 15,019 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

Corporate Eurobonds and corporate bonds are debt securities issued in euros, US dollars and Russian rubles by financial and industrial entities of IBEC member countries for circulation on markets internal and external to the issuer and for trade on over-the-counter and exchange markets. The Eurobonds mature from May 2021 to February 2028 (31 December 2019: May 2021 to May 2027), and coupon rates range from 1.5% to 7.75% p.a. (31 December 2019: 1.5% to 7.75% p.a.). Corporate bonds mature from December 2024 to March 2034 (31 December 2019: from December 2024 to March 2034), and coupon rates range from 1.75 % to 9.1% p.a. (31 December 2019: 1.75 % to 9.1% p.a.).

Eurobonds of banks comprise debt securities issued in euros and US dollars for circulation on markets external to the issuer, mature from February 2023 to October 2023 (31 December 2019: from February 2023 to October 2023) and coupon rates range from 4.032% to 7.25% p.a. (31 December 2019: from 4.032% to 7.25% p.a.).

Eurobonds of IBEC member countries are issued in euros for circulation on markets external to issuing country and for trade on over-the-counter markets. Eurobonds mature from December 2026 to April 2027 (31 December 2019: from December 2026 to April 2027), and coupon rates range from 2% to 2.375% p.a. (31 December 2019: 2% to 2.375% p.a.).

An analysis of changes in the gross carrying amount and changes in the allowance for expected credit losses from securities at amortized cost is presented below:

Securities at amortized cost	***Stage 1***	***Total***
Gross carrying amount at 1 January 2020	**62,999**	**62,999**
New originated or purchased assets	10,648	**10,648**
Assets derecognized or redeemed (excluding write-offs)	(8,128)	**(8,128)**
Changes in currency exchange rates	(418)	**(418)**
Gross carrying amount at 30 June 2020 (unaudited)	**65,101**	**65,101**
Allowance for expected credit losses at 1 January 2020	**467**	**467**
New originated or purchased assets	42	**42**
Assets derecognized or redeemed (excluding write-offs)	(44)	**(44)**
Changes to models and inputs used for ECL calculations	125	**125**
Changes in currency exchange rates	(3)	**(3)**
Allowance for expected credit losses at 30 June 2020 (unaudited)	**587**	**587**
Gross carrying amount at 1 January 2019	**41,034**	**41,034**
New originated or purchased assets	27,097	**27,097**
Assets derecognized or redeemed (excluding write-offs)	(9,315)	**(9,315)**
Changes in currency exchange rates	343	**343**
Gross carrying amount at 30 June 2019 (unaudited)	**59,159**	**59,159**
Allowance for expected credit losses at 1 January 2019	**118**	**118**
New originated or purchased assets	152	**152**
Assets derecognized or redeemed (excluding write-offs)	(13)	**(13)**
Changes to models and inputs used for ECL calculations	76	**76**
Changes in currency exchange rates	(1)	**(1)**
Allowance for expected credit losses at 30 June 2019 (unaudited)	**332**	**332**

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(EUR thousand)

8. Securities at amortized cost (continued)

The Bank makes investments in the debt securities of companies from the member countries of the Bank acquired at initial placement by the issuers. The Bank treats securities purchased at initial placement as a credit investment activity, i.e. as a form of participation in financing socially important infrastructure projects in the member countries of the Bank, as well as support to small and medium business. In the table below, such securities are presented within the credit investment portfolio of securities.

	30 June 2020 (unaudited)	*31 December 2019*
Credit investment portfolio of securities	32,078	29,635
Securities purchased on capital markets	32,436	32,897
Securities at amortized cost	**64,514**	**62,532**

For the credit quality and interest rate risk of securities at amortized cost, please refer to Note 24.

9. Loans and deposits to banks

Loans and deposits to banks comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Loans issued to banks under trade financing	78,371	77,805
Syndicated loans	34,793	14,078
Term deposits with banks in IBEC member countries	28,000	16,024
Term deposits with banks in other countries	–	3,925
Total loans and deposits to banks	**141,164**	**111,832**
Allowance for expected credit losses	(1,004)	(889)
Loans and deposits to banks	**140,160**	**110,943**

As at 30 June 2020, balances due to three major counterparties amounted to EUR 57,634 thousand, or 41.12% of total loans and deposits to banks (31 December 2019: EUR 46,725 thousand, or 42.12% of total loans and deposits to banks).

The table below shows an analysis of loans and deposits to banks by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available):

Loans and deposits to banks	*30 June 2020 (unaudited)*	*31 December 2019*
Internationally rated		
from BBB+ to BB-	*284*	*5,194*
from B+ to B-	*110,872*	*76,802*
from CCC+ to C	*26,480*	*27,261*
Internally rated only		
from BBB+ to BB-	–	*574*
from B+ to B-	*3,528*	*2,001*
Total	**141,164**	**111,832**
Allowance for expected credit losses	(1,004)	(889)
Carrying amount	**140,160**	**110,943**

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(EUR thousand)

9. Loans and deposits to banks (continued)

An analysis of changes in the gross carrying amount and changes in the allowance for expected credit losses from loans and deposits to banks is presented below:

Loans and deposits to banks	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2020	**111,832**	**–**	**–**	**111,832**
New originated or purchased assets	145,776	–	–	**145,776**
Transfer to Stage 2	(10,029)	10,029	–	**–**
Assets derecognized or redeemed (excluding write-offs)	(115,795)	–	–	**(115,795)**
Changes in currency exchange rates	(649)	–	–	**(649)**
Gross carrying amount at 30 June 2020 (unaudited)	**131,135**	**10,029**	**–**	**141,164**
Allowance for expected credit losses at 1 January 2020	**889**	**–**	**–**	**889**
New originated or purchased assets	1,090	–	–	**1,090**
Transfer to Stage 2	(86)	86	–	**–**
Assets derecognized or redeemed (excluding write-offs)	(213)	–	–	**(213)**
Changes to models and inputs used for ECL calculations	(754)	–	–	**(754)**
Changes in currency exchange rates	(8)	–	–	**(8)**
Allowance for expected credit losses at 30 June 2020 (unaudited)	**918**	**86**	**–**	**1,004**

Loans and deposits to banks	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2019	**51,327**	**–**	**11**	**51,338**
New originated or purchased assets	84,912	–	–	**84,912**
Assets derecognized or redeemed (excluding write-offs)	(77,328)	–	(11)	**(77,339)**
Changes in currency exchange rates	466	–	–	**466**
Gross carrying amount at 30 June 2019 (unaudited)	**59,377**	**–**	**–**	**59,377**
Allowance for expected credit losses at 1 January 2019	**227**	**–**	**11**	**238**
New originated or purchased assets	611	–	–	**611**
Assets derecognized or redeemed (excluding write-offs)	(133)	–	(11)	**(144)**
Changes to models and inputs used for ECL calculations	(327)	–	–	**(327)**
Changes in currency exchange rates	1	–	–	**1**
Allowance for expected credit losses at 30 June 2019 (unaudited)	**379**	**–**	**–**	**379**

For the credit quality and interest rate risk of loans and deposits to banks please refer to Note 24.

In July 2020, a loan of EUR 10,000 thousand provided to a bank for trade financing purposes and transferred to Stage 2 in the reporting period was early repaid.

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(EUR thousand)

10. Loans to corporate customers

Loans to corporate customers comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Loans issued to legal entities from IBEC member countries	94,357	83,208
Loans for foreign trade purposes issued to legal entities from IBEC member countries	79,271	40,010
Syndicated loans issued to legal entities from other countries	20,866	27,682
Syndicated loans issued to legal entities from IBEC member countries	7,628	36,545
Total loans to corporate customers	**202,122**	**187,445**
Allowance for expected credit losses	(1,666)	(377)
Loans to corporate customers less allowance for expected credit losses	**200,456**	**187,068**

Loans are issued to corporate customers operating in the following industry sectors:

	30 June 2020 (unaudited)		*31 December 2019*	
	Amount	*%*	*Amount*	*%*
Transport	57,487	28.68	12,830	6.86
Gas industry	50,017	24.95	50,012	26.73
Power industry	39,875	19.89	39,953	21.36
Investment activities (leases)	27,499	13.72	28,021	14.98
Aluminum industry	8,002	3.99	9,002	4.81
Telecommunications	7,742	3.86	22,369	11.96
Investing activities	4,987	2.49	–	–
Retail trade	4,847	2.42	5,034	2.69
Pharmaceuticals	–	–	19,847	10.61
Total loans to corporate customers	**200,456**	**100**	**187,068**	**100**

As at 30 June 2020, balances with three major counterparties of the Bank amounted to EUR 128,501 thousand, or 64.10% of the Bank's total loan portfolio less allowance for expected credit losses (31 December 2019: EUR 110,267 thousand, or 58.95% of the Bank's total loan portfolio less allowance for expected credit losses).

Loans are issued to customers operating in the following countries:

	30 June 2020 (unaudited)	*31 December 2019*
Russian Federation	67,157	68,909
Republic of Bulgaria	62,747	58,518
Mongolia	38,609	–
Romania	12,848	27,900
Republic of Poland	11,731	4,177
Other countries	7,364	7,717
Hungary	–	19,847
Total	**200,456**	**187,068**

Other countries are represented by countries that carry out their operations in transactions with the Bank's member countries.

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(EUR thousand)

10. Loans to corporate customers (continued)

The table below shows an analysis of loans to corporate customers by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available):

Loans to corporate customers	***30 June 2020 (unaudited)***	***31 December 2019***
Internationally rated		
from BBB+ to BB-	*20,172*	*42,807*
from B+ to B-	*7,799*	–
Internally rated only		
from AAA to A-	–	*4,178*
from BBB+ to BB-	*69,814*	*140,460*
from B+ to B-	*104,337*	–
Total	**202,122**	**187,445**
Allowance for expected credit losses	(1,666)	(377)
Carrying amount	**200,456**	**187,068**

An analysis of changes in the gross carrying amount and changes in the allowance for expected credit losses from loans to corporate customers is presented below:

Loans to corporate customers	***Stage 1***	***Stage 2***	***Total***
Gross carrying amount at 1 January 2020	**179,611**	**7,834**	**187,445**
New originated or purchased assets	55,035	260	**55,295**
Assets derecognized or redeemed (excluding write-offs)	(38,833)	(408)	**(39,241)**
Changes in currency exchange rates	(1,319)	(58)	**(1,377)**
Gross carrying amount at 30 June 2020 (unaudited)	**194,494**	**7,628**	**202,122**
Allowance for expected credit losses at 1 January 2020	**260**	**117**	**377**
New originated or purchased assets	662	–	**662**
Assets derecognized or redeemed (excluding write-offs)	(67)	–	**(67)**
Changes to models and inputs used for ECL calculations	547	148	**695**
Changes in currency exchange rates	–	(1)	**(1)**
Allowance for expected credit losses at 30 June 2020 (unaudited)	**1,402**	**264**	**1,666**

Loans to corporate customers	***Stage 1***	***Stage 2***	***Total***
Gross carrying amount at 1 January 2019	**74,989**	**8,814**	**83,803**
New originated or purchased assets	16,197	292	**16,489**
Assets derecognized or redeemed (excluding write-offs)	(10,379)	(677)	**(11,056)**
Write-offs	–	–	**–**
Changes in currency exchange rates	108	58	**166**
Gross carrying amount at 30 June 2019 (unaudited)	**80,915**	**8,487**	**89,402**
Allowance for expected credit losses at 1 January 2019	**311**	**155**	**466**
New originated or purchased assets	22	–	**22**
Assets derecognized or redeemed (excluding write-offs)	–	–	**–**
Changes to models and inputs used for ECL calculations	(90)	(8)	**(98)**
Write-offs	–	–	**–**
Changes in currency exchange rates	1	1	**2**
Allowance for expected credit losses at 30 June 2019 (unaudited)	**244**	**148**	**392**

For the six months ended 30 June 2020, the Bank had no renegotiated loans.

During the six months ended 30 June 2020, the Bank sold to an unrelated party the loan debt previously recognized by the IBEC Council as uncollectable. The Bank wrote off the outstanding amount of EUR 15,749 thousand (including overdue interest of EUR 1,565 thousand and penalty of EUR 3,164 thousand) against the allowance. Selling price comprised EUR 3,500 thousand. This amount is included in the interim statement of profit or loss and other comprehensive income in other banking income.

