International Bank
for Economic Co-operation

Interim condensed financial information
for 6 months ended 30 June 2018

Contents

Notes to the financial statements

Independent Auditors' Report on Review of Interim Condensed Financial Information

To the Council of the International Bank for Economic Co-operation

Introduction

We have reviewed the accompanying interim condensed statement of financial position of International Bank for Economic Co-operation (the "Bank") as at 30 June 2018, and the related interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim condensed financial information (the "interim condensed financial information"). Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed 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 condensed 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.

Audited entity: International Bank for Economic Co-operation.

Established and acting under the Intergovernmental Agreement for the Organisation and Activities of IBEC registered with the Secretariat of the United Nations on 20 August 1964 (the "Agreement") and the Charter of IBEC registered with the Secretariat of the United Nations on 20 August 1964 registration No. 7388.

Moscow, Russian Federation.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organisation of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial information as at 30 June 2018 and for the six-month period then ended is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Other information

The review of the comparative information for the six-month period ended 30 June 2017 was not performed.

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

Lukashova N.V.

JSC "KPMG"

Moscow, Russian Federation

2 October 2018

Interim Condensed Statement of Financial Position as at 30 June 2018

(EUR thousand)

	Note	30.06.2018 (unaudited)	31.12.2017*
Assets			
Cash and cash equivalents	6	14 879	7 082
Securities at fair value through profit or loss	7	9 911	–
Securities at fair value through other comprehensive income:	8	186 208	195 861
- held by the Bank		*166 198*	*190 734*
- pledged under sale and repurchase agreements		*20 010*	*5 127*
Loans and deposits to banks:	10	34 705	46 003
- term deposits shared with the banks of IBEC member countries		*16 834*	*37 309*
- loans issued to banks under trade financing		*11 906*	*2 839*
- syndicated loans		*5 965*	*5 855*
Loans to customers	11	34 757	13 145
Securities at amortised cost	9	10 797	5 188
Property, plant and equipment	12	72 633	73 192
Other assets	13	1 516	1 921
Total assets		**365 406**	**342 392**
Liabilities			
Due to credit institutions	14	48 513	22 719
Due to customers	15	11 956	8 662
Other liabilities	13	2 287	1 384
Total liabilities		**62 756**	**32 765**
Equity			
Share capital	16	200 000	200 000
Revaluation reserve for securities at fair value through other comprehensive income		1 517	7 970
Revaluation reserve for property, plant and equipment		32 388	32 388
Retained earnings less net profit for the reporting period		67 423	61 486
Net profit for the reporting period		1 322	7 783
Total equity		**302 650**	**309 627**
Total liabilities and equity		**365 406**	**342 392**

* The Bank initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of comparative information (see Note 3).

Международный банк экономического сотрудничества МБЭС Москва

Denis Ivanov — Chairman of the Board

Olga Demina — Chief Accountant

2 October 2018

The accompanying notes 1-26 form part of this interim condensed financial information.

Interim Condensed Statement of Profit or Loss and Other Comprehensive Income for the first 6 months of 2018

(EUR thousand)

	Note	*6 months of 2018 (unaudited)*	*6 months of 2017 (unaudited, not reviewed)**
Interest income calculated using the effective interest rate method:			
Loans to customers		487	478
Loans and deposits to banks		931	620
Securities at fair value through other comprehensive income		2 710	3 041
Cash and cash equivalents		(23)	(25)
Securities at amortised cost		111	–
Total interest income calculated using the effective interest rate method		**4 216**	**4 114**
Other interest income			
Securities at fair value through profit or loss		100	–
Total other interest income		**100**	**-**
Total interest income		**4 316**	**4 114**
Interest expense		(496)	(453)
Net interest income		**3 820**	**3 661**
Reversal of allowance for expected credit losses from debt financial assets		730	6 613
Net interest income after allowance for expected credit losses from debt financial assets		**4 550**	**10 274**
Net fee and commission income	18	429	108
Net losses from operations with securities at fair value through profit or loss		(146)	–
Net gains from operations with securities at fair value through other comprehensive income	19	2 062	3 353
Net foreign exchange operations (losses) gains:			
- trading transactions		(239)	32
- revaluation of currency items		89	(1 346)
Net gains from disposal of property, plant and equipment		–	3
Rental income		836	902
Other banking income		53	22
Administrative and management expenses	20	(6 273)	(6 028)
Other allowances and provisions	21	(28)	(25)
Other banking expenses		(11)	(58)
Profit for the reporting period		**1 322**	**7 237**

The accompanying notes 1-26 form part of this interim condensed financial information.

