International bank
for Economic Co-operation

Interim condensed financial statements

30 June 2019
(together with report on review)

Contents

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827
ОГРН: 1027739707203
ИНН: 7709383532

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, which comprise the interim statement of financial position as at 30 June 2019 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 International Bank for Economic Co-operation 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.

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*.

Совершенствуя бизнес,
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Other matter

The financial statements of International Bank for Economic Co-operation for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those statements on 25 March 2019.

Review of the interim condensed financial statements of International Bank for Economic Co-operation as of 30 June 2018 and for the six-month then ended 30 June 2018, were performed by another auditor who issued a report on review of those financial statements with unmodified conclusion on 2 October 2018.

G.A. Shinin
Partner
Ernst & Young LLC

23 August 2019

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-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Interim statement of financial position
as at 30 June 2019
(EUR thousand)

	Notes	30 June 2019 (unaudited)	31 December 2018
Assets			
Cash and cash equivalents	5	13,191	18,288
Securities at fair value through profit or loss	6	7,908	5,682
- held by the Bank		1,599	4,989
- pledged under repurchase agreements		6,309	693
Securities at fair value through other comprehensive income	7	172,412	130,747
- held by the Bank		116,009	83,985
- pledged under repurchase agreements		56,403	46,762
Securities at amortized cost	8	58,827	40,916
- held by the Bank		*34,668*	26,388
- pledged under repurchase agreements		*24,159*	14,528
Loans and deposits to banks	9	58,998	51,100
- loans issued to banks under trade financing		41,913	36,808
- term deposits with banks		17,085	14,292
Loans to corporate customers	10	89,010	83,337
Property, plant and equipment	11	71,649	72,247
Other assets	12	2,680	1,313
Total assets		**474,675**	**403,630**
Liabilities			
Due to credit institutions	13	127,636	96,082
Due to customers	14	38,496	7,092
Other liabilities	12	2,693	2,094
Total liabilities		**168,825**	**105,268**
Equity			
Share capital	15	200,000	200,000
Revaluation reserve for securities at fair value through other comprehensive income		3,844	(3,024)
Revaluation reserve for property, plant and equipment		32,388	32,388
Retained earnings less net profit for the reporting period		68,998	67,423
Net profit for the reporting period		620	1,575
Total equity		**305,850**	**298,362**
Total liabilities and equity		**474,675**	**403,630**
Off-balance-sheet committments			
Credit-related committments	16	31,904	38,603

D.Yu. Ivanov — Chairman of the Board

I.N. Zheleznova — Director of the Financial Department

МБЭС
Международный банк экономического сотрудничества
Москва

23 August 2019

The accompanying notes 1-27 are an integral part of these interim condensed financial information.

Interim statement of profit or loss and other comprehensive income

for the six months ended 30 June 2019

(EUR thousand)

	Notes	For the six months ended 30 June (unaudited) 2019	2018
Interest income calculated using the EIR method		5,525	4,216
Other interest income		196	100
Interest expenses		(1,515)	(496)
Net interest income		**4,206**	**3,820**
(Allowance)/reversal of allowance for expected credit losses from financial assets		(359)	726
Net interest income after allowance for expected credit losses		**3,847**	**4,546**
Fee and commission income		232	463
Fee and commission expense		(45)	(34)
Net fee and commission income		**187**	**429**
Net gains (losses) from operations with securities at fair value through profit or loss		883	(146)
Net gains from operations with securities at fair value through other comprehensive income		1,455	2,062
Net (losses) gains from derivatives and foreign currency			
- dealing		(62)	(239)
- revaluation of currency items		(791)	89
Lease income		993	836
Other banking income		610	53
Administrative and management expenses		(6,455)	(6,273)
Other provisions		–	(24)
Other banking expenses		(47)	(11)
Profit for the reporting period		**620**	**1,322**

The accompanying notes 1-27 are an integral part of these interim condensed financial information.

Interim statement of profit or loss and other comprehensive income
for the six months ended 30 June 2019 (continued)

(EUR thousand)

	Notes	For the six months ended 30 June (unaudited) 2019	2018
Other comprehensive income (loss)			
Items that are or may be subsequently reclassified to profit or loss			
Unrealized gains (losses) from operations with securities at fair value through other comprehensive income		8,216	(5,387)
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss		(1,446)	(1,844)
Change of allowance for expected credit losses		98	(338)
Total Items that are or may be subsequently reclassified to profit or loss		**6,868**	**(7,569)**
Total other comprehensive income (loss)		**6,868**	**(7,569)**
Total comprehensive income (loss) for the reporting period		**7,488**	**(6,247)**

The accompanying notes 1-27 are an integral part of these interim condensed financial information.

Interim statement of changes in equity

for the six months ended 30 June 2019

(EUR thousand)

	Share capital	Revaluation reserve for securities at fair value through other comprehensive income	Revaluation reserve for property, plant and equipment	Retained earnings	Total equity
1 January 2019	**200,000**	**(3,024)**	**32,388**	**68,998**	**298,362**
Net profit for the reporting 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 of 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 reporting period	**–**	**6,868**	**–**	**620**	**7,488**
30 June 2019 (unaudited)	**200,000**	**3,844**	**32,388**	**69,618**	**305,850**

The accompanying notes 1-27 are an integral part of these interim condensed financial information.

Interim statement of changes in equity (continued)

(EUR thousand)

	Share capital	*Revaluation reserve for securities at fair value through other comprehensive income*	*Revaluation reserve for property, plant and equipment*	*Retained earnings*	*Total equity*
31 December 2017	**200,000**	**7,970**	**32,388**	**69,269**	**309,627**
Impact of adopting IFRS 9	–	1,116	–	(1,846)	(730)
1 January 2018	**200,000**	**9,086**	**32,388**	**67,423**	**308,897**
Net profit for the reporting period	–	–	–	1,322	1,322
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	–	(5,387)	–	–	(5,387)
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	–	(1,844)	–	–	(1,844)
Change of allowance for expected credit losses	–	(338)	–	–	(338)
Total Items that are or may be subsequently reclassified to profit or loss	**–**	**(7,569)**	**–**	**–**	**(7,569)**
Total other comprehensive loss	**–**	**(7,569)**	**–**	**–**	**(7,569)**
Total comprehensive loss for the reporting period	**–**	**(7,569)**	**–**	**1,322**	**(6,247)**
30 June 2018 (unaudited)	**200,000**	**1,517**	**32,388**	**68,745**	**302,650**

The accompanying notes 1-27 are an integral part of these interim condensed financial information.

Interim statement of cash flows

for the six months ended 30 June 2019

(EUR thousand)

		For the six months ended 30 June (unaudited)	
	Notes	***2019***	***2018***
Cash flows from operating activities			
Profit for the reporting period		**620**	**1,322**
Adjustments for:			
Accrued interest receivable (accrued interest payable)		877	73
Other accrued interest receivable (other accrued interest payable)		(218)	(32)
Depreciation and amortization		738	716
Allowance (reversal of allowance) for expected credit losses from financial assets		359	(726)
Other provisions		–	24
Remeasurement of securities at fair value through profit or loss		(643)	122
Revaluation of currency items		791	(89)
Net gains from operations with securities at fair value through other comprehensive income		(1,455)	(2,062)
Cash (used in) from operating activities before changes in operating assets and liabilities		**1,069**	**(652)**
(Increase) decrease in operating assets			
Securities at fair value through profit or loss		(1,377)	(9,639)
Loans and deposits to banks		(7,722)	12,205
Loans to corporate customers		(5,406)	(21,157)
Other assets		(689)	297
Increase (decrease) in operating liabilities			
Due to credit institutions		29,801	24,358
Due to customers		30,541	3,434
Other liabilities		(119)	(30)
Net cash (used in) from operating activities		**46,098**	**8,816**
Cash flows from investing activities			
Purchases of securities at fair value through other comprehensive income		(136,700)	(61,823)
Sales of securities at fair value through other comprehensive income		102,940	66,797
Purchase of securities at amortized cost		(26,258)	(5,822)
Proceeds from redemption of securities at amortized cost		8,617	144
Purchase of property, plant and equipment	11	(140)	(158)
Net cash from (used in) investing activities		**(51,541)**	**(862)**
Net (decrease) increase in cash and cash equivalents before translation differences		**(5,443)**	**7,954**
Effect of changes in exchange rates on cash and cash equivalents		346	(157)
Effect of changes in expected credit losses from cash and cash equivalents		–	–
Net (decrease) increase in cash and cash equivalents		**(5,097)**	**7,797**
Cash and cash equivalents at 31 December of the year previous the reporting period	5	18,288	7,082
Cash and cash equivalents at 30 June of the reporting year	5	**13,191**	**14,879**

The accompanying notes 1-27 are an integral part of these interim condensed financial information.