(EUR thousand)

10. Loans to corporate customers (continued)

Collateral and other credit enhancements

In accordance with its internal rules and procedures, the Bank accepts the following types of collateral from its borrowers:

- Guarantees from governments and IBEC member countries;
- Bank guarantees;
- Third-party guarantees;
- Commercial property;
- Liquid equipment of enterprises, which is widely used, and equipment which may be considered unique in exceptional circumstances;
- Government securities and highly liquid corporate securities.

When the Bank provides loans, the value of assets obtained as collateral should be higher than the amount of the loan, loan interest and other payments to the Bank over the entire term of the loan as provided by international law, requirements of the legislation effective in the country where the Bank is located, business practices or contract/agreement.

The principal types of collateral obtained for loans to corporate customers are:

- Guarantees from governments of IBEC member countries;
- Pledge of real estate;
- Third-party guarantees;
- Cash in bank.

The Bank monitors the fair value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

Collateral obtained for loans to corporate customers comprises:

	30 June 2020 (unaudited)	***31 December 2019***
Loans secured by deposits	50,017	50,012
Loans secured by real estate	27,737	57,472
Loans guaranteed by other parties, including credit insurance	23,346	11,123
Loans secured by pledge of (movable) property	20,872	21,075
Unsecured loans	78,484	47,386
Total loans to corporate customers	**200,456**	**187,068**

The information above includes the net carrying amount of loans that was allocated on the basis of the liquidity of assets accepted as collateral.

For the quality analysis and interest rate risk of the loan portfolio please refer to Note 24.

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(EUR thousand)

11. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments recorded in the interim condensed financial statements as assets or liabilities.

	Notional principal	Fair value Asset	Fair value Liability
30 June 2020 (unaudited)			
Cross-currency interest rate contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	25,237	10	572
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	19,104	1	1,570
Cross-currency interest rate contracts used as hedging instruments			
Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments	111,936	1,082	4,504
Derivative financial instruments (contracts with residents of other countries) used as hedging instruments	38,488	–	588
Total derivative assets/liabilities		**1,093**	**7,234**
31 December 2019			
Cross-currency interest rate contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	24,662	1,968	–
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	19,824	–	1,800
Cross-currency interest rate contracts used as hedging instruments			
Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments	73,691	3,721	–
Total derivative assets/liabilities		**5,689**	**1,800**

The fair values of receivables or payables on interest rate, foreign exchange and cross-currency interest rate swap contracts entered into by the Bank at the end of the reporting period by currency are presented in the table below. The table includes the contracts with settlement dates after the end of the respective reporting period and reflects gross positions before the netting of any counterparty positions (and payments). A significant part of transactions is represented by short-term transactions.

	30 June 2020 (unaudited)		*31 December 2019*	
	Contracts with positive fair value	*Contracts with negative fair value*	*Contracts with positive fair value*	*Contracts with negative fair value*
Cross-currency interest rate swaps: fair value at the end of the reporting period				
- USD payable on settlement (-)	–	20,223	19,016	–
- RUB receivable on settlement (+)	5,050	19,651	25,738	–
- EUR payable on settlement (-)	5,040	–	4,754	–
Foreign exchange swaps: fair value at the end of the reporting period				
- USD payable on settlement (-)	–	13,290	–	16,724
- EUR receivable on settlement (+)	5,812	11,720	–	17,319
- Payable in other currencies on settlement (-)	5,811	–	–	2,395
Cross-currency interest rate swaps used as hedging instruments: fair value at the end of the reporting period				
- EUR payable on settlement (-)	12,866	145,827	76,990	–
- RUB receivable on settlement (+)	13,948	140,735	80,711	–
Net fair value of interest rate, foreign exchange and cross-currency interest rate swaps	**1,093**	**(7,234)**	**5,689**	**(1,800)**

(EUR thousand)

11. Derivative financial instruments (continued)

Interest rate, foreign exchange and cross-currency interest rate derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to these instruments. The total fair values of derivative financial instruments can fluctuate significantly from time to time.

Cash flow hedges

Cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments.

The Bank's cash flows hedges consist of cross-currency interest rate swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued notes in rubles due to changes in interest rate and currency risks (Note 24). The hedging ratio is established by matching the notional of the derivative against the principal of the hedged item.

For the six months ended 30 June 2020, the Bank designated the following financial liabilities as hedged items in cash flow hedge relationships (30 June 2019: none):

	Cash flow hedge reserve	
Cash flow hedges	***Continuing hedging***	***Discontinued hedging***
30 June 2020 (unaudited)		
RUB-denominated bonds with a fixed interest rate	2,648	–
31 December 2019		
RUB-denominated bonds with a fixed interest rate	893	–

The corresponding line in the interim statement of financial position, where the hedged items are recorded, are debt securities issued.

To test the hedge effectiveness, the Bank compares the changes in the fair value of the hedging instruments against the changes in the fair value of the hedged items attributable to the hedged risks (interest rate and currency risks) as represented by a hypothetical derivative. The hypothetical derivative method involves establishing a notional derivative that would be the ideal hedging instrument for hedged exposures. The basis currency spread is excluded from the hedge relationship and is recognized in the interim statement of profit or loss and other comprehensive income.

Cash flow hedges may be expected to be ineffective due to mismatches in the timing and the amounts of cash flows from the hedging instrument and the hedged item as well as changes in the fair value of the derivative instrument from the date of the transaction to the date when the hedge relationship is established.

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(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

The table below sets out the outcome of the Bank's hedging strategy, in particular, the notional and carrying amounts of derivatives of the Bank uses as hedging instruments and their changes in fair value used for measuring hedge effectiveness separately showing the effective and ineffective portions:

					Changes in the fair values of hedging instruments used for measuring hedge ineffectiveness					
		Carrying value			***Effective portion***	***Effective portion***	***Hedge ineffectiveness***	***Reclassified to profit or loss in***		
Cash flow hedges	***Notional amount***	***Assets***	***Liabilities***	***Total***	***Recognized in other comprehensive income (cash flow reserve net of basis currency spread)***	***Recognized in other comprehensive income (basis currency spread)***	***Recognized in the interim statement of profit or loss within net gains (losses) from derivative financial instruments and foreign currency***	***Net interest income (expense) calculated using the EIR method***	***Net gains (losses) from operations with derivative financial instruments and foreign currency***	***Net gains (losses) from operations with derivative financial instruments and foreign currency***
30 June 2020 (unaudited)										
Cross-currency interest rate swaps	150,424	1,082	5,092	**(4,327)**	(3,345)	(1,081)	(99)	2,591	(8,548)	(224)
31 December 2019										
Cross-currency interest rate swaps	73,691	3,721	–	**4,115**	4,536	(353)	(68)	1,146	2,232	(88)

The cumulative amount of the change in fair value of the hedged item since the beginning of the hedging relationship amounted to EUR (813) thousand as at 30 June 2020 (31 December 2019: EUR 4,536 thousand). The cumulative amount of the change in the fair value of the hedging instrument, excluding basis currency spread, from the moment the hedge began, amounted to EUR (3,263) thousand as at 30 June 2020 (31 December 2019: EUR 4,590 thousand). During the six months ended 30 June 2020, the effective portion of hedging relationships recognized in other comprehensive income (cash flow hedge reserve, excluding basis currency spread) was adjusted to the smallest of the two amounts (30 June 2019: none).

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(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

The table below provides the maturities and interest rates of derivative financial instruments used by the Bank as cash flow hedging instruments:

Cash flow hedges	***12 months to 5 years***	***Total***
30 June 2020 (unaudited)		
Cross-currency interest rate swaps		
Notional amount	150,424	**150,424**
Average fixed interest rate, EUR	1.24%	**1.24%**
Average fixed interest rate, RUB	7.14%	**7.14%**
Average EUR/RUB exchange rate	0.0132	**0.0132**
31 December 2019		
Cross-currency interest rate swaps		
Notional amount	73,691	**73,691**
Average fixed interest rate, EUR	1.1%	**1.1%**
Average fixed interest rate, RUB	7.9%	**7.9%**
Average EUR/RUB exchange rate	0.0142	**0.0142**

The table below provides the effect of hedging activity on equity:

	Cash flow hedge reserve net of basis currency spread	***Basis currency spread***
Balance at 1 January 2020	**1,158**	**(265)**
Cash flow hedges		
Effective portion of changes in the fair value of cross-currency interest rate swaps	(3,345)	(1,081)
Net amounts reclassified to profit or loss:		
- interest expense	(2,591)	–
- net gains (losses) from operations with derivative financial instruments and foreign currency	8,548	224
Balance at 30 June 2020 (unaudited)	**3,770**	**(1,122)**

For the six month period ended 30 June 2019, there were no cash flow hedges.

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(EUR thousand)

12. Property, plant and equipment, intangible assets and right-of-use assets

Movements in property, plant and equipment for the six months ended 30 June 2020 were as follows:

30 June 2020 (unaudited)	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Intangible assets and investments in intangible assets*	*Right-of-use assets*	*Total*
Cost								
Balance at 1 January 2020		**78,386**	**1,632**	**557**	**568**	**1,605**	**25**	**82,773**
Additions		38	122	–	–	188	–	**348**
Disposals		–	–	(1)	–	–	–	**(1)**
Balance at 30 June 2020 (unaudited)		**78,424**	**1,754**	**556**	**568**	**1,793**	**25**	**83,120**
Accumulated depreciation								
Balance at 1 January 2020		**23,750**	**1,371**	**340**	**296**	**1**	**2**	**25,760**
Depreciation charges for the reporting period	21	515	52	6	39	1	3	**616**
Disposals		–	–	(1)	–	–	–	**(1)**
Balance at 30 June 2020 (unaudited)		**24,265**	**1,423**	**345**	**335**	**2**	**5**	**26,375**
Net book value								
Net book value at 1 January 2020		**54,636**	**261**	**217**	**272**	**1,604**	**23**	**57,013**
Net book value at 30 June 2020 (unaudited)		**54,159**	**331**	**211**	**233**	**1,791**	**20**	**56,745**

Movements in property, plant and equipment for the six months ended 30 June 2019 were as follows:

30 June 2019 (unaudited)	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Total*
Cost						
Balance at 1 January 2019		**100,859**	**1,455**	**577**	**568**	**103,459**
Additions		43	57	40	–	**140**
Disposals		–	(3)	–	–	**(3)**
Balance at 30 June 2019 (unaudited)		**100,902**	**1,509**	**617**	**568**	**103,596**
Accumulated depreciation						
Balance at 1 January 2019		**29,312**	**1,310**	**375**	**215**	**31,212**
Depreciation charges for the reporting period	21	650	36	10	42	**738**
Disposals		–	(3)	–	–	**(3)**
Balance at 30 June 2019 (unaudited)		**29,962**	**1,343**	**385**	**257**	**31,947**
Net book value						
Net book value at 1 January 2019		**71,547**	**145**	**202**	**353**	**72,247**
Net book value at 30 June 2019 (unaudited)		**70,940**	**166**	**232**	**311**	**71,649**

Sensitivity of the fair value of the building

As at 30 June 2020, the fair value of the building owned by the Bank was EUR 54,159 thousand (31 December 2019: EUR 54,636 thousand). The fair value of one square meter was EUR 2,139 (31 December 2019: EUR 2,158). If the value of one square meter increases by 10%, the fair value of the building will be EUR 59,575 thousand (31 December 2019: EUR 60,100 thousand); if the value of one square meter decreases by 10%, the fair value of the building will be EUR 48,743 thousand (31 December 2019: EUR 49,172 thousand).

If the building were valued using the cost model, the carrying amounts would be as follows:

	30 June 2020 (unaudited)	***31 December 2019***
Cost	48,273	48,235
Accumulated depreciation	(14,903)	(14,573)
Net book value	**33,370**	**33,662**

(EUR thousand)

12. Property, plant and equipment, intangible assets and right-of-use assets (continued)

Revaluation of assets

The Bank regularly evaluates the fair value of a building to ensure that its current value does not differ materially from its fair value. The building was last revalued at market value as of December 31, 2015. The appraisal was carried out by an independent firm of professional appraisers, which has a recognized qualification and relevant professional experience in appraising properties in a similar location and a similar category. An independent assessment of the fair value of the building was performed by an independent firm of professional appraisers with acknowledged qualifications and relevant professional experience in the valuation of property of a similar category and in a similar location.