Interim Condensed Statement of Profit or Loss and Other Comprehensive Income for the first 6 months of 2018 (continued)

(EUR thousand)

	Note	*6 months of 2018 (unaudited)*	*6 months of 2017 (unaudited, not reviewed)**
Other comprehensive (expense) income			
Items that are or may be reclassified subsequently to profit or loss:			
Unrealised (losses) gains from securities at fair value through other comprehensive income		(5 387)	4 759
Realised gains from securities at fair value through other comprehensive income transferred to profit or loss		(1 844)	(2 994)
Movements in allowance for expected credit losses		(338)	–
Total items that are or may be reclassified subsequently to profit or loss		(7 569)	1 765
Total other comprehensive (expense) income		(7 569)	1 765
Total comprehensive (expense) income for the period		**(6 247)**	**9 002**

*The Bank initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of comparative information (see Note 3).

The accompanying notes 1-26 form part of this interim condensed financial information.

Interim Condensed Statement of Changes in Equity for the first 6 months of 2018

(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*
Balance as at 31 December 2017*	**200 000**	**7 970**	**32 388**	**69 269**	**309 627**
Impact of adopting IFRS 9 (see Note 5)	-	1 116	-	(1 846)	(730)
Restated balance as at 1 January 2018 (unaudited)	**200 000**	**9 086**	**32 388**	**67 423**	**308 897**
Net profit for the reporting period (unaudited)	-	-	-	1 322	1 322
Other comprehensive expense (unaudited)					
Items that are or may be reclassified subsequently to profit or loss:					
Unrealised losses from securities at fair value through other comprehensive income (unaudited)	-	(5 387)	-	-	(5 387)
Realised gains from securities at fair value through other comprehensive income transferred to profit or loss (unaudited)	-	(1 844)	-	-	(1 844)
Movements in allowance for expected credit losses (unaudited)	-	(338)	-	-	(338)
Total items that are or may be reclassified subsequently to profit or loss (unaudited)	-	*(7 569)*	-	-	(7 569)
Total other comprehensive expense (unaudited)	-	*(7 569)*	-	-	(7 569)
Total comprehensive expense for the reporting period (unaudited)	**-**	*(7 569)*	**-**	**1 322**	**(6 247)**
Balance as at 30 June 2018 (unaudited)	**200 000**	**1 517**	**32 388**	**68 745**	**302 650**

The accompanying notes 1-26 form part of this interim condensed financial information.

Interim Condensed Statement of Changes in Equity for the first 6 months of 2018 (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*
Balance as at 31 December 2016	**200 000**	**4 937**	**32 388**	**61 486**	**298 811**
Net profit for the reporting period (unaudited, not reviewed)	-	-	-	7 237	7 237
Other comprehensive income (unaudited, not reviewed)					
Items that are or may be reclassified subsequently to profit or loss:					
Unrealised gains from securities at fair value through other comprehensive income (unaudited, not reviewed)	-	4 759	-	-	4 759
Realised gains from securities at fair value through other comprehensive income transferred to profit or loss (unaudited, not reviewed)	-	(2 994)	-	-	(2 994)
Total items that are or may be reclassified subsequently to profit or loss (unaudited, not reviewed)	-	1 765	-	-	1 765
Total other comprehensive income (unaudited, not reviewed)	-	1 765	-	-	1 765
Total comprehensive income for the reporting period (unaudited, not reviewed)	-	**1 765**	**-**	**7 237**	**9 002**
Balance as at 30 June 2017 (unaudited, not reviewed)	**200 000**	**6 702**	**32 388**	**68 723**	**307 813**

* The Bank initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 3).

The accompanying notes 1-26 form part of this interim condensed financial information.