(EUR thousand)

1. Principal activities

The International Bank for Economic Co-operation (hereinafter, the "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 the 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, in the first instance 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 has the right to conduct and provide the full range of banking operations in line with the Bank's aims and objectives, including:

- Opening and keeping customer accounts, receiving funds from customers and placing funds in accounts with the Bank, handling document circulation and performing payment and settlement transactions related to import and export, performing conversion, arbitrage, cash, guarantee and documentary operations, banking consulting and others;
- Granting bank loans and 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;
- Attracting loans and deposits;
- Issuing securities;
- Other banking operations.

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 authorized capital is provided below.

	30 June 2019 (unaudited)	***%***	***31 December 2018***	***%***
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 Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No. 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover "Russia-based institutions with international status established by intergovernmental agreements with Russia as one of the shareholders." Therefore, the IBEC is expressly excluded from the list of financial institutions to which the restrictions apply.

(EUR thousand)

1. Principal activities (continued)

The Bank operates in accordance with the Updated Strategy of the IBEC until 2020 that was approved by the member countries on 6 December 2018. In the reporting period, the IBEC organized the following events to achieve the Updated Strategy's goals and enhance partnership among the member countries:

- In February 2019, the Bank and the Polish-Russian Chamber of Commerce and Industry (PRIHP) hosted the *IBEC Days* business forum in Poland that is aimed at establishing new contacts with representatives of industrial companies and positioning the Bank with the business community of its member states, as well as at pursuing opportunities to cooperate in financing cross-border trade and settlements.
- In May 2019, the Bank, the Banking Association for Central and Eastern Europe (BACEE) and the CIS Financial and Banking Council organized the *Europe – CIS*. *4D* international business forum dedicated to the development of cooperation among EU and CIS countries. The forum took place in Moscow.

As a result of the above events, the Bank entered into certain agreements.

During the six months ended 30 June 2019, the IBEC adopted a new organizational structure, which is essential for its further development in the current context. It also transferred from the quota-based employment system to the up-to-date, global tender-based recruitment system.

On 15 March 2019, the Fitch Ratings international credit rating agency confirmed the IBEC's long-term investment-grade credit rating at BBB-, with a stable outlook, and short-term investment-grade credit rating at F3.

2. Operating environment of the Bank

During the six months ended 30 June 2019, the global economic growth rates slowed down and business activity became less intensive. Higher political uncertainty, including the next round of escalation in the US-China trade war and unclear perspective of conflict settlement, was accompanied by slower growth in global investments.

Larger costs caused by higher trade barriers between the largest economics, unclear trade rules and conditions in the future, as well as weaker investment activities resulted in a decline of industrial output and slower growth of international trade.

The prolonged high uncertainty in the global political environment undermined business sentiments leading to lower business confidence and moods, as well as negatively affected capital expenditures (especially in trade-focused industries).

In addition to the existing negative effects, the prolonged trade conflict jeopardizes the established global factory area networks. An abrupt and extended decline in the international trade may significantly affect the midterm perspectives of the economic growth in export-oriented countries.

In early 2019, the weak demand for industrial goods was compensated by a limited supply and a cutback in production; therefore, prices for most industrial goods rose during the six months ended 30 June 2019, yet remaining below the maximum values of the previous year. At the same time, prices for agricultural products remained almost unchanged.

As a result of the tendencies witnessed during the six months ended 30 June 2019, the global economic growth rate is estimated at 2.6% in 2019 (0.4 b.p. lower than in 2018). For developed countries and emerging markets, the estimated decline is up to 1.7% and 4.0%, respectively (-0.4% and -0.3% against 2018, respectively).

Amid the slowdown in business activity, deteriorated estimates of economic growth and low inflationary pressure, the central banks of the major countries have eased their monetary policy. As a result, yields of bonds issued by developed countries declined, whereas the share of debt securities with negative interest rates increased, which had a positive effect on the external financing for emerging markets thus contributing to the recovery of the portfolio investments inflow.

Trends in foreign direct investment (FDI) remain controversial: there is a recovery of the FDI inflow to China and certain countries of Latin America, whereas the FDI inflow to Europe, Central Asia, Middle East and North America is declining.

(EUR thousand)

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

General

These interim condensed financial statements for the six months ended 30 June 2019 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 disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2018.

Selected explanatory notes are included to explain events and operations that are significant to the understanding of the changes in the Bank's financial position and performance since the last annual financial statements.

The interim condensed financial statements are presented in euros, which are the Bank's functional and presentation currency. Amounts presented in these interim condensed financial statements have been rounded to the nearest thousand euros.

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

The Bank has neither subsidiaries nor associates and, therefore, these interim condensed financial statements have been prepared on a standalone basis.

The financial statements have been prepared under the historical cost convention except financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income stated at fair value, and a building, which is stated at revalued amounts.

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 estimate is revised and in any future periods affected.

Measurement is a process of determining the value at which accounting items must be recorded in the Bank's financial statements.

The Bank uses the following methods of measurement (recognition) of financial assets and liabilities:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

Cost is the amount of cash or cash equivalents paid or the fair value of another consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

Key significant accounting estimates and judgments in applying accounting policies are disclosed in the financial statements for the year ended 31 December 2018. Management did not identify any areas where new accounting estimates and judgments could be applied.

(EUR thousand)

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

Changes in accounting policies

The accounting policies and calculation methods adopted in the preparation of the interim condensed financial statements are consistent with those followed and described in the preparation of the Bank's annual financial statements for the year ended 31 December 2018 (Significant accounting policies note), except for the adoption of new standards effective from 1 January 2019 and described below. The nature and the 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 2019, but do not have an impact on the interim condensed financial statements of the Bank.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Bank entered into leases providing for renting out of vacant premises located within a building complex. The new standard had no impact the Bank's interim condensed financial statements.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the interim condensed financial statements of the Bank.

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

- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Annual improvements 2015-2017 cycle (various standards).

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(EUR thousand)

5. Cash and cash equivalents

Cash and cash equivalents comprise:	***30 June 2019 (unaudited)***	***31 December 2018***
Cash on hand	1,352	1,135
Correspondent accounts with banks in IBEC member countries	2,118	799
Correspondent accounts with banks in other countries	9,721	16,354
Total cash and cash equivalents	**13,191**	**18,288**
Allowance for expected credit losses	–	–
Cash and cash equivalents after allowance for expected credit losses	**13,191**	**18,288**

As at 30 June 2019, all balances of cash and cash equivalents are taken to Stage 1.

Cash and cash equivalents are neither impaired nor credit-impaired. The credit quality of cash and cash equivalents is disclosed in Note 23.

As at 30 June 2019, balances due to three major counterparties amounted to EUR 11,192 thousand, or 84.85% of total cash and cash equivalents (31 December 2018: EUR 16,338 thousand, or 89.34% of total cash and cash equivalents).

6. Securities at fair value through profit or loss

Securities at fair value through profit or loss comprise:

	30 June 2019 (unaudited)	***31 December 2018***
Held by the Bank		
Corporate bonds	1,330	1,197
from BBB+ to BB-	*1,330*	*1,197*
Eurobonds of banks	*269*	868
from BBB+ to BB-	*269*	–
from B+ to B-	–	*868*
Eurobonds of IBEC member countries	–	2,924
from BBB+ to BB-	–	*2,924*
	1,599	**4,989**
Pledged under repurchase agreements		
Eurobonds of IBEC member countries	5,539	–
from BBB+ to BB-	*5,539*	–
Corporate bonds	770	693
from BBB+ to BB-	*770*	*693*
	6,309	**693**
Securities at fair value through profit or loss	**7,908**	**5,682**

As at 30 June 2019, securities at fair value through profit or loss comprise securities with a fair value of EUR 6,309 thousand (31 December 2018: EUR 693 thousand) pledged as collateral under repurchase agreements. According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 13).

Corporate bonds are denominated in Russian rubles and mature in March 2034 (31 December 2018: March 2034); the coupon rate is 9.1% p.a. (31 December 2018: 9.1% p.a.).

Eurobonds of IBEC member countries are denominated in euros and mature in April 2034 (31 December 2018: March 2029); the coupon rate is 3.5% p.a. (31 December 2018: 2.875% p.a.).