As at 30 June 2020 and 31 December 2019, the Bank did not engage an independent appraiser for the independent assessment of the fair value of the building. Management of the Bank performed an analysis and, based on the cost of similar properties offered on the market, concluded that there were no significant changes in the real estate market and in the condition of the building during the reporting period. Management of the Bank believes that the fair value of the building did not change significantly as at 30 June 2020 and 31 December 2019 from its carrying amount.

To analyze the fair value of the building, the Bank used the market method and the income capitalization method.

The market method is based on the analysis of comparable sales of similar buildings. The following key assumptions were used in applying the market method:

- Sales prices of similar buildings ranging from EUR 2 thousand to EUR 3.5 thousand per square meter were used for valuation purposes;
- The price of comparable buildings was reduced by a negotiated discount of 10%;
- The price of comparable buildings was adjusted for location and floor space within the range of 0-10%.

The following key assumptions were used in applying the income capitalization method:

- Cash flows are forecast for a period of 1 to 5 years, excluding the effect of inflation;
- Rental rates vary from EUR 315 to EUR 350 per square meter per year;
- The average annual growth rate of rental rates varies from approximately 4.2% to 4.39% per year during the valuation period;
- Net cash flows are discounted to their present value using the discount rate of 10.0%.

The value determined using the key assumptions represents management's analysis of further business prospects and is based on both external and internal sources of information.

The fair value of the building is classified within Level 3 of the fair value hierarchy.

The Bank leases part of the building to third parties, but the building is primarily intended for use by the Bank for its own purposes. As the Bank cannot physically separate the leased floor space and the leased floor space is insignificant, the Bank classifies the building as an item of property, plant and equipment.

The Bank expects to receive the following operating lease payments after 30 June 2020: within 30 days: EUR 156 thousand; 31 days to 180 days: EUR 738 thousand; 181 days to one year: EUR 878 thousand; over one year to 3 years: EUR 674 thousand.

13. Other assets and liabilities

Other assets comprise:

	Note	*30 June 2020 (unaudited)*	*31 December 2019*
Financial assets			
Margin call		6,660	1,778
Accounts receivable under business operations		964	446
Consumer lending		312	293
Bank fees receivable from customers		98	28
Allowance for expected credit losses from financial assets	22	(4)	(7)
Total financial assets less allowance for expected credit losses		**8,030**	**2,538**
Non-financial assets			
Property transferred to the Bank in repayment of the loan		103	103
Inventories		55	48
Total non-financial assets		**158**	**151**
Total other assets		**8,188**	**2,689**

(EUR thousand)

13. Other assets and liabilities (continued)

As at 30 June 2020 and 31 December 2019, other financial assets are classified in Stage 1.

Other liabilities comprise:

	Note	*30 June 2020 (unaudited)*	*31 December 2019*
Financial liabilities			
Contributions to social security funds		1,524	1,218
Settlements under financial and business operations		843	5,180
Lease liabilities		22	23
Advances received		11	85
Other accrued liabilities		23	11
Total financial liabilities		**2,423**	**6,517**
Non-financial liabilities			
Allowance for expected credit losses from credit-related commitments	17, 22	262	154
Provision for unused vacations	23	130	99
Allowance for litigation charges	23	11	11
Total non-financial liabilities		**403**	**264**
Total other liabilities		**2,826**	**6,781**

14. Due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Loans from banks in IBEC member countries	45,913	59,278
Long-term related financing from the banks of IBEC member countries	39,656	−
Repurchase agreements	36,666	54,205
Loans from international financial institutions	26,383	1,010
Long-term financing from banks in other countries	19,861	9,920
Loans from banks in other countries	−	4,599
Correspondent accounts of banks from IBEC member countries	407	370
Due to credit institutions	**168,886**	**129,382**

As at 30 June 2020, balances due to three major counterparties amounted to EUR 94,004 thousand or 55.66% of the total amount due to credit institutions (31 December 2019: EUR 70,364 thousand due to three major counterparties or 54.38% of the total amount due to credit institutions).

The Bank entered into repurchase agreements with the banks in IBEC member countries and with banks in other countries with encumbrances on securities with a fair value of EUR 39,750 thousand as at 30 June 2020 (31 December 2019: EUR 59,320 thousand) (Notes 7, 8).

Transferred financial assets not derecognized

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

	Note	*30 June 2020 (unaudited)*	*31 December 2019*
Carrying amount of transferred assets – securities at fair value through other comprehensive income	7	30,602	44,301
Carrying amount of transferred assets − securities at amortized cost	8	9,148	15,019
Carrying amount of associated liabilities – due to credit institutions		(36,666)	(54,205)

The Bank transfers securities under repurchase agreements to a third party for cash or other financial assets and does not derecognize them. In certain circumstances, when the value of securities increases, the Bank may demand additional financing. If the value of securities decreases, the Bank may have to provide additional collateral in the form of securities or partially repay the cash received. The Bank 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 recognized a financial liability for cash received.

(EUR thousand)

15. Due to customers

Amounts due to customers comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Deposits of organizations in IBEC member countries	79,609	82,357
Current accounts of organizations in IBEC member countries	4,445	9,437
Current accounts of organizations in other countries	918	449
Other current accounts	4,592	5,023
Due to customers	**89,564**	**97,266**

As at 30 June 2020, balances due to three major customers of the Bank amounted to EUR 79,136 thousand, or 88.36% of total amounts due to customers (31 December 2019: EUR 88,754 thousand, or 91.25% of total amounts due to customers).

An analysis of amounts due to customers (entities) excluding other current accounts by industry is as follows:

	30 June 2020 (unaudited)		*31 December 2019*	
	Amount	*%*	*Amount*	*%*
Gas industry	50,451	59.4	50,882	55.2
Power industry	27,643	32.5	30,175	32.7
Finance	1,817	2.2	874	0.9
Construction	1,687	2.0	7,714	8.4
Research	970	1.1	843	0.9
Pharmaceuticals	936	1.1	712	0.8
Manufacturing	282	0.3	326	0.3
Trade	276	0.3	235	0.3
Transport	86	0.1	205	0.2
Other	824	1.0	277	0.3
Total due to customers	**84,972**	**100**	**92,243**	**100**

16. Debt securities issued

Debt securities issued comprise:

	30 June 2020 (unaudited)	*31 December 2019*
RUB-denominated bonds	153,996	102,526
Debt securities issued	**153,996**	**102,526**

On 9 October 2019, IBEC placed bonds on the Moscow Exchange in the amount of RUB 7 billion (EUR 98,266 thousand at the currency exchange rate as at the date of issue) with a maturity on 26 September 2029 and put date in October 2022. The coupon rate on the bonds was set at 7.90% payable on a semi-annual basis.

On 15 June 2020, IBEC placed bonds on the Moscow Exchange in the amount of RUB 5 billion (EUR 63,675 thousand at the currency exchange rate as at the date of issue) with the maturity on 3 June 2030 and the offer date in June 2024. The coupon rate on the bonds is set at 6.20% and is paid on a semi-annual basis.

When placing bonds in currencies other than euros, the Bank entered into cross-currency interest rate contracts to regulate currency risks (Note 11).

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(EUR thousand)

17. Credit-related commitments

Credit-related commitments comprise the following:

	30 June 2020 (unaudited)	*31 December 2019*
Loan commitments	49,000	18,448
Guarantees issued	22,444	24,502
Reimbursement obligations	18,184	17,080
Letters of credit	7,584	2,073
Total credit-related commitments	**97,212**	**62,103**
Allowance for expected credit losses (Notes 13, 22)	(262)	(154)
Credit-related commitments	**96,950**	**61,949**

Credit-related commitments are due to customers engaged in transactions with the following countries:

	30 June 2020 (unaudited)	*31 December 2019*
Russian Federation	67,585	28,673
Romania	8,838	1,673
Poland	1,731	12,568
Mongolia	930	1,416
Other countries	17,866	17,619
Total	**96,950**	**61,949**

Other countries include countries, which are not the Bank's member countries; but carry out operations with the Bank's member countries.

An analysis of changes in the amount of commitments and changes in the allowance for expected credit losses from credit-related commitments is presented below:

Credit-related commitments	***Stage 1***	***Total***
Amount of commitments at 1 January 2020	**62,103**	**62,103**
New exposures	117,085	**117,085**
Exposures expires or amounts paid	(79,440)	**(79,440)**
Changes in currency exchange rates	(2,536)	**(2,536)**
Amount of commitments at 30 June 2020 (unaudited)	**97,212**	**97,212**
Allowance for expected credit losses at 1 January 2020	**154**	**154**
New exposures	771	**771**
Exposures expires or amounts paid	(705)	**(705)**
Changes to models and inputs used for ECL calculations	41	**41**
Changes in currency exchange rates	1	**1**
Allowance for expected credit losses at 30 June 2020 (unaudited)	**262**	**262**
Amount of commitments at 1 January 2019	**38,639**	**38,639**
New exposures	2,711	**2,711**
Exposures expires or amounts paid	(12,077)	**(12,077)**
Changes in currency exchange rates	2,650	**2,650**
Amount of commitments at 30 June 2019 (unaudited)	**31,923**	**31,923**
Allowance for expected credit losses at 1 January 2019	**36**	**36**
New exposures	1	**1**
Exposures expires or amounts paid	–	**–**
Changes to models and inputs used for ECL calculations	(21)	**(21)**
Changes in currency exchange rates	3	**3**
Allowance for expected credit losses at 30 June 2019 (unaudited)	**19**	**19**

(EUR thousand)

17. Credit-related commitments (continued)

The Bank has outstanding contingencies to extend loans. These credit-related commitments involve extending loans under concluded loan agreements.

The Bank provides guarantees and extends letters of credit to guarantee the discharge of its customers' liabilities to third parties.

Reimbursement obligations are irrevocable reimbursement obligations of the Bank issued on behalf of banks issuing documentary letters of credit, which are confirmed and financed by foreign partner banks up to a stipulated amount under specific terms and conditions and collateralized by the underlying shipments of goods and therefore carry less risk than direct lending.

Guarantees represent an amount of the Bank's liability to make payments in the event a customer cannot meet its obligations to third parties.

Documentary letters of credit comprise written undertakings by the Bank on behalf of a customer to make payments under specific terms and conditions, which are collateralized by the corresponding shipments of goods.

When issuing guarantees, letters of credit, reimbursement obligations, credit-related commitments, the Bank uses the same risk management policy and procedures as for granting loans to customers.

Credit related commitments may be terminated without being performed partially or in full. Therefore, the above credit-related commitments do not represent an expected cash outflow.

18. Interest income and interest expense

	For the six months ended 30 June (unaudited)	
	2020	***2019***
Interest income		
Interest income calculated using the EIR method		
Loans to corporate customers	2,629	1,350
Securities at fair value through other comprehensive income	2,537	2,270
Loans and deposits to banks	2,393	1,064
- loans issued to banks under trade financing	*1,253*	*828*
- syndicated loans	*608*	–
- term deposits with banks	*532*	*236*
Securities at amortized cost	1,179	839
Other	5	2
Other interest income		
Securities at fair value through profit or loss	217	196
Total interest income	**8,960**	**5,721**
Interest expense		
Interest expense calculated using the EIR method		
Due to customers	(1,625)	(139)
Debt securities issued	(1,151)	–
Due to credit institutions	(853)	(1,376)
Lease liabilities	(1)	–
Other	(5)	–
Total interest expense	**(3,635)**	**(1,515)**
Net interest income	**5,325**	**4,206**

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(EUR thousand)

19. Net fee and commission income

	For the six months ended 30 June (unaudited)	
	2020	**2019**
Documentary operations	280	92
Cash and settlement operations	40	44
Accounts maintenance	25	27
Currency control	20	19
Fee for servicing a loan/credit facility	15	50
Fee and commission income	**380**	**232**
Fee and commission expense	(105)	(45)
Net fee and commission income	**275**	**187**

20. Net gains from operations with securities at fair value through other comprehensive income

Net gains from securities at fair value through other comprehensive income that are recorded in profit or loss comprise:

	For the six months ended 30 June (unaudited)	
	2020	**2019**
Result from disposal of debt securities	4,337	1,455
Total net gains from operations with securities at fair value through other comprehensive income	**4,337**	**1,455**

The gain from the revaluation of securities at fair value through other comprehensive income due to their disposal during the six months ended 30 Juneis reclassified from other comprehensive income to net gains from securities at fair value through other comprehensive income in the amount of EUR 4,354 thousand (six months ended 30 June 2019: EUR 1,446 thousand).