Interim Condensed Statement of Cash Flows for the first 6 months of 2018

(EUR thousand)

	Note	*6 months of 2018 (unaudited)*	*6 months of 2017 (unaudited, not reviewed)**
Cash flows from operating activities			
Profit for the reporting period		**1 322**	**7 237**
Adjustments for:			
Accrued interest receivable (accrued interest payable)		73	42
Other accrued income receivable (other accrued expense payable)		(32)	105
Depreciation and amortisation		716	692
Reversal of allowance for expected credit losses from financial assets		(730)	(6 613)
Other reserves		28	25
Revaluation of securities at fair value through profit or loss		122	–
Revaluation of currency items		(89)	1 346
Net gains from operations with securities at fair value through other comprehensive income		(2 062)	(3 353)
Cash flows from operating activities before changes in operating assets and liabilities		**(652)**	**(519)**
(Increase) decrease in operating assets			
Securities at fair value through profit or loss		(9 639)	–
Loans and deposits to banks		12 205	28 984
Loans to customers		(21 242)	2 338
Other assets		382	303
Increase (decrease) in operating liabilities			
Due to credit institutions		24 358	(19 014)
Due to customers		3 434	3 414
Other liabilities		(30)	(510)
Net cash from operating activities		**8 816**	**14 996**
Cash flows from investing activities			
Purchases of securities at fair value through other comprehensiv income		(61 823)	(57 189)
Sales of securities at fair value through other comprehensive income		66 797	55 079
Purchases of securities at amortised cost		(5 822)	–
Proceeds from redemption of securities at amortised cost		144	–
Purchase of property, plant and equipment	12	(158)	(384)
Proceeds from property, plant and equipment disposal		–	1
Net cash used in investing activities		**(862)**	**(2 493)**

The accompanying notes 1-26 form part of this interim condensed financial information.

Interim Condensed Statement of Cash Flows for the first 6 months of 2018 (continued)

(EUR thousand)

	Note	*6 months of 2018 (unaudited)*	*6 months of 2017 (unaudited, not reviewed)**
Net increase in cash and cash equivalents before translation differences		**7 954**	**12 503**
Effect of exchange rate changes on cash and cash equivalents		(157)	(814)
Effect of changes in expected credit losses on cash and cash equivalents		–	–
Net increase in cash and cash equivalents		**7 797**	**11 689**
Cash and cash equivalents as at 31 December of the previous year	6	**7 082**	**10 124**
Cash and cash equivalents as at 30 June of the reporting period	6	**14 879**	**21 813**

* The Bank initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of comparative information (see Note 3).

The accompanying notes 1-26 form part of this interim condensed financial information.

(EUR thousand)

1. Bank's principal activities

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

The Bank is an international financial institution established and acting under the Intergovernmental Agreement for the Organisation and Activities of IBEC, registered with the Secretariat of the United Nations on 20 August 1964 (the "Agreement"), and the Statutes of IBEC.

The main objectives of the Bank are to:

– facilitate the development of foreign economic relations among the Bank's member countries, their business entities, as well as among them and business entities of other countries;

– facilitate the creation and operation of joint ventures, primarily those involving companies of the Bank's member countries;

– facilitate member countries' participation in the development of market economic relations between business entities in member countries and other countries.

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

- opening and maintenance of customer accounts, receiving funds from customers and placing their funds in the Bank's accounts, handling documents and performing export and import payment and settlement operations, conversion, arbitrage, cash, guarantee and documentary operations, provision of banking consulting etc.;
- attracting deposits and loans, issue of securities;
- issue of interbank loans and guarantees, placing deposits and other borrowed funds, capital investments, discounting of promissory notes, purchase and sale of securities, participation in the capital of banks, financial and other institutions;
- other banking operations.

The Bank's member countries are the following eight countries of 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. Shares (shareholdings) of IBEC member countries in the Bank's paid-in authorised capital are the following:

	30.06.2018 (unaudited)	***%***	***31.12.2017***	***%***
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**	**100,00**	**200 000**	**100,00**

2. Economic environment in which the Bank operates

In the first 6 month 2018 the global economic growth rates slightly decelerated due to various changes both in real sector and in financial markets, but on the whole they stayed stable and maintained positive 2017 trend.