Eurobonds of banks are denominated in US dollars and mature in June 2024 (31 December 2018: October 2023); the coupon rate is 7.121% p.a. (31 December 2018: 7.25% p.a.).

For the interest rate risk of securities at fair value through profit or loss, please refer to Note 23.

(EUR thousand)

7. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Held by the Bank		
Corporate Eurobonds	77,007	50,515
from BBB+ to BB-	*72,632*	*35,858*
from B+ to B-	*4,375*	*14,657*
Eurobonds of IBEC member countries	24,581	21,107
from AAA to A-	*5,773*	*3,158*
from BBB+ to BB-	*10,371*	*14,015*
from B+ to B-	*8,437*	*3,934*
Eurobonds of funds	*7,611*	7,691
from AAA to A-	*7,611*	*7,691*
Bonds of banks	*5,018*	–
from AAA to A-	*5,018*	–
Eurobonds of banks	1,792	3,538
from BBB+ to BB-	*1,792*	*3,538*
Bonds of IBEC member countries	–	1,134
from BBB+ to BB-	–	*1,134*
	116,009	**83,985**
Pledged under repurchase agreements		
Eurobonds of IBEC member countries	31,695	34,218
from AAA to A-	*12,455*	*8,685*
from BBB+ to BB-	*19,240*	*25,533*
Corporate Eurobonds	21,908	10,024
from BBB+ to BB-	*21,908*	*10,024*
Corporate bonds	2,800	2,520
from BBB+ to BB-	*2,800*	*2,520*
	56,403	**46,762**
Securities at fair value through other comprehensive income	**172,412**	**130,747**

Movements in the allowance for expected credit losses from operations with securities at fair value through other comprehensive income for the six months ended 30 June 2019 and 2018 comprise:

	Stage 1	*Stage 2*	*Total*
Balance at 1 January 2018	**906**	**210**	**1,116**
New purchased or originated assets	288	–	288
Assets derecognized or redeemed (excluding write-offs)	(195)	(64)	(259)
Changes to models and inputs used for ECL calculations	(350)	(32)	(382)
Changes in currency exchange rates	9	6	15
Balance at 30 June 2018 (unaudited)	**658**	**120**	**778**
Balance at 1 January 2019	**602**	**–**	**602**
New purchased or originated 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
Balance at 30 June 2019 (unaudited)	**700**	**–**	**700**

As at 30 June 2019, securities at fair value through other comprehensive income comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 56,403 thousand (31 December 2018: EUR 46,762 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 13).

Corporate Eurobonds are debt securities denominated in euros, US dollars 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 January 2021 to July 2027 (31 December 2018: from January 2021 to June 2025), and coupon rates range from 1.5% to 8.25% p.a. (31 December 2018: 1.66% to 8.25% p.a.).

(EUR thousand)

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

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 April 2021 to March 2029 (31 December 2018: from April 2021 to May 2028), and coupon rates range from 1% to 10.875% p.a. (31 December 2018: 1.5% to 10.88% p.a.).

Eurobonds of funds are denominated in euros and comprise Eurobonds issued by international finance funds that are traded on exchange markets external to the issuing country. Eurobonds of funds mature from October 2019 to January 2020 (31 December 2018: from October 2019 to January 2020), and coupon rates range from 0.875% to 1.5% p.a. (31 December 2018: 0.875% to 1.5% p.a.).

Bonds of banks comprise debt securities denominated in euros and intended for circulation on the domestic markets of the country of the issuer's location. Bonds of banks mature in June 2029, the coupon rate is 0.5% p.a. (31 December 2018: the Bank had no bonds of banks).

Corporate bonds denominated in Russian rubles 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 in March 2034 (31 December 2018: March 2034), the coupon rate is 9.10% p.a. (31 December 2018: 9.10% p.a.).

Eurobonds of banks comprise debt securities denominated in euros and US dollars and intended for circulation on markets external to the issuer. Eurobonds of banks mature in June 2024 (31 December 2018: March 2019), the coupon rate is 7.121% p.a. (31 December 2018: 3.08% p.a.).

As at 30 June 2019, the Bank had no bonds of IBEC member countries. As at 31 December 2018, bonds of IBEC member countries were denominated in Bulgarian levs and intended for circulation on internal markets and stock-exchange markets of the issuing countries, as well as for trade on over-the-counter markets; the bonds were to mature in April 2025, the coupon rate was 2.3% p.a.

For the credit quality and interest rate risk of securities at fair value through other comprehensive income, please refer to Note 23.

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(EUR thousand)

8. Securities at amortized cost

Securities at amortized cost comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Held by the Bank		
Corporate Eurobonds	*24,606*	5,799
from BBB+ to BB-	*18,148*	*5,799*
from B+ to B-	*6,458*	–
Eurobonds of banks	8,300	20,648
from BBB+ to BB-	*3,710*	*20,648*
from B+ to B-	*4,590*	–
Eurobonds of IBEC member countries	*2,034*	–
from BBB+ to BB-	*2,034*	–
	34,940	**26,447**
Pledged under repurchase agreements		
Eurobonds of banks	8,576	–
from BBB+ to BB-	*8,576*	–
Corporate Eurobonds	7,659	10,177
from BBB+ to BB-	*7,659*	*10,177*
Corporate bonds	4,876	4,410
from BBB+ to BB-	*4,876*	*4,410*
Eurobonds of IBEC member countries	*3,108*	–
from BBB+ to BB-	*3,108*	–
	24,219	**14,587**
Total securities at amortized cost	**59,159**	**41,034**
Allowance for expected credit losses	(332)	(118)
Securities at amortized cost	**58,827**	**40,916**

As at 30 June 2019, securities at amortized cost comprise securities pledged as collateral under repurchase agreements with an amortized cost of EUR 24,159 thousand (31 December 2018: EUR 14,528 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 13).

Corporate Eurobonds and corporate bonds are debt securities denominated in euros, US dollars and Russian rubles issued 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 markets and security exchange markets. The Eurobonds mature from May 2021 to May 2027 (31 December 2018: from May 2021 to June 2025), and coupon rates range from 1.5 % to 7.75% p.a. (31 December 2018: 2.25 % to 3.50% p.a.). Corporate bonds mature in March 2034 (31 December 2018: March 2034), the coupon yield is 9.1% p.a. (31 December 2018: 9.1% p.a.).

Eurobonds of banks comprise debt securities denominated in euros and US dollars and intended for circulation on markets external to the issuer. The Eurobonds mature from February 2023 to October 2023 (31 December 2018: from March 2019 to February 2023), the coupon rate ranges from 4.032% to 7.25% p.a. (31 December 2018: from 3.08% to 4.032% p.a.).

Eurobonds of IBEC member countries are issued in euros for circulation on markets external to the issuing country and for trade on over-the-counter markets. The Eurobonds mature from December 2026 to April 2027, and the coupon rate ranges from 2% to 2.375% p.a. (31 December 2018: no Eurobonds of IBEC member countries).

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(EUR thousand)

8. Securities at amortized cost (continued)

Movements in the allowance for expected credit losses from operations with securities at amortized cost for the six months ended 30 June 2019 and 2018 comprise:

	Stage 1	***Total***
Balance at 1 January 2018	**44**	**44**
New purchased or originated assets	15	15
Changes to models and inputs used for ECL calculations	(11)	(11)
Changes in currency exchange rates	–	–
Balance at 30 June 2018 (unaudited)	**48**	**48**
Balance at 1 January 2019	**118**	**118**
New purchased or originated 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)
Balance at 30 June 2019 (unaudited)	**332**	**332**

The Bank makes investments in debt securities of the member countries of the Bank acquired upon initial placement by the issuers. The Bank recognizes securities purchased at initial placement as a credit investment activity, i.e. as 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 2019 (unaudited)	***31 December 2018***
Credit investment portfolio of securities	26,257	9,466
Securities purchased on capital markets	32,570	31,450
Securities at amortized cost	**58,827**	**40,916**

For the credit quality and interest rate risk of securities at amortized cost, please refer to Note 23.

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(EUR thousand)

9. Loans and deposits to banks

Loans and deposits to banks comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Loans issued to banks under trade financing	42,240	37,000
Term deposits with banks in IBEC member countries	11,120	14,338
Term deposits with banks in other countries	6,017	–
Total loans and deposits to banks	**59,377**	**51,338**
Allowance for expected credit losses	(379)	(238)
Loans and deposits to banks	**58,998**	**51,100**

As at 30 June 2019, balances due to three major counterparties amounted to EUR 33,533 thousand, or 56.84% of total loans and deposits to banks (31 December 2018: EUR 33,205 thousand, or 64.98% of total loans and deposits to banks).