21. Administrative and management expenses

	For the six months ended 30 June (unaudited)	
	2020	**2019**
Staff costs	4,322	4,131
Repair and maintenance of the building, equipment and apartments	667	744
Depreciation of property, plant and equipment	616	738
Information and advisory expenses	156	96
Transport expenses	125	112
Telecommunication expenses	123	132
Building security expenses	92	137
Office expenses	76	85
Audit expenses	42	48
Business trip expenses	21	71
Meetings of the Council, Audit Committee, Working Group of Authorized Representatives and entertainment expenses	6	130
Professional development	6	10
Other administrative and management expenses	25	21
Total general and administrative expenses	**6,277**	**6,455**

Staff costs comprise contributions to:

	For the six months ended 30 June (unaudited)	
	2020	**2019**
Pension Fund of the Russian Federation	442	397
Compulsory Medical Insurance Fund of the Russian Federation	128	119
Pension funds of other IBEC member countries	21	16
Social Insurance Fund of the Russian Federation	–	14
Total	**591**	**546**

(EUR thousand)

22. Allowances for expected credit losses

The tables below shows losses (gains) associated with allowances for expected credit losses from financial assets recognized in profit or loss for the six months ended 30 June 2020 and six months ended 30 June 2019:

30 June 2020 (unaudited)	***Note***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Securities at fair value through other comprehensive income	7	622	–	–	**622**
Securities at amortized cost	8	123	–	–	**123**
Loans and deposits to banks	9	123	–	–	**123**
Loans to corporate customers	10	1,142	148	–	**1,290**
Credit-related commitments	17	107	–	–	**107**
Other financial assets	13	1	–	–	**1**
		2,118	**148**	**–**	**2,266**

30 June 2019 (unaudited)	***Note***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Securities at fair value through other comprehensive income	7	97	–	–	**97**
Securities at amortized cost	8	215	–	–	**215**
Loans and deposits to banks	9	151	–	(11)	**140**
Loans to corporate customers	10	(68)	(8)	–	**(76)**
Credit-related commitments	17	(20)	–	–	**(20)**
Other financial assets	13	3	–	–	**3**
		378	**(8)**	**(11)**	**359**

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(EUR thousand)

22. Allowances for expected credit losses (continued)

The reconciliation of balances of the allowance for expected credit losses from financial assets as at 30 June 2020 and 30 June 2019 is presented below:

	Securities at fair value through other comprehensive income	*Securities at amortized cost*	*Loans and deposits to banks*	*Loans to corporate customers*	*Credit-related commitments*	*Other financial assets*	*Total*
Balance at 1 January 2020	**794**	**467**	**889**	**377**	**154**	**7**	**2,688**
New originated or purchased assets	283	42	1,090	662	771	2	**2,850**
Assets derecognized or redeemed (excluding write-offs)	(346)	(44)	(213)	(67)	(705)	(1)	**(1,376)**
Changes to models and inputs used for ECL calculations	685	125	(754)	695	41	–	**792**
Write-offs	–	–	–	–	–	(4)	**(4)**
Changes in currency exchange rates	(3)	(3)	(8)	(1)	1	–	**(14)**
Balance at 30 June 2020 (unaudited)	**1,413**	**587**	**1,004**	**1,666**	**262**	**4**	**4,936**
Balance at 1 January 2019	**602**	**118**	**238**	**466**	**36**	**11**	**1,471**
New originated or purchased assets	306	152	611	22	1	3	**1,095**
Assets derecognized or redeemed (excluding write-offs)	(301)	(13)	(144)	–	–	–	**(458)**
Changes to models and inputs used for ECL calculations	92	76	(327)	(98)	(21)	–	**(278)**
Write-offs	–	–	–	–	–	–	**–**
Changes in currency exchange rates	1	(1)	1	2	3	–	**6**
Balance at 30 June 2019 (unaudited)	**700**	**332**	**379**	**392**	**19**	**14**	**1,836**

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(EUR thousand)

23. Other provisions

Movements in other provisions for the six months ended 30 June 2020 and six months ended 30 June 2019 are presented below:

	Provisions for legal claims	*Provision for unused vacations*	*Total*
1 January 2020	**11**	**99**	**110**
Charge	–	35	**35**
Write-offs	–	(4)	**(4)**
30 June 2020 (unaudited)	**11**	**130**	**141**
1 January 2019	**11**	**119**	**130**
Charge	–	–	**–**
Write-offs	–	(54)	**(54)**
30 June 2019 (unaudited)	**11**	**65**	**76**

The provision for unused vacations and provisions for legal claims are recognized as other liabilities. As at 30 June 2020 and 31 December 2019, provisions for legal claims include the amount of expected litigation charges and possible litigation payments where the Bank acts as a defendant.

24. Risk management

Introduction

The Bank manages its risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls. The risk management process is critical to the Bank's stable ongoing activity. In the course of its principal activities, the Bank is exposed to the following financial risks: credit risk, liquidity risk and market risk. It is also subject to operating risks.

Risk management structure

The Council of the Bank, the Board of Management if the Bank, the IBEC Credit Committee, the IBEC Assets, Liabilities and Risk Management Committee and the Risk Control Department are responsible for the risk management. Each function of the Bank is responsible for the risks associated with its responsibilities.

Council of the Bank

The Council of the Bank is responsible for the overall risk management approach and for approving IBEC's risk management policy and other strategic documents regulating risk management principles and procedures.

Board of the Bank

The Board of Management of the Bank is the executive body of the Bank responsible for implementing the risk management policy and other strategic documents regulating risk management principles and procedures.

Credit Committee (CC)

The CC is a standing collegial deliberative body of the Bank under IBEC's Board, which was established to assist the Board of Management of the Bank in lending activities and credit risk management in accordance with the Bank's goals and objectives. The CC reports to the Board of management of the Bank.

Assets, Liabilities and Risk Management Committee (ALRMC)

The ALRMC is a standing collegial deliberative body under IBEC's Board, which was established to provide methodological support to IBEC's Board in preparing and implementing the Bank's current and long-term policies with regard to asset and liability management, effective allocation of resources, as well as risk management (other than credit risk management). The ALRMC reports to the Board of Management of the Bank.

Risk Control Department (RCD)

The RCD is an independent function of the Bank responsible for coordinating all risk management functions, performing independent banking risk assessment, developing and coordinating initiatives to improve the risk management system. The RCD is responsible for the implementation and maintenance of risk management procedures.

(EUR thousand)

24. Risk management (continued)

Risk management structure (continued)

Internal Audit Department (IAD)

The Internal Audit is responsible for reviewing the adequacy of risk management procedures and the Bank's compliance with the procedures. The IAD reports results of its reviews, findings and recommendations to the Board of Management of the Bank.

Risk measurement and reporting systems

The Bank's risk management policy is based on the reasonable conservatism approach which assumes that the Bank does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

Risks are measured and managed using the comprehensive approach whereby all existing risk factors and relationships between such factors are taken into account. Monitoring and control of risks are based on the limits established by the Bank, as well as global risk appetite. These limits reflect the Bank's business strategy and market environment, as well as the level of risk that the Bank is willing to accept.

Information compiled for all business lines is examined by the Bank's functions and processed in order to analyze, control and identify risks on a timely basis. The Bank's functions prepare regular reports on their operations and communicate the current risk status to the RCD. For effective risk management purposes, the Bank's functions cooperate with the RCD to monitor the current risk exposure on the Bank's customers, counterparties, certain transactions and portfolios. The respective information is reported to the collegial bodies: the Board and the Council of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses various risk limitation and mitigation methods: diversification, limitation, hedging. The Bank received collateral for issued loans to reduce its credit risk.

Excessive risk concentration

Risk concentrations arise when changes in economic, political or other conditions have a similar effect on the counterparties' ability to meet contractual obligations when certain counterparties are involved in similar activities or operate in the same geographical region or the counterparties have similar economic characteristics. Risk concentrations reflect relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical region.

In order to avoid excessive risk concentration, the Bank's policies and procedures include specific guidelines aimed at maintaining a diversified portfolio.

Credit risk

Credit risk is the risk that the Bank may incur losses because its customers or counterparties fail to discharge their contractual obligations to the Bank in full or in part. The Bank manages credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring compliance with such limits.

All transactions which bear credit risk are measured using the quantitative and qualitative analysis methods specified in the Bank's credit and risk management regulations. The Bank uses its internal methodology to assign internal credit ratings to its clients or counterparties. These credit ratings reflect the Bank's exposure to credit risk.

The Bank considers credit ratings assigned by S&P, Moody's, and Fitch agencies to manage the credit quality of its financial assets. In addition to the analysis of the financial standing of counterparties, the Bank also analyses cash flows and prepares cash flow models for its corporate lending transactions.

The Bank manages credit risk through regular analysis of the ability of its customers and counterparties to discharge their principal and interest repayment obligations. The Bank's customers/counterparties are regularly monitored; their cash flow models are controlled and clarified, their financial positions are reviewed for compliance with the assign internal credit ratings, and, where necessary, respective adjustments are made. The credit quality review process allows the Bank to assess potential losses on risks to which it is exposed and take appropriate mitigation actions. In addition, credit risk is further mitigated by obtaining collateral, guarantees (including state guarantees) and warranties from legal entities and individuals.

Maximum (total) exposure to credit risk is disclosed in Notes 5, 7-10, 13 and 17.

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

Risks associated with credit-related commitments

Credit risk on credit-related commitments is defined as the possibility of sustaining a loss as a result of another party to a transaction failing to perform in accordance with the terms of the contract. They expose the Bank to similar risks to loans and these are mitigated by the same assessment, limitation, monitoring and control procedures.

Definition of default

The Bank classifies a financial asset as a financial asset in default if:

- It is unlikely that the borrower will discharge its credit-related commitments in full, if the Bank decides not to sell a collateral (if any), and
- Amount due from the borrower under any of the Bank's significant credit-related commitments is more than 90 days overdue (for legal entities).

When the Bank assesses whether the event of default of the borrower's liabilities occurred, it considers the following:

- Quality-based indicators (e.g., breach of covenants);
- Quantity-based indicators (e.g., whether there are instances when the same counterparty failed to discharge its liabilities or has overdue payments), and
- Indicators independently designed by the Bank's internal functions or obtained from external sources.

When the Bank assesses probability of default under the financial instrument, the inputs and their significance over time may vary in order to respond to changes in circumstances.

Significant increase in credit risk

When the Bank determines whether a significant increase in a financial instrument's credit risk (risk of default) occurred since its initial recognition, it examines reasonable and supportable forward-looking information that is available without undue cost or effort, including quantitative and qualitative information, as well as an analysis based on the Bank's previous experience, experts' assessment of the quality of the financial instrument and forecast information.

To determine whether there has been a significant increase in credit risk for a position exposed to credit risk, the Bank compares the factors, that include, but are not limited to, the following:

- Probability of default for the period remaining to the reporting date, and
- Probability of default for the remaining period calculated at initial recognition of the position exposed to the credit risk (adjusted, if applicable, for changes in early repayment expectations).

When the Bank assesses whether a significant increase in a financial instrument's credit risk occurred since its initial recognition, it is necessary to determine the date of initial recognition.

Criteria for the determination of significant increase in credit risk vary depending on portfolio and comprise both quantitative changes in the probability of default and qualitative factors, including the limit indicator related to the overdue period.