In the group of developed economies, the growth was supported by the solid level of investments due to increase in return on financial assets. In the domestic sector of developed economies, economic growth was supported by still high domestic demand and stable job creation.

At the same time, growth of prices for exchange commodities led to increase of import expenses, and under the influence of gradual termination of stimulating measures of monetary policy by national regulators, growth rates of lending to economic entities decreased.

In the aggregate, negative factors for developed economies outweighted positive trends and, as a result, total GDP growth of developed economies slightly decreased in the reporting period.

Total indicator of economic growth of the group of emerging markets and developing economies, which includes most of IBEC member countries, demonstrated growth in the first 6 months of 2018 in comparison with 2017.

(EUR thousand)

In the reporting period the GDP growth drivers in this group were primary commodity exporting countries. Their economic growth was supported by increase in the volume of investments and volume of foreign trade in conditions of high prices for exchange commodities with support of regulators' stimulating monetary policy. Apart from foreign economic factors, GDP dynamics of this subgroup of countries was positively affected by domestic demand that increased under the influence of improvements in the labour market and, therefore, growth of household income given the reduced inflation.

In the subgroup of commodity importing countries, the total GDP growth in the reporting period decreased, though it left at the high level supported by significant investments and increase in the volume of foreign trade. Reduced pressure on economic growth of countries of this subgroup was exerted by high prices for primary commodities and increase in inflation.

As a result of the above mentioned trends, forecast of global economic growth rates in 2018 was 3.1% (at the level of 2017). At the same time, the growth rates of the group of developed economies are expected to decrease to 2.2% (-0.1% by 2017), and those of the group of emerging markets and developing economies are expected to accelerate to 4.5% (+0.2% by 2017).

3. Basis for presentation of financial statements and accounting policy

The accompanying interim condensed financial information is prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Bank's last annual financial statements as at and for the year ended 31 December 2017 prepared in accordance with IFRS.

The accompanying interim condensed financial information does not include all of the notes to be disclosed for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and operations that are significant to understanding of the changes in the Bank's financial position and performance since the last annual financial statements.

The interim condensed financial information is presented in euros, which is the Bank's functional and presentation currency. All the data presented in this financial information is rounded to the nearest thousand euros.

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

The Bank has neither subsidiaries nor affiliates and, therefore, this interim condensed financial information has been prepared on an unconsolidated basis.

Financial information is prepared on the historical cost basis, except for financial instruments measured at fair value through profit or loss and financial instruments measured at fair value through OCI recognised at fair value, and buildings recognised at revalued cost.

The accounting policies set out below are applied consistently to all periods presented in this interim condensed financial information by the Bank, except for certain aspects explained below that are related to the application by the Bank of IFRS 9, which became effective on 1 January 2018.

Use of estimates and judgments

In preparing this interim condensed consolidated financial information, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Bank's accounting policies that are the key sources of estimation uncertainty were the same as those that were applied to the financial statements as at and for the year ended 31 December 2017, except for the areas described below.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the interim condensed financial information is included in the following notes:

- Classification of financial assets: assessment of the business model within which the financial assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Assumptions and estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the interim condensed financial information for 6 months ended 30 June 2018 is disclosed in the following notes:

- Impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (hereinafter referred to as "ECLs") (see Note 22).

(EUR thousand)

Main approaches to valuation

Valuation is a process of determining the value at which accounting items should be recorded in the Bank's financial statements. The Bank uses the following methods of valuation (recognition) of financial assets and liabilities.

Fair value is the price for which an asset could be sold, or a liability transferred, between parties in an arm's length transaction according to the normal procedure at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a liability takes place either:

- in the principal market for the asset or liability;
- or, in the absence of a principal market, in the most advantageous market for such an asset or liability. The initial value is a sum of all paid cash or its equivalents or a fair value of other resources transferred to acquire the asset at the date of its acquisition including transaction costs.

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

The amortised cost of a financial asset or financial liability is computed as the amount of a financial asset or financial liability initially recognised minus partial principal repayments, plus or minus the cumulative amortisation of difference between the specified initial amount and amount payable at maturity, calculated using the effective interest method, and in relation to financial assets adjusted for allowance for ECLs (or impairment allowance before 1 January 2018).