Movements in the allowance for expected credit losses from loans and deposits to banks for the six months ended 30 June 2019 and 2018 comprise:

	Stage 1	*Stage 3*	*Total*
Balance at 1 January 2018	**686**	**11**	**697**
New purchased or originated assets	441	–	441
Assets derecognized or redeemed (excluding write-offs)	(566)	–	(566)
Changes to models and inputs used for ECL calculations	(174)	–	(174)
Changes in currency exchange rates	12	–	12
Balance at 30 June 2018 (unaudited)	**399**	**11**	**410**
Balance at 1 January 2019	**227**	**11**	**238**
New purchased or originated 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
Balance 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 23.

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(EUR thousand)

10. Loans to corporate customers

Loans to corporate customers comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Loans for foreign trade purposes issued to legal entities of IBEC member countries	40,007	30,007
Loans to legal entities of IBEC member countries	41,308	45,385
Loans to legal entities of other countries	8,087	8,411
Total loans to corporate customers	**89,402**	**83,803**
Allowance for expected credit losses	(392)	(466)
Loans to corporate customers less allowance for expected credit losses	**89,010**	**83,337**

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

	30 June 2019 (unaudited)		*31 December 2018*	
	Amount	*%*	*Amount*	*%*
Power industry	39,947	44.88	29,962	35.95
Investment activities (leases)	27,857	31.30	28,018	33.62
Telecommunications	15,687	17.62	24,955	29.95
Retail trade	5,119	5.75	–	–
Sale of agricultural products	400	0.45	402	0.48
Total loans to corporate customers	**89,010**	**100**	**83,337**	**100**

As at 30 June 2019, balances due to three major counterparties amounted to EUR 69,120 thousand, or 77.58% of the Bank's total loan portfolio less allowance for expected credit losses (31 December 2018: EUR 64,671 thousand, or 77.54% 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 2019	*31 December 2018*
Russian Federation	59,865	49,723
Romania	11,949	15,350
Republic of Bulgaria	9,256	10,007
Other countries	7,940	8,257
Total	**89,010**	**83,337**

Other countries include the countries, which are not the Bank's member countries; however, their operations comprise transactions with the Bank's member countries.

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(EUR thousand)

10. Loans to corporate customers (continued)

Movements in the allowance for expected credit losses from loans to corporate customers for the six months ended 30 June 2019 and 2018 comprise:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Balance at 1 January 2018	**–**	**–**	**39,212**	**39,212**
Assets derecognized or redeemed (excluding write-offs)	–	–	(82)	(82)
Balance at 30 June 2018 (unaudited)	**–**	**–**	**39,130**	**39,130**
Balance at 1 January 2019	**311**	**155**	**–**	**466**
New purchased or originated assets	22	–	–	22
Changes to models and inputs used for ECL calculations	(90)	(8)	–	(98)
Changes in currency exchange rates	1	1	–	2
Balance as at 30 June 2019 (unaudited)	**244**	**148**	**–**	**392**

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 member countries of IBEC;
- 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 obtained collateral for loans to corporate customers are:

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

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 2019 (unaudited)	*31 December 2018*
Loans guaranteed by other parties, including credit insurance	7,146	7,431
Loans secured by pledge of real estate	21,206	25,357
Loans secured by pledge of property	20,711	826
Unsecured loans	39,947	49,723
Total loans to corporate customers	**89,010**	**83,337**

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 credit quality analysis and interest rate risk of the loan portfolio, please refer to Note 23.

(EUR thousand)

11. Property, plant and equipment

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

30 June 2019	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Total*
Initial 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	20	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**

Movements in property, plant and equipment for the six months ended 30 June 2018 were as follows:

30 June 2018	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Total*
Initial cost						
Balance at 1 January 2018		**100,768**	**1,462**	**614**	**381**	**103,225**
Additions		17	24	3	114	158
Disposals		–	(3)	(2)	–	(5)
Balance at 30 June 2018 (unaudited)		**100,785**	**1,483**	**615**	**495**	**103,378**
Accumulated depreciation						
Balance at 1 January 2018		**28,019**	**1,288**	**432**	**294**	**30,033**
Depreciation charges for the reporting period	20	646	34	8	28	716
Disposals		–	(2)	(2)	–	(4)
Balance at 30 June 2018 (unaudited)		**28,665**	**1,320**	**438**	**322**	**30,745**
Net book value						
Net book value at 1 January 2018		**72,749**	**174**	**182**	**87**	**73,192**
Net book value at 30 June 2018 (unaudited)		**72,120**	**163**	**177**	**173**	**72,633**

(EUR thousand)

12. Other assets and liabilities

Other assets comprise:

	Notes	*30 June 2019 (unaudited)*	*31 December 2018*
Financial assets			
Collateral		882	320
Accounts receivable under financial and business operations		656	452
Derivative financial assets		592	15
Consumer lending		82	64
Bank fees receivable from customers		16	12
Allowance for expected credit losses from financial assets	21	(14)	(11)
Total financial assets less allowance for expected credit losses		**2,214**	**852**
Non-financial assets			
Property transferred to the Bank as repayment of the loan		403	403
Inventories		63	58
Total non-financial assets		466	461
Total other assets		**2,680**	**1,313**

In these interim condensed financial statements, the Bank amended the presentation of consumer lending and reclassified it to other assets of the interim statement of financial position as the Bank believes that this type of lending is, in its economic substance, an incentive to the Bank's employees.

Movements in the allowance for expected credit losses from other financial assets for the six months ended 30 June 2019 and 2018 comprise:

	Stage 1	*Total*
Balance at 1 January 2018	**17**	**17**
New purchased or originated assets	4	4
Balance at 30 June 2018 (unaudited)	**21**	**21**
Balance at 1 January 2019	**11**	**11**
New purchased or originated assets	3	3
Balance at 30 June 2019 (unaudited)	**14**	**14**

Other liabilities comprise:

	Notes	*30 June 2019 (unaudited)*	*31 December 2018*
Derivative financial liabilities		1,514	723
Contributions to social security funds		908	945
Settlements under financial and business operations		155	219
Provision for unused vacations	22	65	119
Allowance for expected credit losses from credit-related committments	16.21	19	36
Advances received		19	8
Allowance for litigation charges	22	11	11
Other accrued liabilities		2	33
		2,693	**2,094**

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(EUR thousand)

12. Other assets and liabilities (continued)

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

	30 June 2019 (unaudited)		
	Notional principal	***Fair value***	
		Asset	***Liability***
Interest rate contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	24,332	592	–
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	22,250	–	1,325
Derivative financial instruments (contracts with nonresidents of IBEC member countries)	7,547	–	189
Total derivative assets/liabilities		**592**	**1,514**

	31 December 2018		
	Notional principal	***Fair value***	
		Asset	***Liability***
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	24,012	15	622
Derivative financial instruments (contracts with nonresidents of IBEC member countries)	9,029	–	101
Total derivative assets/liabilities		**15**	**723**

13. Due to credit institutions

Due to credit institutions comprise:

	30 June 2019 (unaudited)	***31 December 2018***
Loans from banks in IBEC member countries	31,248	44,236
Loans from banks in other countries	18,000	–
Repurchase agreements	78,255	51,776
Correspondent accounts with banks in IBEC member countries	133	70
Due to credit institutions	**127,636**	**96,082**

As at 30 June 2019, balances due to three major counterparties amounted to EUR 82,959 thousand, or 65.00% of total amounts due to credit institutions (31 December 2018: EUR 62,989 thousand due to three major counterparties, or 65.56% of total amounts due to credit institutions).

The Bank entered into repurchase agreements with banks in IBEC member countries and with banks in other countries. The agreements had encumbrances on securities with a fair value of EUR 86,871 thousand as at 30 June 2019 (31 December 2018: EUR 61,983 thousand) (Notes 6, 7, 8).

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(EUR thousand)

13. Due to credit institutions (continued)

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.

	Notes	*Repurchase agreements, 30 June 2019 (unaudited)*	*Repurchase agreements, 31 December 2018*
Carrying amount of transferred assets – securities at fair value through profit or loss	6	6,309	693
Carrying amount of transferred assets – securities at fair value through other comprehensive income	7	56,403	46,762
Carrying amount of transferred assets – securities at amortized cost	8	24,159	14,528
Carrying amount of associated liabilities – due to credit institutions		(78,255)	(51,776)

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 to provide 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.