The Bank believes that since the date of initial recognition the credit risk related to a certain position increased significantly, if, among other things, the borrower's internal or external credit rating has deteriorated by two notches since the date of initial recognition. When the Bank determines whether a significant increase in credit risk takes place, it adjusts the expected credit losses for the remaining period on the basis of amended repayment period.

Based on its expert assessment of the credit quality and, where possible, respective historical experience, the Bank can conclude that credit risk associated with a financial instrument has increased significantly, if it is evidenced by certain quality indicators of significant increase in credit risk that cannot be promptly and fully identified as a result of its quantitative analysis.

The Bank considers debts overdue for more than 30 days as a sign of a significant increase in credit risk associated with a financial asset since initial recognition (for corporate customers). The number of overdue days is counted from the first day, on which the full amount due was not paid.

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

The Bank checks whether the criteria used to identify a significant increase in credit risk are effective by regular reviews, in order to ensure that:

- The criteria help to identify a significant increase in credit risk before an event of default in respect of the position exposed to the credit risk takes place;
- The criteria are not aligned with the moment of time when the amount due for the asset is more than 30 days overdue;
- An average period between the date when a significant increase in credit risk was identified and the date when the event of default actually occurred is deemed reasonable;
- Positions exposed to credit risk are not reclassified directly from a portfolio, for which an allowance is recorded in the amount of 12-month expected credit losses (stage 1,) to a portfolio of credit-impaired assets (stage 3);
- There is no unjustified volatility of the amount of the ECL allowance when positions exposed to credit risk are reclassified from the portfolio, for which an allowance is recorded in the amount of 12-month expected credit losses (stage 1) to a portfolio, for which an allowance is recorded in the amount of lifetime expected credit losses (stage 2).

Credit risk levels (grades)

The Bank allocates each position exposed to credit risk between credit risk levels based on various data that is used in making default risk projections, as well as using expert judgments on loans. The Bank uses these credit risk levels to identify whether a significant increase in credit risk occurred in accordance with IFRS 9. Credit risk levels are determined using qualitative and quantitative factors indicating the risk of default. These factors may vary depending on the nature of the position exposed to credit risk and the type of borrower.

Credit risk levels of s are determined and calibrated in such a manner that the risk of default increases exponentially as credit risk deteriorates (e.g. the difference between the risk of default at level 1 and level 2 of credit risk is less than the difference at level 2 and level 3 of credit risk).

Each position exposed to credit risk is classified as having a certain level of the credit risk at the date of initial recognition on the basis of information about the borrower. Positions exposed to credit risk are constantly monitored, which may result in reclassification of positions to another level of credit risk. Generally, the monitoring includes the analysis of the following:

- Information obtained as a result of the regular analysis of the borrowers' data (e.g. audited financial statements, management accounts, budget estimates, forecasts and plans);
- Data obtained from credit rating agencies, publications in press, information about changes in external credit ratings;
- Quotes of bonds and credit default swaps of the issuers, if available;
- Actual and expected significant changes in the political, regulatory and technological environment where a borrower operates;
- Information about payments, including the status of overdue amounts;
- Requests to revise the terms of loan agreements and responses to such requests;
- Current and forecast changes in financial, economic and operating conditions.

Creating a term structure of probability of default

For positions exposed to credit risk, credit risk levels are initial inputs for creating a term structure of probability of default. The Bank collects information on debt servicing and the level of default for positions exposed to credit risk that are analyzed depending on the jurisdiction, type of product, and borrower, as well as the level of credit risk. For some portfolios, information received from external credit rating agencies may also be used.

The Bank uses statistical models to analyze collected data and generate estimates of the probability of default over the remaining period for positions exposed to credit risk, and determine how these are expected to change over time.

This analysis includes the determination and calibration of relationships between changes in probabilities of default and changes in macroeconomic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most positions exposed to credit risk, key macroeconomic indicators include movements in GDP and changes in consumer price index.

For positions exposed to credit risk in certain industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices, exchange rates etc.

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

Inputs for measuring expected credit losses

The key inputs used for measuring expected credit losses comprise term structures of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD);
- Credit conversion factor (CCF);
- Cash flows used to service debt under different scenarios (loans to legal entities);
- Credit ratings assigned by major international rating agencies (for counterparty banks and debt securities);
- Volatility of share/index prices(for counterparty banks that do not have a credit rating assigned by international rating agencies).

These indicators (other than cash flows) are derived from external statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

Probability of default (PD) estimates are estimates at a certain date, which are calculated based on statistical grade models and assessed using measurement tools tailored to the various categories of counterparties and positions exposed to the credit risk. If a counterparty or position exposed to the credit risk migrates between credit quality grades, it will result in change in the estimate of the associated PD indicators. PDs will be estimated considering the contractual maturities of positions exposed to the credit risk and expectations in terms of the early repayment.

Allowance for lending to legal entities is determined on the basis of measurement models approved by the Bank. One of the models used to measure expected credit losses is based on the determination of the difference between contractual and expected cash inflows to the Bank discounted at the initial effective interest rate and adjusted for collateral level and recovery rate. Other models are based on the international ratings of the borrower/its parent and sovereign rating of the country where the borrower is located. After the above assessment, the Bank selects the most conservative result.

Loss given default (LGD) is the amount of the possible loss in case of default and depends on the recovery rate. For corporate investment and dealing securities the recovery rate taken is consistent with the Moody's average historical data. For default level securities the recovery rate is deemed at 0%. For loans and deposits to banks, the recovery rate taken is consistent with the Moody's average historical data on recovery rates for unsecured bank loans.

Exposure at default (EAD) represents an expected amount of position exposed to the credit risk at the date when the event of default occurs. The Bank derives it from the current EAD and its potential changes permitted by the contract.

As described above, if the Bank uses the highest 12-month probability of default for financial assets for which credit risk has not increased significantly, the Bank will measure the expected credit losses considering the risk of default over the maximum contractual period (including any borrower's options to extend the term of the contract) over which it is exposed to credit risk, even when the Bank considers a longer period for the risk management purposes. The maximum contractual period extends to the date at which the Bank has the right to require repayment of a loan issued or terminate a loan commitment.

Forward-looking information

In accordance with IFRS 9, the Bank incorporates forward-looking information in its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and in its measurement of expected credit losses. This assessment is based on external information as well. External information may include economic data and forecasts published by governmental bodies and monetary regulators in the countries where the Bank operates, and certain individual and scientific forecasts, information provided by Bloomberg, Thomson Reuters, etc.

The Bank also carries out regular stress-testing of more extreme scenarios to adjust its approach to determining these representative scenarios.

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships among the macroeconomic variables, credit risk and credit losses. These key drivers are forecasts of GDP and consumer price index.

Estimated relations between key indicators, default levels and losses on various portfolios of financial assets were determined based on the analysis of historical data for the last seven years.

In these interim condensed financial statements, expected credit losses are recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the financial asset. Uncollectible financial assets are written off against the allowance, after all the necessary procedures for full or partial recovery have been completed and the ultimate loss amount has been determined.

Credit quality per class of financial assets

The Bank applies external and internal credit ratings to manage the credit quality of its financial assets.

The Bank measures its financial assets that do not have external credit rating using the scale of internal credit rating, that are consistent with the ratings assigned by international rating agencies.

Internal credit ratings "B" are generally consistent with international ratings "from BB to B-"; internal credit ratings "BB" are generally comparable to international ratings "from BB+ to BB", except when an international rating is limited by a sovereign rating; internal credit ratings "BBB" are comparable with international ratings "from BBB+ to BBB-".

The table below shows the credit quality of assets exposed to credit risk (by three stages of impairment) by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available) as at 30 June 2020:

	Stage 1	*Stage 2*	*Stage 3*	
	12-month ECL	*Lifetime ECL*	*Lifetime ECL*	*Total*
Cash and cash equivalents (other than cash on hand)				
Due from central banks	*15,063*	–	–	***15,063***
Correspondent accounts with internationally rated banks	*3,185*	–	–	***3,185***
Correspondent accounts with banks having internal credit ratings only	*33*	–	–	***33***
Total	**18,281**	**–**	**–**	**18,281**
Allowance for expected credit losses	–	–	–	**–**
Carrying amount	**18,281**	**–**	**–**	**18,281**

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(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

	Stage 1	*Stage 2*	*Stage 3*	
	12-month ECL	***Lifetime ECL***	***Lifetime ECL***	***Total***
Securities at fair value through other comprehensive income				
- held by the Bank				
Internationally rated	*195,963*	*6,029*	–	***201,992***
Carrying amount	**195,963**	**6,029**	**–**	**201,992**
Allowance for expected credit losses	**(735)**	**(584)**	**–**	**(1,319)**
- pledged under repurchase agreements				
Internationally rated	*30,602*	–	–	***30,602***
Carrying amount	**30,602**	**–**	**–**	**30,602**
Allowance for expected credit losses	**(94)**	**–**	**–**	**(94)**
Securities at amortized cost				
- held by the Bank				
Internationally rated	*55,854*	–	–	***55,854***
Total	**55,854**	**–**	**–**	**55,854**
Allowance for expected credit losses	(488)	–	–	**(488)**
Carrying amount	**55,366**	**–**	**–**	**55,366**
- pledged under repurchase agreements				
Internationally rated	*9,247*	–	–	***9,247***
Total	**9,247**	**–**	**–**	**9,247**
Allowance for expected credit losses	(99)	–	–	**(99)**
Carrying amount	**9,148**	**–**	**–**	**9,148**
Loans and deposits to banks				
Internationally rated	*127,607*	*10,029*	–	***137,636***
Internally rated only	*3,528*	–	–	***3,528***
Total	**131,135**	**10,029**	**–**	**141,164**
Allowance for expected credit losses	(918)	(86)	–	**(1,004)**
Carrying amount	**130,217**	**9,943**	**–**	**140,160**
Loans to corporate customers				
Internationally rated	*27,971*	–	–	***27,971***
Internally rated only	*166,523*	*7,628*	–	***174,151***
Total	**194,494**	**7,628**	**–**	**202,122**
Allowance for expected credit losses	(1,402)	(264)	–	**(1,666)**
Carrying amount	**193,092**	**7,364**	**–**	**200,456**

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(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality of assets exposed to credit risk (by three stages of impairment) by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available) as at 31 December 2019:

	Stage 1	*Stage 2*	*Stage 3*	
	12-month ECL	*Lifetime ECL*	*Lifetime ECL*	*Total*
Cash and cash equivalents (other than cash on hand)				
Due from central banks	*13,657*	–	–	***13,657***
Correspondent accounts with internationally rated banks	*2,729*	–	–	***2,729***
Total	**16,386**	**–**	**–**	**16,386**
Allowance for expected credit losses	–	–	–	**–**
Carrying amount	**16,386**	**–**	**–**	**16,386**
Securities at fair value through other comprehensive income				
- held by the Bank				
Internationally rated	*159,002*	–	–	***159,002***
Carrying amount	**159,002**	**–**	**–**	**159,002**
Allowance for expected credit losses	**(546)**	**–**	**–**	**(546)**
- pledged under repurchase agreements				
Internationally rated	*44,301*	–	–	***44,301***
Carrying amount	**44,301**	**–**	**–**	**44,301**
Allowance for expected credit losses	**(248)**	**–**	**–**	**(248)**
Securities at amortized cost				
- held by the Bank				
Internationally rated	*47,887*	–	–	***47,887***
Total	**47,887**	**–**	**–**	**47,887**
Allowance for expected credit losses	(374)	–	–	**(374)**
Carrying amount	**47,513**	**–**	**–**	**47,513**
- pledged under repurchase agreements				
Internationally rated	*15,112*	–	–	***15,112***
Total	**15,112**	**–**	**–**	**15,112**
Allowance for expected credit losses	(93)	–	–	**(93)**
Carrying amount	**15,019**	**–**	**–**	**15,019**

(continued on the next page)

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

	Stage 1	*Stage 2*	*Stage 3*	
	12-month ECL	*Lifetime ECL*	*Lifetime ECL*	*Total*
Loans and deposits to banks				
Internationally rated	*109,257*	–	–	***109,257***
Internally rated only	*2,575*	–	–	***2,575***
Total	**111,832**	**–**	**–**	**111,832**
Allowance for expected credit losses	(889)	–	–	**(889)**
Carrying amount	**110,943**	**–**	**–**	**110,943**
Loans to corporate customers				
Internationally rated	*42,807*	–	–	***42,807***
Internally rated only	*136,804*	*7,834*	–	***144,638***
Total	**179,611**	**7,834**	**–**	**187,445**
Allowance for expected credit losses	(261)	(116)	–	**(377)**
Carrying amount	**179,350**	**7,718**	**–**	**187,068**

Credit-related commitments relate to stage 1 as at 30 June 2020 and 31 December 2019.