The gross carrying amount of a financial asset measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Effective interest rate

Interest income and expenses are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets at initial recognition, the Bank estimates future cash flows considering all contractual terms of the financial instrument, except for ECLs. For credit-impaired at initial recognition financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECLs.

The calculation of the effective interest rate includes transaction costs, fees and amounts paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired at initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income and expense presented in the interim condensed statement of profit or loss and other comprehensive include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- interest on non-derivative debt financial instruments measured at FVTPL is presented separately as "other interest income". It is measured using the effective interest method, excluding transaction costs.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, payment documents at the Bank's cash desk, accounts with the Bank

(EUR thousand)

of Russia, funds on current accounts of IBEC member countries and other credit institutions, as well as all interbank loans with initial maturity of not longer than 7 calendar days.

Financial assets and financial liabilities

Classification of financial assets

At initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

All standard purchases or sales of financial assets are recognised on the settlement date.

Settlement date is an asset delivery date. Accounting on the settlement date presumes (a) recognition of an asset on its receipt date, (b) derecognition of an asset and recognition of gain or loss on disposal of an asset on its delivery date.

All standard purchases and sales of financial assets include transactions that require delivery within the period of time established by legislation or common practice ("regular way" purchases and sales).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model which aims to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following items, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue calculated using the effective interest method;
- ECLs and reversed ELCs; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition the Bank may irrevocably designate a financial asset, without the right of subsequent reclassification, that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. The Bank should reclassify financial assets if the Bank changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash

(EUR thousand)

flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated;

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criterion), the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of economic conditions. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, the Bank considers these loans as in essence floating rate loans.

Modification of financial assets and financial liabilities

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised.

If cash flows differ insignificantly, then according to IFRS 9, the Bank should recalculate the gross carrying amount of a financial asset (or amortised cost of a financial liability) by discounting the modified contractual cash flows at initial effective interest rate and recognise any amount resulting from the adjustment as profit or loss from modification in profit or loss.

Impairment of financial assets

Impairment is applied to the following financial instruments not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- lease receivables; and
- financial guarantee contracts and loan commitments.

The model of ECLs is used.

No impairment losses are recognised on equity investments.

(EUR thousand)

Allowances for ECLs shall be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank measures allowances for ECLs at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECLs are the portion of ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Allowances for ECLs from lease receivables are measured in the amount equal to lifetime ECLs.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECLs are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- unused part of loan commitments: as the present value of difference between the contractual cash flows due to the Bank if the holder of loan commitments uses its right for receipt of loan, and the cash flows that the Bank expects to receive if this loan will not be given.

(EUR thousand)

Presentation of allowance for ECLs in the interim condensed statement of financial position

Amounts of allowance for ECLs are represented in the interim condensed statement of financial position as follows:

- financial assets at amortised cost: as decrease in gross carrying amount of these assets;
- debt instruments at FVOCI: allowance for ECLs is recognised in other comprehensive income and does not reduce fair value of these assets.

Derecognition of financial assets

The Bank derecognises financial assets when:

- the financial assets are redeemed or the rights to the cash flows from the assets have otherwise expired; or
- the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement and also transferred substantially all the risks and rewards of ownership of the assets or lost control over such assets.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety, and if the Bank has retained either all risks and rewards of the transferred assets or a portion of them.

Write-offs

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. In relation to the written off financial assets, the Bank continues debt collection activities.

Derivative financial instruments

Derivative financial instruments used by the Bank include currency swaps and forward exchange contracts.

Derivatives are initially recognised at fair value on the date of operation and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

The Bank offsets assets and liabilities for each currency swap separately for each part of the operation.

Financial assets under repurchase agreements

Repurchase agreements are the type of lending collateralised by securities.

The securities transferred without being derecognised under a repurchase agreement are recognised in the financial statements in the category of financial assets in which they were recognised earlier.

The difference between the sale price of a security and the price of reverse repurchase is recognised as interest expense and accrued during the entire term of the repurchase operation, using the effective interest rate method.

Property, plant and equipment

For the accounting purposes all the property, plant and equipment are divided into the following groups: building, office equipment and computer hardware, furniture, and vehicles.