14. Due to customers

Due to customers comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Deposits of IBEC member countries	27,968	–
Current accounts of organizations in IBEC member countries	4,756	1,213
Current accounts of organizations in other countries	829	453
Other current accounts	4,943	5,426
Due to customers	**38,496**	**7,092**

As at 30 June 2019, balances due to three major customers of the Bank amounted to EUR 30,209 thousand, or 78.47% of total amounts due to customers (31 December 2018: EUR 1,859 thousand, or 26.21% of total amounts due to customers).

An analysis of due to customers (entities) by industry is as follows:

	30 June 2019 (unaudited)		*31 December 2018*	
	Amount	*%*	*Amount*	*%*
Power industry	27,968	83.4	–	–
Research	1,541	4.6	–	–
Finance	985	2.9	187	11.2
Trading	933	2.8	986	59.2
Construction	848	2.5	36	2.2
Pharmaceuticals	571	1.7	–	–
Manufacturing	295	0.9	128	7.7
Transport	104	0.3	139	8.3
Other	308	0.9	190	11.4
Total due to customers	**33,553**	**100**	**1,666**	**100**

(EUR thousand)

15. Share capital

In accordance with the Agreement, the authorized share capital formed from equity contributions made by IBEC member countries is EUR 400,000 thousand.

As at 30 June 2019, the paid portion of the IBEC's share capital amounts to EUR 200,000 thousand (31 December 2018: EUR 200,000 thousand).

16. Credit-related committments

The Bank's credit-related committments comprise the following:

	30 June 2019 (unaudited)	***31 December 2018***
Credit-related commitments	16,324	24,985
Guarantees issued	14,796	12,082
Letters of credit	553	1,322
Reimbursement obligations	250	250
Total credit-related committments	**31,923**	**38,639**
Allowance for expected credit losses (Note 21)	(19)	(36)
Credit-related committments	**31,904**	**38,603**

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

	30 June 2019 (unaudited)	***31 December 2018***
Russian Federation	27,135	34,635
Romania	2,400	2,400
Poland	1,567	–
Other countries	802	1,568
Total	**31,904**	**38,603**

Other countries include countries, which are not the Bank's member countries; however, their operations comprise transactions with the Bank's member countries.

Movements in the allowance for expected credit losses from credit-related committments for the six months ended 30 June 2019 and 2018 comprise:

	Stage 1	***Total***
Balance at 1 January 2018	–	**–**
New purchased or originated assets	–	–
Balance at 30 June 2018 (unaudited)	–	–
Balance at 1 January 2019	**36**	**36**
New purchased or originated assets	1	1
Changes to models and inputs used for ECL calculations	(21)	(21)
Changes in currency exchange rates	3	3
Balance at 30 June 2019 (unaudited)	**19**	**19**

The Bank has outstanding contingencies to extend loans. These credit-related committments take the form of approved loan agreements.

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

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

(EUR thousand)

16. Credit-related committments (continued)

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 amounts, terms and conditions, which are collateralized by the corresponding shipments of goods.

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

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

17. Interest income and interest expenses

	For the six months ended 30 June (unaudited)	
	2019	***2018***
Interest income		
Interest income calculated using the EIR method		
Securities at fair value through other comprehensive income	2,270	2,710
Loans to corporate customers	1,352	487
Loans and deposits to banks	1,064	908
– Loans issued to banks under trade financing	*828*	*242*
– Term deposits with banks	*236*	*666*
Securities at amortized cost	839	111
Other interest income		
Securities at fair value through profit or loss	196	100
Total interest income	**5,721**	**4,316**
Interest expenses		
Due to credit institutions	(1,376)	(396)
Due to customers	(139)	(29)
Other	–	(71)
Total interest expense	**(1,515)**	**(496)**
Net interest income	**4,206**	**3,820**

18. Net fee and commission income

	For the six months ended 30 June (unaudited)	
	2019	***2018***
Documentary operations	92	1
Fee for issuing a loan/credit facility	50	209
Cash and settlement operations	44	43
Accounts maintenance	27	27
Currency control	19	183
Fee and commission income	**232**	**463**
Fee and commission expense	(45)	(34)
Net fee and commission income	**187**	**429**

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(EUR thousand)

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

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

	For the six months ended 30 June (unaudited)	
	2019	***2018***
Result from disposal of debt securities	1,455	2,062
Total net gains from operations with securities at fair value through other comprehensive income	**1,455**	**2,062**

Gain from the revaluation of securities at fair value through other comprehensive income, due to their disposal during the six months ended 30 June 2019, is reclassified from other comprehensive income to net gains from operations with securities at fair value through other comprehensive income in the amount of EUR 1,446 thousand (six months ended 30 June 2018: EUR 1,844 thousand (unaudited)).

20. Administrative and management expenses

	For the six months ended 30 June (unaudited)	
	2019	***2018***
Staff costs	4,131	4,050
Repair and maintenance of the building, equipment and apartments	744	750
Depreciation of property, plant and equipment	738	716
Building security expenses	137	133
Telecommunication expenses	132	122
Meetings of the Council of the Bank, Audit Committee, Working Group of Authorized Representatives and entertainment expenses	130	33
Transport expenses	112	95
Information and advisory expenses	96	123
Office expenses	85	57
Business trip expenses	71	97
Audit expenses	48	49
Professional development	10	24
Other administrative and management expenses	21	24
Total administrative and management expenses	**6,455**	**6,273**

Staff costs comprise contributions to:

	For the six months ended 30 June (unaudited)	
	2019	***2018***
Pension Fund of the Russian Federation	397	371
Compulsory Medical Insurance Fund of the Russian Federation	119	117
Pension funds of other IBEC member countries	16	21
Social Insurance Fund of the Russian Federation	14	21
Total	**546**	**530**

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(EUR thousand)

21. Allowances for expected credit losses

The table below shows (gains) losses associated with allowances for expected credit losses from debt financial assets recognized in profit or loss during the six months ended 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 committments	16	(20)	–	–	(20)
Other financial assets	12	3	–	–	3
		378	**(8)**	**(11)**	**359**

Movements in the allowance for expected credit losses from financial assets for the six months ended 30 June 2018 (unaudited) comprise:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Securities at fair value through other comprehensive income	7	(257)	(96)	–	(353)
Securities at amortized cost	8	4	–	–	4
Loans and deposits to banks	9	(299)	–	–	(299)
Loans to corporate customers	10	–	–	(82)	(82)
Credit-related committments	16	–	–	–	–
Other financial assets	12	4	–	–	4
		(548)	**(96)**	**(82)**	**(726)**

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(EUR thousand)

21. Allowances for expected credit losses (continued)

As at 30 June 2019 and 2018, the reconciliation of balances of the allowance for expected credit losses from financial assets (unaudited) comprises:

	Securities at fair value through other comprehensive income	*Loans and deposits to banks*	*Loans to corporate customers*	*Securities at amortized cost*	*Other financial assets*	*Credit-related committments*	*Total*
Balance at 1 January 2018	**1,116**	**697**	**39,212**	**44**	**17**	**–**	**41,086**
New purchased or originated assets	288	441	–	15	4	–	748
Assets derecognized or redeemed (excluding write-offs)	(259)	(566)	(82)	–	–	–	(907)
Changes to models and inputs used for ECL calculations	(382)	(174)	–	(11)	–	–	(567)
Changes in currency exchange rates	15	12	–	–	–	–	27
Balance at 30 June 2018	**778**	**410**	**39,130**	**48**	**21**	**–**	**40,387**
Balance at 1 January 2019	**602**	**238**	**466**	**118**	**11**	**36**	**1,471**
New purchased or originated assets	306	611	22	152	3	1	1,095
Assets derecognized or redeemed (excluding write-offs)	(301)	(144)	–	(13)	–	–	(458)
Changes to models and inputs used for ECL calculations	92	(327)	(98)	76	–	(21)	(278)
Changes in currency exchange rates	1	1	2	(1)	–	3	6
Balance at 30 June 2019	**700**	**379**	**392**	**332**	**14**	**19**	**1,836**

(EUR thousand)

22. Other provisions

Movements in provisions for the six months ended 30 June 2019 and 2018 comprise:

	Provisions for legal claims	*Provision for unused vacations*	*Total*
1 January 2018	**11**	**129**	**140**
Charge	–	24	24
Write-offs	–	(28)	(28)
30 June 2018 (unaudited)	**11**	**125**	**136**
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 2019, provisions for legal claims include the amount of expected litigation charges and possible litigation payments where the Bank acts as a plaintiff and/or defendant.