There were no transfers of other financial assets between stages for the six months ended 30 June 2020 and six months ended 30 June 2019.

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(EUR thousand)

24. Risk management (continued)

Geographical risk

Information on risk concentration by geographical region is based on the geographical location of the Bank's counterparties. The table below shows risk concentration by geographical region as at 30 June 2020:

Country	*Cash and cash equivalents (other than cash on hand)*	*Securities at fair value through profit or loss held by the Bank*	*Securities at fair value through profit or loss pledged under repurchase agreements*	*Securities at fair value through other comprehen-sive income held by the Bank*	*Securities at fair value through other comprehen-sive income pledged under repurchase agreements*	*Securities at amortized cost held by the Bank*	*Securities at amortized cost pledged under repurchase agreements*	*Loans and deposits to banks*	*Loans to corporate customers*	*Derivative financial assets*	*Other financial assets*	*Total*	*Share, %*
Russian Federation	1,778	4,062	–	44,055	7,894	27,375	148	284	67,157	1,093	4,908	**158,754**	**23.31**
Mongolia	6	–	–	880	–	4,456	–	43,966	38,609	–	–	**87,917**	**12.91**
Republic of Bulgaria	33	–	–	4,998	473	2,705	7,274	–	62,747	–	118	**78,348**	**11.51**
Czech Republic	–	306	–	60,313	4,193	3,299	1,715	–	–	–	–	**69,826**	**10.25**
Romania	89	2,943	–	34,980	2,713	14,546	11	–	12,848	–	–	**68,130**	**10.01**
Republic of Poland	3	–	–	8,789	14,156	–	–	–	11,731	–	–	**34,679**	**5.09**
Socialist Republic of Vietnam	–	–	–	–	–	–	–	19,521	–	–	–	**19,521**	**2.87**
IFI[1]	–	–	–	14,942	1,125	–	–	–	–	–	–	**16,067**	**2.36**
Hungary	–	8,447	–	7,494	38	–	–	–	–	–	3	**15,982**	**2.35**
Slovak Republic	–	–	–	12,652	10	2,985	–	–	–	–	–	**15,647**	**2.30**
Other countries	16,372	–	–	12,889	–	–	–	76,389	7,364	–	3,001	**116,015**	**17.04**
Total	**18,281**	**15,758**	**–**	**201,992**	**30,602**	**55,366**	**9,148**	**140,160**	**200,456**	**1,093**	**8,030**	**680,886**	**100**

Other countries are represented by the Republic of Austria, the UK, Germany, Latvia, the Republic of Belarus, the Republic of Panama, the Republic of Uzbekistan, Estonia, i.e. countries that carry out their operations in transactions with the Bank's member countries.

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[1] IFI – international financial funds and institutions. As at 30 June 2020 IFI are represented by the European Investment Bank.

(EUR thousand)

24. Risk management (continued)

Geographical risk (continued)

Information on risk concentration by geographical region is based on the geographical location of the Bank's counterparties. The table below shows risk concentration by geographical region as at 31 December 2019:

Country	*Cash and cash equivalents (other than cash on hand)*	*Securities at fair value through profit or loss held by the Bank*	*Securities at fair value through profit or loss pledged under repurchase agreements*	*Securities at fair value through other comprehensive income held by the Bank*	*Securities at fair value through other comprehensive income pledged under repurchase agreements*	*Securities at amortized cost held by the Bank*	*Securities at amortized cost pledged under repurchase agreements*	*Loans and deposits to banks*	*Loans to corporate customers*	*Derivative financial assets*	*Other financial assets*	*Total*	*Share, %*
Russian Federation	1,006	4,412	–	60,707	6,288	31,618	1,002	5,272	68,909	5,689	2,448	**187,351**	**31.60**
Republic of Bulgaria	23	–	–	2,504	3,512	4,351	5,804	–	58,518	–	–	**74,712**	**12.60**
Czech Republic	12	–	–	52,402	12,574	2,022	3,057	–	–	–	–	**70,067**	**11.82**
Romania	96	–	–	13,858	9,362	5,011	5,156	–	27,900	–	–	**61,383**	**10.35**
Mongolia	6	–	–	4,581	–	4,511	–	26,913	–	–	6	**36,017**	**6.08**
Republic of Poland	3	–	–	6,682	6,798	–	–	–	4,177	–	–	**17,660**	**2.98**
Socialist Republic of Vietnam	–	–	–	–	–	–	–	16,557	–	–	–	**16,557**	**2.79**
Slovak Republic	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**
Hungary	–	–	–	2,395	5,767	–	–	–	19,847	–	–	**28,009**	**4.72**
IFI[2]	–	–	–	8,703	–	–	–	–	–	–	4	**8,707**	**1.47**
Other countries	15,240	–	–	7,170	–	–	–	62,201	7,717	–	80	**92,408**	**15.59**
Total	**16,386**	**4,412**	**–**	**159,002**	**44,301**	**47,513**	**15,019**	**110,943**	**187,068**	**5,689**	**2,538**	**592,871**	**100**

Other countries are represented by the Republic of Austria, the UK, Germany, Latvia, the Republic of Belarus, the Republic of Panama, the Republic of Uzbekistan, Estonia, i.e. countries that carry out their operations in transactions with the Bank's member countries.

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[2] IFI – international financial funds and institutions. As at 31 December 2019, IFI are represented by the European Financial Stability Facility, which is financed by 27 members of eurozone and was established as a special purpose vehicle to fight the European debt crisis, and the European Investment Bank.

(EUR thousand)

24. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to meet its payment obligations as they fall due under normal or stress circumstances. Liquidity risk occurs where the maturities of assets and liabilities do not match.

The Bank maintains necessary liquidity levels with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Treasury is the key element in the Bank's system responsible for the liquidity management.

The tables below summarize the maturity profile of the Bank's financial liabilities as at 30 June 2020 and 31 December 2019 based on contractual undiscounted cash flows. Repayments which are subject to notice are treated as if notice were to be given immediately.

30 June 2020 (unaudited)	*On demand and less than 30 days*	*31 to 180 days*	*181 to 365 days*	*Over 365 days*	*Total gross amount of cash (inflow) outflow*	*Carrying amount*
Due to credit institutions	62,333	47,358	279	62,529	172,499	168,886
Due to customers	38,471	50,670	808	–	89,949	89,564
Debt securities issued	–	5,469	5,469	174,823	185,761	153,996
Other liabilities	2,805	2	3	16	2,826	2,826
Gross settled derivative financial instruments						
- inflow	(18,093)	(4,513)	(8,494)	(156,829)	(187,929)	(172,106)
- outflow	18,669	856	5,279	150,455	175,259	179,340
Total	**104,185**	**99,842**	**3,344**	**230,994**	**438,365**	**422,506**

31 December 2019	*On demand and less than 30 days*	*31 to 180 days*	*181 to 365 days*	*Over 365 days*	*Total gross amount of cash (inflow) outflow*	*Carrying amount*
Due to credit institutions	26,996	58,382	34,644	10,136	130,158	129,382
Due to customers	14,996	52,340	31,452	–	98,788	97,266
Debt securities issued	–	3,977	3,977	116,860	124,814	102,526
Other liabilities	6,781	–	–	–	6,781	6,781
Gross settled derivative financial instruments						
- inflow	(2,387)	(3,417)	–	(11,515)	(17,319)	(17,319)
- outflow	2,394	3,996	–	12,729	19,119	19,119
Total	**48,780**	**115,278**	**70,073**	**128,210**	**362,341**	**337,755**

The table below shows the contractual maturities of credit related contingencies. All outstanding credit related contingencies are included in the period, which contains the earliest date they can be drawn down:

	On demand and less than 1 month	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Total*
30 June 2020 (unaudited)	22,351	2,742	7,556	64,301	–	**96,950**
31 December 2019	25,794	2,420	–	16,970	16,765	**61,949**

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(EUR thousand)

24. Risk management (continued)

Classification of assets and liabilities by maturity

The tables below show the analysis of all financial assets and financial liabilities of the Bank as at 30 June 2020 and 31 December 2019 by contractual maturity. Quoted debt securities measured at fair value through other comprehensive income and at fair value through profit or loss and not pledged under repurchase agreements are classified as "On demand and less than 1 month", as they are highly liquid securities, which can be sold by the Bank in the short-term on the arm-length basis. Securities at fair value through other comprehensive income and securities at fair value through profit or loss pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of the respective contractual obligations of the Bank.

30 June 2020 (unaudited)	*On demand and less than 1 month*	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Total*
Cash and cash equivalents	19,306	–	–	–	–	**19,306**
Securities at fair value through profit or loss						
- held by the Bank	15,758	–	–	–	–	**15,758**
- pledged under repurchase agreements	–	–	–	–	–	**–**
Securities at fair value through other comprehensive income						
- held by the Bank	201,992	–	–	–	–	**201,992**
- pledged under repurchase agreements	–	30,602	–	–	–	**30,602**
Securities at amortized cost						
- held by the Bank	–	–	2,553	32,701	20,112	**55,366**
- pledged under repurchase agreements	–	9,148	–	–	–	**9,148**
Loans and deposits to banks	15,187	63,610	25,149	36,214	–	**140,160**
Loans to corporate customers	508	90,005	4,981	40,506	64,456	**200,456**
Derivative financial assets	11	–	–	1,082	–	**1,093**
Other financial assets	7,713	4	22	291	–	**8,030**
Total financial assets	**260,475**	**193,369**	**32,705**	**110,794**	**84,568**	**681,911**
Due to credit institutions	62,302	47,068	–	19,860	39,656	**168,886**
Due to customers	38,394	50,367	803	–	–	**89,564**
Derivative financial liabilities	571	–	484	6,179	–	**7,234**
Debt securities issued	–	1,760	–	152,236	–	**153,996**
Other financial liabilities	2,400	2	3	18	–	**2,423**
Total financial liabilities	**103,667**	**99,197**	**1,290**	**178,293**	**39,656**	**422,103**
Net position	**156,808**	**94,172**	**31,415**	**(67,499)**	**44,912**	**259,808**
Cumulative liquidity gap for financial instruments	**156,808**	**250,980**	**282,395**	**214,896**	**259,808**	**–**

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(EUR thousand)

24. Risk management (continued)

Classification of assets and liabilities by maturity (continued)

31 December 2019	*On demand and less than 1 month*	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Total*
Cash and cash equivalents	17,286	–	–	–	–	**17,286**
Securities at fair value through profit or loss						
- held by the Bank	4,412	–	–	–	–	**4,412**
- pledged under repurchase agreements	–	–	–	–	–	**–**
Securities at fair value through other comprehensive income						
- held by the Bank	159,002	–	–	–	–	**159,002**
- pledged under repurchase agreements	5,744	10,697	27,860	–	–	**44,301**
Securities at amortized cost						
- held by the Bank	–	–	–	31,040	16,473	**47,513**
- pledged under repurchase agreements	–	6,367	8,652	–	–	**15,019**
Loans and deposits to banks	8,186	45,022	32,630	25,105	–	**110,943**
Loans to corporate customers	883	59,474	44,055	76,445	6,211	**187,068**
Derivative financial assets	–	–	1,968	3,721	–	**5,689**
Other financial assets	2,238	–	17	283	–	**2,538**
Total financial assets	**197,751**	**121,560**	**115,182**	**136,594**	**22,684**	**593,771**
Due to credit institutions	26,985	58,213	34,228	9,956	–	**129,382**
Due to customers	14,996	52,094	30,176	–	–	**97,266**
Derivative financial liabilities	7	579	–	1,214	–	**1,800**
Debt securities issued	–	1,773	–	100,753	–	**102,526**
Other financial liabilities	6,495	2	2	18	–	**6,517**
Total financial liabilities	**48,483**	**112,661**	**64,406**	**111,941**	**–**	**337,491**
Net position	**149,268**	**8,899**	**50,776**	**24,653**	**22,684**	**256,280**
Cumulative liquidity gap for financial instruments	**149,268**	**158,167**	**208,943**	**233,596**	**256,280**	**–**

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk. The Board of Management of the Bank sets limits on the level of risk that may be accepted and monitors the compliance on a regular basis.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the, prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such fluctuations but may also decrease or create losses in the event that unexpected movements occur.