The building is carried at fair value. All other property, plant and equipment and investments in the property, plant and equipment and construction in progress are stated at historical cost less accumulated depreciation and impairment losses.

Depreciation of all groups of property, plant and equipment is calculated using the straight-line method.

Depreciation of an asset begins when it is available for use and ends when the asset is derecognised. Useful lives of the property, plant and equipment as follows:

- building – 67 years;
- office equipment and computer hardware – from 2 to 10 years;
- furniture – from 5 to 10 years;
- vehicles – 5 years.

The decrease in the carrying value of an asset as a result of impairment is charged to profit or loss.

Any surplus from the revaluation of the building is credited in the interim condensed statement of financial position to the revaluation reserve for property, plant and equipment being part of the equity, except to the extent that it reverses impairment of the same asset previously recognised in the interim condensed statement of profit or loss and other comprehensive income. In this case the increase is recognised in the interim condensed statement of profit or loss and other comprehensive income. A revaluation deficit is recognised in the interim condensed statement of profit or loss and

(EUR thousand)

other comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus recorded in the revaluation reserve for property, plant and equipment.

The revaluation reserve for property, plant and equipment is taken directly to retained earnings (accumulated losses) when the asset is written off or disposed of.

Operating lease

The Bank presents assets subject to operating leases in the interim condensed statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the interim condensed statement of profit or loss and other comprehensive income on a straight-line basis over the lease term as lease income.

Due to credit institutions

Amounts due to credit institutions are recognised when cash or other assets are transferred to the Bank by banks-counterparties.

Term loans and deposits from banks are recognised in the interim condensed financial information at amortised cost using the effective interest rate method.

Due to customers

Amounts due to customers are non-derivative financial liabilities to state or corporate customers and individuals (employees of the Bank) and are carried at amortised cost.

Allowances for liabilities and charges

Allowances for liabilities and charges are non-financial liabilities of uncertain maturity or amount.

Allowances are recognised in the interim condensed financial information when the Bank has a present legal or constructive obligation as a result of past events occurred prior to the reporting date and it is probable that an outflow of resources embodying economic benefits will be required by the Bank to settle the obligations and a reliable estimate of the amount of obligations can be made.

Trade and other payables

Trade payables are recognised when the counterparty has fulfilled its obligations and are carried at amortised cost.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the exchange rate effective on the transaction date. For the purposes of the Bank's interim condensed financial information, any currency other than euro is considered to be the foreign currency.

Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency (EUR) at the exchange rate effective as at the reporting date. The foreign currency exchange rate to EUR used for revaluation purposes is obtained from publicly available sources: exchange rates of IBEC member countries - from websites of Central banks of the corresponding countries; other currencies - from the European Central Bank website.

Items of the interim condensed statement of profit and loss and other comprehensive income denominated in foreign currencies are translated to the functional currency at the exchange rate effective at the date of such transaction. All translation differences from foreign currencies are recorded in the interim condensed statement of profit or loss and other comprehensive income.

Offsetting

Financial assets and liabilities are not subject to offsetting. Financial assets and liabilities are offset and the net amount is recognised in the interim condensed statement of financial position only when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expense recognition

Commission and other income and expenses are recognised in the interim condensed financial information using the accrual principle. Such amounts are recognised in the interim condensed statement of profit or loss and other comprehensive income with a simultaneous recognition of debt in the interim condensed statement of financial position to be recorded as part of other claims/liabilities.

Additional contractual commission fees which do not form a part of effective interest rate are recognised as commission income.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(EUR thousand)

Taxation

Pursuant to the Agreement and the Statutes of IBEC, the Bank is exempt of all direct taxes and duties, both national and local ones.

This provision shall not be applied to the payments of salaries to individuals – citizens of the country of the Bank's location, and to utility service charges.

Presentation of comparative information

As a result of adoption of IFRS 9 the Bank hasn't changed presentation of captions in the primary forms of interim condensed financial information, except for the following:

- "Interest income" has been renamed into "Interest income calculated using the effective interest rate" in the interim condensed statement of profit or loss and other comprehensive income;

- "Available-for-sale investment securities" and "Held-to-maturity investment securities" are now presented as "Securities at fair value through other comprehensive income" and "Securities at amortised cost", respectively;

- "Purchases of available-for-sale investment securities" and "Sales of available-for-sale investment securities" have been renamed in the interim condensed statement of cash flows. These lines are presented as "Purchases of securities at fair value through other comprehensive income" and "Sales of securities at fair value through other comprehensive income", respectively.