23. 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 of the Bank, the IBEC Credit Committee, the IBEC AssetsLiabilities 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 Management 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.

(EUR thousand)

23. Risk management (continued)

Risk management structure (continued)

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.

Internal Audit Department (IAD)

The Internal Audit Department 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. 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 businesses 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 also uses collateral 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 will 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.

(EUR thousand)

23. Risk management (continued)

Credit risk (continued)

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 assigned 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 5-10, 12 and 16.

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, 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.

(EUR thousand)

23. Risk management (continued)

Credit risk (continued)

The Bank believes that since the date of initial recognition the credit risk related to a certain position increased significantly, if 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 risks 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 whether 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 borrowers). The number of overdue days is counted from the first day, on which the full amount due was not paid.

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

- The criteria helps 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 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 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, 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.

(EUR thousand)

23. Risk management (continued)

Credit risk (continued)

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 macro-economic 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.

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 positions 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.

(EUR thousand)

23. Risk management (continued)

Credit risk (continued)

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.

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 macro-economic variables, credit risks 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.

I 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 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 2019 (unaudited):

	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	10,360	–	–	10,360
Correspondent accounts with other internationally rated banks	1,479	–	–	1,479
Total	**11,839**	**–**	**–**	**11,839**
Allowance for expected credit losses	–	–	–	**–**
Carrying amount	**11,839**	**–**	**–**	**11,839**
Securities at fair value through other comprehensive income:				
- held by the Bank				
Internationally rated	116,009	–	–	116,009
Carrying amount	**116,009**	**–**	**–**	**116,009**
Allowance for expected credit losses	**(597)**	**–**	**–**	**(597)**

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(EUR thousand)

23. Risk management (continued)

Credit risk (continued)

	Stage 1	*Stage 2*	*Stage 3*	
	12-month ECL	***Lifetime ECL***	***Lifetime ECL***	***Total***
– pledged under repurchase agreements				
Internationally rated	56,403	–	–	56,403
Carrying amount	**56,403**	**–**	**–**	**56,403**
Allowance for expected credit losses	**(103)**	**–**	**–**	**(103)**
Securities at amortized cost				
- held by the Bank				
Internationally rated	34,940	–	–	34,940
Total	**34,940**	–	–	**34,940**
Allowance for expected credit losses	**(272)**	–	–	**(272)**
Carrying amount	**34,668**	–	–	**34,668**
– pledged under repurchase agreements				
Internationally rated	24,219	–	–	24,219
Total	**24,219**	–	–	**24,219**
Allowance for expected credit losses	**(60)**	–	–	**(60)**
Carrying amount	**24,159**	–	–	**24,159**
Loans and deposits to banks				
Internationally rated	59,377	–	–	59,377
Total	**59,377**			**59,377**
Allowance for expected credit losses	**(379)**	–	–	**(379)**
Carrying amount	**58,998**	–	–	**58,998**
Loans to corporate customers:				
Internationally rated				
from BBB+ to BB-	75,788	–	–	75,788
Internally rated only	5,126	8,488	–	13,614
Total	**80,914**	**8,488**		**89,402**
Allowance for expected credit losses	**(244)**	**(148)**	**–**	**(392)**
Carrying amount	**80,670**	**8,340**	**–**	**89,010**

(EUR thousand)

23. 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 2018:

	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL*	*Stage 3* *Lifetime ECL*	*Total*
Cash and cash equivalents (other than cash on hand)				
Due from central banks	14,984	–	–	14,984
Correspondent accounts with internationally rated banks	2,158	–	–	2,158
Internally rated only	11	–	–	11
Total	**17,153**	–	–	**17,153**
Allowance for expected credit losses	–	–	–	**–**
Carrying amount	**17,153**	–	–	**17,153**
Securities at fair value through other comprehensive income				
- held by the Bank				
Internationally rated	83,985	–	–	83,985
Carrying amount	**83,985**	–	–	**83,985**
Allowance for expected credit losses	**(487)**	–	–	**(487)**
- pledged under repurchase agreements				
Internationally rated	46,762	–	–	46,762
Carrying amount	**46,762**	–	–	**46,762**
Allowance for expected credit losses	**(115)**	–	–	**(115)**
Securities at amortized cost				
- held by the Bank				
Internationally rated	26,447	–	–	26,447
Total	**26,447**	**–**	**–**	**26,447**
Allowance for expected credit losses	**(59)**	–	–	**(59)**
Carrying amount	**26,388**	**–**	**–**	**26,388**
- pledged under repurchase agreements				
Internationally rated	14,587	–	–	14,587
Total	**14,587**	**–**	**–**	**14,587**
Allowance for expected credit losses	**(59)**	**–**	–	**(59)**
Carrying amount	**14,528**	**–**	**–**	**14,528**

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(EUR thousand)

23. Risk management (continued)

Credit risk (continued)

	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL*	*Stage 3* *Lifetime ECL*	*Total*
Loans and deposits to banks				
Internationally rated	51,327	–	–	51,327
Not rated	–	–	11	11
Total	**51,327**	**–**	**11**	**51,338**
Allowance for expected credit losses	**(227)**	**–**	**(11)**	**(238)**
Carrying amount	**51,100**	**–**	**–**	**51,100**
Loans to corporate customers:				
Internationally rated	44,982	–	–	44,982
Internally rated only	30,007	8,814	–	38,821
Total	**74,989**	**8,814**	**–**	**83,803**
Allowance for expected credit losses	**(311)**	**(155)**	–	**(466)**
Carrying amount	**74,678**	**8,659**	**–**	**83,337**

Credit-related committments relate to Stage 1 as of 30 June 2019 and 31 December 2018.

The Bank measures its financial assets that do not have external credit ratings 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 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-“.

There were no transfers of other financial assets between stages during the reporting period.

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(EUR thousand)

23. 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 2019 (unaudited):

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*	*Other financial assets*	*Total*	*Share, %*
Russia	2,040	1,599	770	35,763	15,535	14,091	18,040	11,482	59,865	1,924	**161,109**	**40.16**
Romania	7	–	5,539	10,372	19,240	4,061	3,104	–	11,949	15	**54,287**	**13.53**
Czech Republic	12	–	–	32,904	9,173	2,008	3,015	–	–	-	**47,112**	**11.74**
Mongolia	7	–	–	8,437	–	4,467	–	23,700	–	-	**36,611**	**9.13**
Bulgaria	45	–	–	5,628	–	10,041	–	–	9,256	5	**24,975**	**6.22**
Poland	4	–	–	10,275	12,455	–	–	–	–	4	**22,738**	**5.67**
Slovakia	–			5,018	–	–	–	–	–	–	**5,018**	**1.25**
Vietnam	4	–	–	–	–	–	–	–	–	–	**4**	**0.00**
IFI[1]	–	–	–	7,612	–	–	–	–	–	–	**7,612**	**1.90**
Other countries	9,720	–	–	–	–	–	–	23,816	7,940	266	**41,742**	**10.40**
Total	**11,839**	**1,599**	**6,309**	**116,009**	**56,403**	**34,668**	**24,159**	**58,998**	**89,010**	**2,214**	**401,208**	**100**

Other countries include non-member countries.

[1] IFI – international financial institutions. As at 30 June 2019, IFI are represented by the European Financial Stability Facility, which is financed by 27 members of the eurozone and was established as a special purpose vehicle to fight the European debt crisis, and the European Stability Mechanism that provides financial support to eurozone members and participates in credit-related activity.

(EUR thousand)

23. Risk management (continued)

Geographical risk (continued)

The table below shows risk concentration by geographical region as at 31 December 2018:

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*	*Other financial assets*	*Total*	*Share, %*
Russia	757	1,197	693	35,244	2,520	26,287	4,403	1,205	49,723	708	**122,737**	**37.22**
Romania	6	2,924	–	5,784	25,533	–	–	–	15,350	–	**49,597**	**15.04**
Mongolia	7	868	–	3,934	–	–	–	34,470	–	–	**39,279**	**11.91**
Bulgaria	9	–	–	6,712	10,024	101	10,125	–	10,007	16	**36,994**	**11.22**
Czech Republic	12	–	–	18,809	–	–	–	–	–	–	**18,821**	**5.71**
Poland	1	–	–	3,158	8,685	–	–	–	–	4	**11,848**	**3.59**
Vietnam	8	–	–	2,653	–	–	–	8,436	–	–	**11,097**	**3.36**
IFI[2]	–	–	–	7,691	–	–	–	–	–	–	**7,691**	**2.33**
Other countries	16,353	–	–	–	–	–	–	6,989	8,257	124	**31,723**	**9.62**
Total	**17,153**	**4,989**	**693**	**83,985**	**46,762**	**26,388**	**14,528**	**51,100**	**83,337**	**852**	**329,787**	**100**

Other countries include non-member countries.