Interest rate risk is managed primarily by monitoring changes in interest rates. The summary of the interest rate gap for major financial instruments is as follows.

Interest rate sensitivity analysis

	30 June 2020 (unaudited)		*31 December 2019*	
	Profit or loss	*Equity*	*Profit or loss*	*Equity*
1 bp parallel fall	**170**	**168**	**247**	**187**
EUR	(576)	(576)	(293)	(353)
USD	319	319	257	257
RUB	382	380	168	168
Other currencies	45	45	115	115
1 bp parallel rise	**(170)**	**(168)**	**(247)**	**(187)**
EUR	576	576	293	353
USD	(319)	(319)	(257)	(257)
RUB	(382)	(380)	(168)	(168)
Other currencies	(45)	(45)	(115)	(115)

(EUR thousand)

24. Risk management (continued)

Interest rate risk (continued)

Average interest rates

The following table shows weighted average interest rates for interest-bearing assets and liabilities as at 30 June 2020 and 31 December 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	30 June 2020 (unaudited)				***31 December 2019***			
	Average interest rate, %				***Average interest rate, %***			
	EUR	***USD***	***RUB***	***Other currencies***	***EUR***	***USD***	***RUB***	***Other currencies***
Interest-bearing assets								
Correspondent accounts with banks in IBEC member countries and other banks	(1.41)	0.23	–	(0.11)	(0.01)	0.30	–	(0.01)
Securities at fair value through profit or loss								
- held by the Bank	2.15	–	6.30	–	–	–	7.77	–
- pledged under repurchase agreements	–	–	–	–	–	–	–	–
Securities at fair value through other comprehensive income								
- held by the Bank	2.14	3.15	7.21	1.04	2.26	4.73	7.44	1.05
- pledged under repurchase agreements	0.93	4.00	–	0.84	2.66	4.72	–	0.90
Securities at amortized cost								
- held by the Bank	2.86	7.50	9.10	–	3.19	7.50	9.10	–
- pledged under repurchase agreements	3.40	–	–	–	2.98	–	–	–
Loans and deposits to banks	2.82	4.36	8.26	–	2.61	4.66	10.58	–
Loans to corporate customers	1.10	5.67	10.00	5.22	1.63	5.77	10.00	5.36
Consumer lending	3.00	–	–	–	3.00	–	–	–
Interest-bearing liabilities								
Due to credit institutions	0.40	1.30	5.35	3.00	0.23	2.49	6.62	2.97
Correspondent accounts with banks in IBEC member countries and other credit institutions	(0.50)	–	(0.36)	–	(0.01)	–	1.37	–
Due to customers	–	1.96	7.90	–	–	2.00	8.07	–
Debt securities issued	–	–	7.19	–	–	–	7.90	–

(EUR thousand)

24. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The policy of the Board is to use the conservative approach to foreign currency transactions, aimed at minimizing open currency positions in order to reduce the currency risk to an acceptable level. The currency positions are monitored by the Bank on a daily basis.

The table below shows the general analysis of the currency risk of the Bank for its financial assets and liabilities as at 30 June 2020:

	Note	*USD*	*RUB*	*EUR*	*Other*	*Total*
Cash and cash equivalents		1,798	1,542	15,774	192	**19,306**
Securities at fair value through profit or loss						
- held by the Bank		–	2,537	13,221	–	**15,758**
- pledged under repurchase agreements		–	–	–	–	**–**
Securities at fair value through other comprehensive income						
- held by the Bank		11,201	15,590	169,534	5,667	**201,992**
- pledged under repurchase agreements		8,304	–	22,092	206	**30,602**
Securities at amortized cost						
- held by the Bank		8,825	341	46,200	–	**55,366**
- pledged under repurchase agreements		–	–	9,148	–	**9,148**
Loans and deposits to banks		47,164	793	92,203	–	**140,160**
Loans to corporate customers		35,501	7,147	152,962	4,846	**200,456**
Other financial assets	13	–	885	7,145	–	**8,030**
Total financial assets		**112,793**	**28,835**	**528,279**	**10,911**	**680,818**
Due to credit institutions		25,813	13,440	125,102	4,531	**168,886**
Due to customers		51,382	29,386	8,769	27	**89,564**
Debt securities issued		–	153,996	–	–	**153,996**
Other financial liabilities	13	2	851	1,570	–	**2,423**
Total financial liabilities		**77,197**	**197,673**	**135,441**	**4,558**	**414,869**
Net balance sheet position		**35,596**	**(168,838)**	**392,838**	**6,353**	**265,949**
Net off-balance sheet position		**(33,513)**	**179,384**	**(146,201)**	**(5,811)**	**(6,141)**
Net balance sheet and off-balance sheet position		**2,083**	**10,546**	**246,637**	**542**	**259,808**

The table below shows the general analysis of the currency risk of the Bank for its financial assets and liabilities as at 31 December 2019:

	Note	*USD*	*RUB*	*EUR*	*Other*	*Total*
Cash and cash equivalents		1,935	779	14,340	232	**17,286**
Securities at fair value through profit or loss						
- held by the Bank		–	4,412	–	–	**4,412**
- pledged under repurchase agreements		–	–	–	–	**–**
Securities at fair value through other comprehensive income						
- held by the Bank		27,094	23,598	99,149	9,161	**159,002**
- pledged under repurchase agreements		3,584	–	40,661	56	**44,301**
Securities at amortized cost						
- held by the Bank		8,928	5,040	33,545	–	**47,513**
- pledged under repurchase agreements		–	–	15,019	–	**15,019**
Loans and deposits to banks		38,301	2,348	70,294	–	**110,943**
Loans to corporate customers		37,023	8,653	128,925	12,467	**187,068**
Other financial assets	13	6	361	2,152	19	**2,538**
Total financial assets		**116,871**	**45,191**	**404,085**	**21,935**	**588,082**
Due to credit institutions		27,071	3,959	79,309	19,043	**129,382**
Due to customers		52,144	37,776	7,326	20	**97,266**
Debt securities issued		–	102,526	–	–	**102,526**
Other financial liabilities	13	1	5,173	1,343	–	**6,517**
Total financial liabilities		**79,216**	**149,434**	**87,978**	**19,063**	**335,691**
Net balance sheet position		**37,655**	**(104,243)**	**316,107**	**2,872**	**252,391**
Net off-balance sheet position		**(35,740)**	**100,732**	**(58,708)**	**(2,395)**	**3,889**
Net balance sheet and off-balance sheet position		**1,915**	**(3,511)**	**257,399**	**477**	**256,280**

(EUR thousand)

24. Risk management (continued)

Currency risk (continued)

As at 30 June 2020 and 31 December 2019, a weakening of the euro against the Russian ruble and the US dollar would have caused an increase (decrease) in equity and profit (or loss) as shown in the table below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The effect on the equity does not differ from the effect on the interim statement of profit or loss.

	30 June 2020 (unaudited)	***31 December 2019***
20% appreciation of USD against EUR	417	383
20% appreciation of RUB against EUR	2,109	(702)

A strengthening of the euro against the above currencies as at 30 June 2020 and 31 December 2019 would have had the opposite effect provided that all other variables are held constant.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. Operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through its control framework, monitoring and responses to potential risks, the Bank is able to control and mitigate them.

To reduce the negative impact of operational risks, the Bank accumulates and classifies information on operational risk events, creates a database of risk events, assesses and monitors risks, and prepares management reports. At the same time, according to the existing methodology, the Bank measures operational risk based on a basic indicator under Basel II recommendations.

25. Fair value measurement

Fair value measurements

The Bank has methods and procedures to perform recurring fair value measurements for securities at fair value through profit or loss, securities at fair value through other comprehensive income and derivative financial instruments.

At each reporting date, the Bank analyzes the movements in the values of assets and liabilities which are required to be re-measured, or re-assessed as per the Bank's accounting policies. Fair value is measured based on the available market information (when additional professional judgments are used) and using valuation techniques applicable to an asset or liability.

Fair value hierarchy

The Bank 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: valuation techniques for which all inputs which have a significant effect on the fair value recorded in the interim condensed financial statements are observable, either directly or indirectly
- Level 3: valuation techniques not based on observable market data, which use inputs that have a significant effect on the recorded fair value and that are not based on observable market data. If a fair value measurement uses observable inputs that require significant adjustment, the measurement is a Level 3 measurement. Significance of used inputs is assessed for aggregated fair value measurement.

Transfers between the levels of the fair value hierarchy are deemed to have been made as at the end of the reporting period.

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(EUR thousand)

25. Fair value measurement (continued)

Fair value hierarchy (continued)

The following tables show the analysis of financial instruments presented in the interim condensed financial statements at fair value by level of the fair value hierarchy as at 30 June 2020 and 31 December 2019:

30 June 2020 (unaudited)	***Level 1***	***Level 2***	***Total***
Financial assets			
Securities at fair value through profit or loss held by the Bank			
- Eurobonds of other countries	4,430	–	**4,430**
- corporate Eurobonds	4,368	–	**4,368**
- Eurobonds of banks	4,017	–	**4,017**
- Eurobonds of IBEC member countries	2,943	–	**2,943**
Securities at fair value through other comprehensive income held by the Bank			
- corporate Eurobonds	117,999	1,915	**119,914**
- Eurobonds of IBEC member countries	34,028	–	**34,028**
- Eurobonds of international financial institutions	14,942	–	**14,942**
- corporate bonds	5,672	7,072	**12,744**
- bonds of IBEC member countries	8,626	–	**8,626**
- Eurobonds of other countries	5,473	–	**5,473**
- bonds of other countries	3,859	–	**3,859**
- bonds of banks	1,005	321	**1,326**
- Eurobonds of banks	1,080	–	**1,080**
Securities at fair value through other comprehensive income pledged under repurchase agreements			
- Eurobonds of IBEC member countries	15,496	–	**15,496**
- corporate Eurobonds	11,241	–	**11,241**
- Eurobonds of banks	2,692	–	**2,692**
- Eurobonds of international financial institutions	1,125	–	**1,125**
- Eurobonds of other countries	38	–	**38**
- bonds of IBEC member countries	10	–	**10**
Derivative financial assets	–	1,093	**1,093**
	239,044	**10,401**	**249,445**
Financial liabilities			
Derivative financial liabilities	–	(7,234)	**(7,234)**

31 December 2019	***Level 1***	***Level 2***	***Total***
Financial assets			
Securities at fair value through profit or loss held by the Bank			
- corporate bonds	4,412	–	**4,412**
Securities at fair value through other comprehensive income held by the Bank			
- corporate Eurobonds	102,349	–	**102,349**
- corporate bonds	18,600	5,051	**23,651**
- Eurobonds of IBEC member countries	19,354	–	**19,354**
- Eurobonds of funds	6,590	–	**6,590**
- bonds of banks	2,550	–	**2,550**
- Eurobonds of banks	2,395	–	**2,395**
- Eurobonds of international financial institutions	2,113	–	**2,113**
Securities at fair value through other comprehensive income pledged under repurchase agreements			
- corporate Eurobonds	21,595	–	**21,595**
- Eurobonds of IBEC member countries	15,826	–	**15,826**
- Eurobonds of banks	6,880	–	**6,880**
Derivative financial assets	–	5,689	**5,689**
	202,664	**10,740**	**213,404**
Financial liabilities			
Derivative financial liabilities	–	(1,800)	**(1,800)**

(EUR thousand)

25. Fair value measurement (continued)

Derivative financial instruments

All derivative financial instruments are carried at fair value as assets when their fair value is positive and as liabilities when their fair value is negative. In accordance with IFRS 9, the fair value of an instrument at its origination is usually equal to the transaction price. If the transaction price differs from the amount determined at the origination of a financial instrument using valuation techniques, the difference is amortized on a straight-line basis over the life of the financial instrument.

Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and currency swaps. The most frequently applied valuation techniques include swap pricing models using present value calculations. The techniques incorporate various inputs, including counterparties' creditworthiness, foreign exchange forward and spot rates and interest rate curves.

Derivatives valued using projected capacity valuation technique with significant unobservable inputs are mainly long-term option contracts. These derivatives are valued using the binomial model. These techniques incorporate various non-observable assumptions, including market rate volatility.

Securities at fair value

Securities at fair value valued using a valuation technique consist of debt securities. Such assets are valued using techniques which incorporate either only observable data or both observable and unobservable data. The non-observable inputs include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured at fair value for the six months ended 30 June 2020:

	Transfers from Level 1 to Level 2
Financial assets	
Securities at fair value through other comprehensive income held by the Bank	
- corporate bonds	6,726
- bonds of banks	321
	7,047

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured at fair value for the six months ended 30 June 2019:

	Transfers from Level 1 to Level 2
Financial assets	
Securities at fair value through profit or loss held by the Bank	
- corporate bonds	1,330
Securities at fair value through profit or loss pledged under repurchase agreements	
- corporate bonds	770
Securities at fair value through other comprehensive income pledged under repurchase agreements	
- corporate bonds	2,800
	4,900

The above financial instruments were transferred from Level 1 to Level 2, as during the period, despite the sufficient volume of trade, the frequency of trade was insufficient to classify them as actively traded. Their fair values were subsequently determined using valuation techniques based on observable market inputs.

There were no transfers from Level 2 to Level 1 during the six months ended 30 June 2020 and 30 June 2019.

Fair value of financial assets and liabilities not recorded at fair value

As at 30 June 2020 and 31 December 2019, the fair value of financial assets and liabilities not carried at fair value in the interim statement of financial position did not differ significantly from their carrying value. Financial assets and liabilities not recorded at fair value in the interim statement of financial position include loans and deposits to banks, loans to corporate customers, amounts due to credit institutions, amounts due to customers, debt securities issued and securities measured at amortized cost.

(EUR thousand)

26. Segment reporting

For the purposes of managing operating activities, making decisions on resource allocation and assessing performance, the Bank is organized into three operating segments based on its mission of assisting in developing market economic relations among business entities in member countries:

Development portfolio	Providing investment banking services, including the provision of corporate financing (less impaired credit projects) and interbank financing to fund the foreign trade activities of companies from IBEC member countries as well as investments in debt securities purchased at initial placement by issuers from the Bank's member countries to support the operations of the Bank's member countries; raising corporate and interbank financing from counterparties from member countries.
Other banking activities	Providing investment banking services, including term interbank financing as well as investments in debt securities (not included in the development portfolio), handling derivative financial instruments and foreign currency, managing liquidity and raising corporate and interbank financing from counterparties from non-member countries.
Other activities	Lease services and other activities.

Management monitors operating results of each segment separately to make decisions on allocation of resources and to access their operating performance. Segment performance is measured on the basis of operating profit or loss, which is calculated differently from operating profit or loss recorded in the interim condensed financial statements, as indicated in the table below.

Income and expense by segment and profit for the six months ended 30 June 2020 and 30 June 2019, respectively, are shown in the table below:

Six months ended 30 June 2020 (unaudited)	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income calculated using the EIR method	6,464	2,274	5	**8,743**
Other interest income	94	123	–	**217**
Interest expense	(3,339)	(277)	(19)	**(3,635)**
Net interest income (expense)	**3,219**	**2,120**	**(14)**	**5,325**
Allowance for expected credit losses from financial assets	(1,782)	(484)	–	**(2,266)**
Net interest income (expense) after allowance for expected credit losses	**1,437**	**1,636**	**(14)**	**3,059**
Net fee and commission income (expenses)	302	(27)	–	**275**
Net gains from operations with securities at fair value through profit or loss	630	559	–	**1,189**
Net gains from operations with securities at fair value through other comprehensive income	2,403	1,934	–	**4,337**
Net gains (losses) from operations with derivative financial instruments and foreign currency	(383)	(478)	11	**(850)**
Lease income	–	–	785	**785**
Other banking income	1	4,074	192	**4,267**
Other provisions	–	–	(35)	**(35)**
Other banking expenses	(92)	(20)	(1)	**(113)**
Segment profit	**4,298**	**7,678**	**938**	**12,914**

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(EUR thousand)

26. Segment reporting (continued)

Six months ended 30 June 2019 (unaudited)	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income calculated using the EIR method	3,212	2,311	2	**5,525**
Other interest income	196	–	–	**196**
Interest expense	(1,262)	(235)	(18)	**(1,515)**
Net interest income (expenses)	**2,146**	**2,076**	**(16)**	**4,206**
Allowance for expected credit losses from financial assets	(237)	(122)	–	**(359)**
Net interest income (expense) after allowance for expected credit losses	**1,909**	**1,954**	**(16)**	**3,847**
Net fee and commission income (expense)	206	(19)	–	**187**
Net gains from operations with securities at fair value through profit or loss	854	29	–	**883**
Net gains from operations with securities at fair value through other comprehensive income	196	1,259	–	**1,455**
Net (losses) gains from operations with derivative financial instruments and foreign currency	(447)	(413)	7	**(853)**
Lease income	–	–	993	**993**
Other banking income	–	541	69	**610**
Other provisions	–	–	–	**–**
Other banking expenses	(30)	(16)	(1)	**(47)**
Segment profit	**2,688**	**3,335**	**1,052**	**7,075**

The reconciliation of total of the segments' profit to the Bank's profit is as follows:

	For the six months ended 30 June (unaudited)	
	2020	***2019***
Total segment profit	12,914	7,075
Other unallocated expenses	(6,277)	(6,455)
Profit for the period	**6,637**	**620**

Assets and liabilities of the Bank's operating segments are presented below:

	Development portfolio	***Other banking activities***	***Other activities***	***Total***
Segment assets				
30 June 2020 (unaudited)	460,029	220,607	58,178	**738,814**
31 December 2019	435,715	157,336	57,884	**650,935**

	Development portfolio	***Other banking activities***	***Other activities***	***Total***
Segment liabilities				
30 June 2020 (unaudited)	337,176	78,201	7,129	**422,506**
31 December 2019	264,347	61,843	11,565	**337,755**

	Development portfolio	***Other banking activities***	***Other activities***	***Total***
Credit-related commitments				
30 June 2020 (unaudited)	47,973	48,977	–	**96,950**
31 December 2019	43,510	18,439	–	**61,949**

During the six months ended 30 June 2020, the Bank's revenue from lease operations with two external counterparties (30 June 2019: one external counterparty) exceeded 20% of the Bank's income for six months ended 30 June 2020: EUR 725 thousand (30 June 2019: EUR 569 thousand).

(EUR thousand)

26. Segment reporting (continued)

Segment revenue from contracts with external customers that are within the scope of IFRS 15 for the six months ended 30 June 2020 and 30 June 2019 is as follows:

Six months ended 30 June 2020 (unaudited)	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income	6,558	2,397	5	**8,960**
Fee and commission income	365	15	–	**380**
- Documentary operations	*280*	–	–	***280***
- Cash and settlement operations	*32*	*8*	–	***40***
- Accounts maintenance	*20*	*5*	–	***25***
- Currency control	*18*	*2*	–	***20***
- Fee for servicing a loan/credit facility	*15*	–	–	***15***
Lease income	–	–	785	**785**
Total revenue from contracts with customers	**6,923**	**2,412**	**790**	**10,125**

Six months ended 30 June 2019 (unaudited)	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income	3,408	2,311	2	**5,721**
Fee and commission income	225	7	–	**232**
- Documentary operations	*92*	–	–	***92***
- Fee for servicing a loan/credit facility	*50*	–	–	***50***
- Cash and settlement operations	*42*	*2*	–	***44***
- Accounts maintenance	*22*	*5*	–	***27***
- Currency control	*19*	–	–	***19***
Lease income	–	–	993	**993**
Total revenue from contracts with customers	**3,633**	**2,318**	**995**	**6,946**

27. Related party transactions

For the purposes of these financial statements, parties are considered related if one of them has a possibility to control the other party or exercise significant influence over the other party in making strategic, 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 with the Bank's key management personnel

During the six months ended 30 June 2020, remuneration to the key management personnel of the Bank amounted to EUR 840 thousand (30 June 2019: EUR 945 thousand). Remuneration to the key management personnel of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 18 thousand (30 June 2019: EUR 18 thousand), the pension funds of IBEC member countries in the amount of EUR 6 thousand (30 June 2019: EUR 10 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 8 thousand (30 June 2019: EUR 8 thousand).

As at 30 June 2020 and 31 December 2019, balances on the accounts of the Bank's key management personnel were as follows:

	30 June 2020 (unaudited)	***31 December 2019***
Current accounts	1,226	1,363

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(EUR thousand)

27. Related party transactions (continued)

Transactions with government-related companies

A government-related company is a company under control, joint control or significant influence of the government of an IBEC member country. The Bank carries out operations with member countries which have a significant impact on the Bank, and in the ordinary course of business, the Bank enters into contractual relations with government-related companies.

The table below discloses significant transactions with government-related companies:

Interim statement of financial position	***30 June 2020 (unaudited)***	***31 December 2019***
Assets		
Cash and cash equivalents	1,442	651
Securities at fair value through profit or loss	2,943	4,412
Securities at fair value through other comprehensive income	129,773	114,166
Securities at amortized cost	44,728	50,046
Loans and deposits to banks	37,180	19,043
Loans to corporate customers	155,784	118,920
Derivative financial assets	1,092	2,634
Other assets	1,154	1,828
Liabilities		
Due to credit institutions	74,135	18,793
Due to customers	78,181	81,129
Derivative financial liabilities	3,358	1,793
Other liabilities	95	113
Off-balance sheet commitments		
Credit-related commitments	138	5,765

Amounts included in the interim statement of profit or loss and other comprehensive income for transactions with government-related companies for the six months ended 30 June 2020 and 30 June 2019 2019 are as follows:

Interim statement of profit or loss	***30 June 2020 (unaudited)***	***30 June 2019 (unaudited)***
Interest income calculated using the EIR method	4,108	3,037
Other interest income	159	162
Interest expense	(1,856)	(473)
Allowance for expected credit losses from financial assets	(511)	(213)
Fee and commission income	7	6
Fee and commission expense	(7)	(2)
Net gains from operations with securities at fair value through profit or loss	1,313	955
Net gains from operations with securities at fair value through other comprehensive income	2,478	1,566
Net losses from operations with derivative financial instruments and foreign currency	(4,188)	(102)
Lease income	766	777
Other banking income	96	12
Administrative and management expenses	(148)	(241)
Other banking expenses	(13)	–

28. Capital adequacy

The Bank manages capital adequacy to cover risks inherent in banking business. The adequacy of the Bank’s capital is monitored using, among other measures, the methods, principles and ratios established by the Basel Capital Accord.

The primary objective of the Bank’s capital management is to ensure that the Bank maintains the required level of capital adequacy in order to support its business.

The Bank’s capital adequacy ratio approved by the Council of the Bank is established at not less than 25%.

The Bank manages its capital structure and makes adjustments to it when economic conditions and the risk characteristics of its activities change.

(EUR thousand)

28. Capital adequacy (continued)

The Bank's capital adequacy ratio as at 30 June 2020 and 31 December 2019 comprised 48.9% and 57.2%, respectively. This indicates that the Bank maintains the requisite level of capital adequacy.

The table below shows the composition of the Bank's capital computed in accordance with the Basel Accord (Basel II) as at 30 June 2020 and 31 December 2019.

	30 June 2020 (unaudited)	***31 December 2019***
Capital	316,308	313,180
Total capital	**316,308**	**313,180**
Risk-weighted assets		
Credit risk	544,597	450,169
Market risk	98,060	90,122
Operational risk	4,025	7,459
Total risk-weighted assets	**646,682**	**547,750**