[2] IFI – international financial institutions. As at 31 December 2018, IFI are represented by the European Financial Stability Facility, which is financed by 27 members of the eurozone and was established as a special purpose vehicle to fight the European debt crisis, and the European Stability Mechanism that provides financial support to eurozone members and participates in credit-related activity.

(EUR thousand)

23. 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 2019 and 31 December 2018 on contractual undiscounted cash flows. Repayments which are subject to notice are treated as if notice were to be given immediately.

30 June 2019 (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	11,363	96,674	15,322	5,745	129,104	127,636
Due to customers	10,528	–	–	30,391	40,919	38,496
Other liabilities	1,179	–	–	–	1,179	1,179
Gross settled derivative financial instruments:						
- Inflow	(3,161)	(9,093)	(3,417)	(11,514)	(27,185)	(27,185)
- Outflow	3,242	9,331	3,877	12,249	28,699	28,699
Total	**23,151**	**96,912**	**15,782**	**36,871**	**172,716**	**168,825**

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(EUR thousand)

23. Risk management (continued)

Liquidity risk and funding management

31 December 2018	*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	27,742	56,913	7,639	5,192	97,486	96,082
Due to customers	7,092	–	–	–	7,092	7,092
Other liabilities	1,371	–	–	–	1,371	1,371
Gross settled derivative financial instruments:						
- Inflow	–	(5,563)	(9,093)	(12,664)	(27,320)	(27,320)
- Outflow	–	5,664	9,109	13,270	28,043	28,043
Total	**36,205**	**57,014**	**7,655**	**5,798**	**106,672**	**105,268**

The table below shows the contractual maturities of credit-related committments. All outstanding credit-related committments 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*	*Total*
30 June 2019 (unaudited)	18,683	10,995	2,226	–	**31,904**
31 December 2018	26,536	–	10,056	2,011	**38,603**

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(EUR thousand)

23. 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 2019 and 31 December 2018 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 2019 (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	13,191	–	–	–	–	13,191
Securities at fair value through profit or loss:						
- held by the Bank	1,599	–	–	–	–	1,599
- pledged under repurchase agreements	–	6,309	–	–	–	6,309
Securities at fair value through other comprehensive income:						
- held by the Bank	116,009	–	–	–	–	116,009
- pledged under repurchase agreements	–	47,660	8,743	–	–	56,403
Loans and deposits to banks	10,238	21,462	17,095	10,203	–	58,998
Loans to corporate customers	140	490	–	80,585	7,795	89,010
Securities at amortized cost:						
- held by the Bank	–	–	–	14,569	20,099	34,668
- pledged under repurchase agreements	–	11,058	8,235	4,866	–	24,159
Other financial assets	1,540	3	4	667	–	2,214
Total financial assets	**142,717**	**86,982**	**34,077**	**110,890**	**27,894**	**402,560**
Due to credit institutions	11,351	96,263	15,144	4,878	–	127,636
Due to customers	10,528	–	–	27,968	–	38,496
Other financial liabilities	1,165	238	460	735	–	2,598
Total financial liabilities	**23,044**	**96,501**	**15,604**	**33,581**	**–**	**168,730**
Net position	**119,673**	**(9,519)**	**18,473**	**77,309**	**27,894**	**233,830**
Cumulative liquidity gap for financial instruments	**119,673**	**110,154**	**128,627**	**205,936**	**233,830**	**–**

31 December 2018	*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	18,288	–	–	–	–	18,288
Securities at fair value through profit or loss:						
- held by the Bank	4,989	–	–	–	–	4,989
- pledged under repurchase agreements	–	–	693	–	–	693
Securities at fair value through other comprehensive income:						
- held by the Bank	83,985	–	–	–	–	83,985
- pledged under repurchase agreements	17,394	21,360	8,008	–	–	46,762
Loans and deposits to banks	2,110	39,449	9,541	–	–	51,100
Loans to corporate customers	150	114	400	74,567	8,106	83,337
Securities at amortized cost:						
- held by the Bank	–	8,089	–	15,188	3,111	26,388
- pledged under repurchase agreements	–	–	–	4,403	10,125	14,528
Other financial assets	774	11	10	57	–	852
Total financial assets	**127,690**	**69,023**	**18,652**	**94,215**	**21,342**	**330,922**
Due to credit institutions	27,701	56,684	7,287	4,410	–	96,082
Due to customers	7,092	–	–	–	–	7,092
Other financial liabilities	1,205	101	16	606	–	1,928
Total financial liabilities	**35,998**	**56,785**	**7,303**	**5,016**	**–**	**105,102**
Net position	**91,692**	**12,238**	**11,349**	**89,199**	**21,342**	**225,820**
Cumulative liquidity gap for financial instruments	**91,692**	**103,930**	**115,279**	**204,478**	**225,820**	**–**

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(EUR thousand)

23. Risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates 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 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 2019 (unaudited)		***31 December 2018***	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
100 bp parallel rise	491	491	16	16
100 bp parallel fall	(491)	(491)	(16)	(16)

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(EUR thousand)

23. Risk management (continued)

Market risk (continued)

Average interest rates

The following table shows weighted average interest rates for interest-bearing assets and liabilities as at 30 June 2019 and 31 December 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	30 June 2019 (unaudited)				*31 December 2018*			
	Average interest rate, %				*Average interest rate, %*			
	EUR	*USD*	*RUB*	*Other currencies*	*EUR*	*USD*	*RUB*	*Other currencies*
Interest-bearing assets								
Correspondent accounts with banks in the IBEC member countries and other banks	(0.60)	0.95	–	(0.56)	(0.40)	0.01	–	(0.48)
Securities at fair value through profit or loss:								
– held by the Bank	–	7.12	9.10	–	2.88	7.25	9.10	–
– pledged under repurchase agreements	3.50	–	9.10	–	–	–	9.10	–
Securities at fair value through other comprehensive income:								
– held by the Bank	2.23	7.27	–	2.88	2.64	8.03	–	2.65
– pledged under repurchase agreements	2.18	5.41	9.10	–	3.04	3.00	9.10	–
Securities at amortized cost:								
– held by the Bank	3.12	7.50	–	–	3.46	–	–	–
– pledged under repurchase agreements	3.35	–	9.10	–	3.50	–	9.10	–
Loans and deposits to banks	2.27	6.33	9.07	–	2.49	5.28	8.93	–
Loans to corporate customers	1.95	5.93	–	6.12	2.16	5.94	–	–
Consumer lending	3.00	–	–	–	3.00	–	–	–
Interest-bearing liabilities								
Due to credit institutions	0.01	2.70	8.49	3.25	0.01	3.20	8.67	–
Correspondent accounts with banks in the IBEC member countries and other credit institutions	(0.01)	–	2.72	–	(0.01)	–	2.65	–
Due to customers	–	–	8.30	–	–	–	–	–

(EUR thousand)

23. 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 2019 (unaudited):

	Note	*USD*	*RUB*	*EUR*	*Other*	*Total*
Cash and cash equivalents		1,619	1,967	9,512	93	13,191
Securities at fair value through profit or loss:						
– held by the Bank		269	1,330	–	–	1,599
– pledged under repurchase agreements		–	770	5,539	–	6,309
Securities at fair value through other comprehensive income:						
– held by the Bank		21,915	–	90,436	3,658	116,009
– pledged under repurchase agreements		12,735	2,800	40,868	–	56,403
Loans and deposits to banks		16,194	2,801	40,003	–	58,998
Loans to corporate customers		27,857	–	56,034	5,119	89,010
Securities at amortized cost:						
– held by the Bank		8,832	–	25,836	–	34,668
– pledged under repurchase agreements		–	4,866	19,293	–	24,159
Other financial assets (other than derivative financial instruments)	12.24	–	564	1,043	15	1,622
Total financial assets		**89,421**	**15,098**	**288,564**	**8,885**	**401,968**
Due to credit institutions		37,797	13,857	71,018	4,964	127,636
Due to customers		1,302	30,240	6,954	–	38,496
Other liabilities (other than derivative financial instruments)	12.24	–	159	1,016	4	1,179
Total financial liabilities		**39,099**	**44,256**	**78,988**	**4,968**	**167,311**
Net balance sheet position		**50,322**	**(29,158)**	**209,576**	**3,917**	**234,657**
Net off-balance sheet position		**(44,823)**	**24,960**	**22,183**	**(3,242)**	**(922)**
Net balance sheet and off-balance sheet position		**5,499**	**(4,198)**	**231,759**	**675**	**233,735**

(EUR thousand)

23. Risk management (continued)

Currency risk (continued)

The table below shows the general analysis of the currency risk of the Bank for its financial assets and liabilities as at 31 December 2018:

	Note	USD	RUB	EUR	Other	Total
Cash and cash equivalents		2,394	616	15,223	55	18,288
Securities at fair value through profit or loss:						
– held by the Bank		868	1,198	2,923	–	4,989
– pledged under repurchase agreements		–	693	–	–	693
Securities at fair value through other comprehensive income:						
– held by the Bank		18,251	–	59,448	6,286	83,985
– pledged under repurchase agreements		8,685	2,520	35,557	–	46,762
Loans and deposits to banks		31,606	2,272	17,222	–	51,100
Loans to corporate customers		28,018	–	55,319	–	83,337
Securities at amortized cost:						
– held by the Bank		–	–	26,388	–	26,388
– pledged under repurchase agreements		–	4,403	10,125	–	14,528
Other financial assets (other than derivative financial instruments)	12.24	–	394	443	–	837
Total financial assets		**89,822**	**12,096**	**222,648**	**6,341**	**330,907**
Due to credit institutions		56,277	12,882	26,918	5	96,082
Due to customers		1,164	1,180	4,741	7	7,092
Other liabilities (other than derivative financial instruments)	12.24	12	185	1,174	–	1,371
Total financial liabilities		**57,453**	**14,247**	**32,833**	**12**	**104,545**
Net balance sheet position		**32,369**	**(2,151)**	**189,815**	**6,329**	**226,362**
Net off-balance sheet position		**(28,777)**	**–**	**33,041**	**(4,972)**	**(708)**
Net balance sheet and off-balance sheet position		**3,592**	**(2,151)**	**222,856**	**1,357**	**225,654**

As at 30 June 2019 and 31 December 2018, 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 equity does not differ from the effect on the statement of profit or loss.

	30 June 2019 (unaudited)	31 December 2018
20% appreciation of USD against EUR	1,100	718
20% appreciation of RUB against EUR	(840)	(430)

A strengthening of the euro against the above currencies as at 30 June 2019 and 31 December 2018 would have had the opposite effect provided that all other variables are held constant.

Operational risk

Operational risk is the risk 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.

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(EUR thousand)

24. Derivative financial instruments

The table below sets out fair values of currencies, at the end of the reporting period, receivable or payable under foreign exchange and interest rate swaps entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. A significant part of transactions is represented by short-term transactions.

		30 June 2019 (unaudited)		***31 December 2018***	
	Note	***Contracts with positive fair value***	***Contracts with negative fair value***	***Contracts with positive fair value***	***Contracts with negative fair value***
Interest rate swaps: fair value at the end of the reporting period					
- USD payable on settlement (–)		19,366	–	–	–
- RUB receivable on settlement (+)		24,960	–	–	–
- EUR payable on settlement (–)		5,002	–	–	–
Foreign exchange swaps: fair value at the end of the reporting period					
- USD payable on settlement (–)		–	25,457	5,705	23,071
- EUR receivable on settlement (+)		–	27,185	5,720	27,320
- Payable in other currencies on settlement (–)		–	3,242	–	4,972
Net fair value of foreign exchange and interest rate swaps	12	**592**	**(1,514)**	**15**	**(723)**

Foreign currency and 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.

25. Fair value of financial instruments

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.

External appraisers are engaged for valuation of significant assets, such as the Bank's principal office. Involvement of external appraisers is decided upon annually by the Board of the Bank. Selection criteria include market knowledge, reputation, independence and compliance with professional standards. The Bank, in conjunction with the external appraisers, compares each change in the fair value of a building with relevant external sources to determine whether the change is reasonable. The results are submitted to the Board and independent auditors of the Bank. This includes a discussion of the major assumptions used in the valuations.

Fair value of buildings is classified within Level 3 of the fair value hierarchy.

(EUR thousand)

25. Fair value of financial instruments (continued)

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.

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 2019 and 31 December 2018.

30 June 2019 (unaudited)	*Level 1*	*Level 2*	*Total*
Financial assets			
Securities at fair value through profit or loss held by the Bank:			
- Corporate bonds	–	1,330	1,330
- Eurobonds of banks	269	–	269
Securities at fair value through profit or loss pledged under repurchase agreements:			
- Eurobonds of IBEC member countries	5,539	–	5,539
- Corporate bonds	–	770	770
Securities at fair value through other comprehensive income held by the Bank:			
- Corporate Eurobonds	77,007	–	77,007
- Eurobonds of IBEC member countries	24,581	–	24,581
- Eurobonds of funds	7,611	–	7,611
- Bonds of banks	5,018	–	5,018
- Eurobonds of banks	1,792	–	1,792
Securities at fair value through other comprehensive income pledged under repurchase agreements:			
- Eurobonds of IBEC member countries	31,695	–	31,695
- Corporate Eurobonds	21,908	–	21,908
- Corporate bonds	–	2,800	2,800
Derivative financial assets	–	592	592
	175,420	**5,492**	**180,912**
Financial liabilities			
Derivative financial liabilities	**–**	(1,514)	(1,514)

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(EUR thousand)

25. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

31 December 2018	***Level 1***	***Level 2***	***Total***
Financial assets			
Securities at fair value through profit or loss held by the Bank:			
- Eurobonds of IBEC member countries	2,924	–	2,924
- Corporate bonds	1,197	–	1,197
- Eurobonds of banks	868	–	868
Securities at fair value through profit or loss pledged under repurchase agreements:			
- Corporate bonds	693	–	693
Securities at fair value through other comprehensive income held by the Bank:			
- Corporate Eurobonds	50,515	–	50,515
- Eurobonds of IBEC member countries	21,107	–	21,107
- Bonds of IBEC member countries	1,134	–	1,134
- Eurobonds of funds	7,691	–	7,691
- Eurobonds of banks	3,538	–	3,538
Securities at fair value through other comprehensive income pledged under repurchase agreements:			
- Eurobonds of IBEC member countries	34,218		34,218
- Corporate Eurobonds	10,024		10,024
- Corporate bonds	2,520	–	2,520
Derivative financial assets	–	15	15
	136,429	**15**	**136,444**
Financial liabilities			
Derivative financial liabilities	–	(723)	(723)

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.

Securities at fair value

Securities at fair value valued using a valuation technique consist of debt securities. Such assets are valued using models which incorporate either only observable market data or both observable and non-observable 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 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 of financial instruments (continued)

Securities at fair value (continued)

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 of 2019:

	Transfers from Level 1 to Level 2
	For the six months ended 30 June (unaudited)
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 of 2019.

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

As at 30 June 2019 and 31 December 2018, 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, due to credit institutions, due to customers and securities measured at amortized cost.

26. Related party transactions

For the purposes of these interim condensed 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.

In the ordinary course of business, the Bank enters into contractual relationships with state-owned organizations. In the ordinary course of business, the Bank mainly enters into transactions with the IBEC member countries.

During the six months of 2019, remuneration to the management of the Bank amounted to EUR 945 thousand (unaudited) (during the six months of 2018: EUR 1,120 thousand (unaudited)). The remuneration to the management of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 18 thousand (unaudited) (during the six months of 2018: EUR 38.2 thousand (unaudited)), Pension Funds of the IBEC member countries in the amount of EUR 10 thousand (unaudited) (during the six months of 2018: EUR 8.3 thousand (unaudited)) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 8 thousand (unaudited) (during the six months of 2018: EUR 17.8 thousand (unaudited)).

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(EUR thousand)

26. Related party transactions (continued)

As at 30 June 2019 and 31 December 2018, balances on the accounts of the Bank's management were as follows:

	30 June 2019 (unaudited)	*31 December 2018*
Current accounts	1,520	1,836

There were no other related party transactions during the six months of 2019 (unaudited) and in 2018.

27. 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.

The Bank's capital adequacy ratio as at 30 June 2019 (unaudited) and for 2018 comprised 83% and 89.6%, respectively. This indicates that the Bank maintains the requisite level of capital adequacy, with its equity being significantly prevalent over its liabilities.