4. Transition to new and revised standards and interpretations, reclassifications

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 became effective for annual periods beginning on or after 1 January 2018. The new standard replaced IAS 39 *Financial instruments: Recognition and Measurement*.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Bank adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2018 and early adopted amendments to IFRS 9 starting from 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 5.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment – Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ELC) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the six-month period ended 30 June 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the six-month period ended 30 June 2018 under IFRS 9.

- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

(EUR thousand)

5. Classification of financial assets and financial liabilities at the date of initial application of IFRS 9

Since 1 January 2018 the Bank has been applying IFRS 9 and created allowances for ECLs according to the requirements of the standard in the amount of EUR 1,846 thousand.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018:

There were no changes in classification of financial liabilities.

	Classification under IAS 39	*Classification under IFRS 9*	*Note*	*Carrying amount under IAS 39*	*Carrying amount under IFRS 9 (unaudited)*
Assets					
Cash and cash equivalents (excluding cash on hand)	Loans and receivables	Amortised cost	6	6 510	6 510
Securities at FVOCI (1)	Available-for-sale	FVOCI	8	195 861	195 861
Loans and deposits to banks	Loans and receivables	Amortised cost	10	46 003	45 317
Loans to customers	Loans and receivables	Amortised cost	11	13 145	13 145
Securities at amortised cost	Held-to-maturity	Amortised cost	9	5 188	5 144
Other assets	FVTPL	FVTPL (mandatory)		963	963
	Loans and receivables	Amortised cost		501	501

(1) Certain debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

There were no changes in classification of financial liabilities.

The table below represents reconciliation of allowance for impairment according to IAS 39 with allowance for ECLs according to IFRS 9 during transfer to a new standard as at 1 January 2018.

Measurement category	*31 December 2017 (IAS 39/ IAS 37)*	*Remeasurement*	*1 January 2018 (IFRS 9) (unaudited)*
Cash and cash equivalents (excluding cash on hand)	–	–	–
Loans and deposits to banks	(11)	(686)	(697)
Loans to customers	(39 212)	-	(39 212)
Held-to-maturity investment securities under IAS 39 / Securities at amortised cost under IFRS 9	-	(44)	(44)
Available-for-sale investment securities under IAS 39 / Securities at FVOCI under IFRS 9	–	(1 116)	(1 116)
Impact of adopting IFRS 9 on the Bank's equity		**(1 846)**	

6. Cash and cash equivalents

	30.06.2018 (unaudited)	*31.12.2017*
Cash on hand	870	572
Correspondent accounts with banks in IBEC member countries	4 320	3 171
Correspondent accounts with other credit institutions	9 689	3 339
Total cash and cash equivalents	**14 879**	**7 082**
Allowance for ECLs	–	–
Cash and cash equivalents less allowance for ECLs	**14 879**	**7 082**

There was no allowance for ELCs of cash and cash equivalents as at 1 January 2018 and 30 June 2018 and there was no movement in impairment allowance for 6 months 2018.

(EUR thousand)

There was no allowance for impairment of cash and cash equivalents as at 1 January 2017 and 30 June 2017 and there was no movement in impairment allowance for 6 months 2017.

Cash and cash equivalents are not credit-impaired.

As at 30 June 2018, the balances of three major counterparties of the Bank amounted to EUR 10,057 thousand or 67.59% of the total amount of cash and cash equivalents (31 December 2017: the balances of three major counterparties of the Bank amounted to EUR 4,541 thousand or 64.12% of the total amount of cash and cash equivalents).

7. Securities at fair value through profit or loss

Securities at fair value through profit or loss comprise:

	30.06.2018 (unaudited)	*31.12.2017*
Eurobonds of IBEC member countries	9 911	–
Securities at FVTPL	**9 911**	**–**

As at 30 June 2018, securities at fair value through profit or loss comprise eurobonds of the Russian Federation amounted to EUR 9,911 thousand or 100% of the total amount of securities at fair value through profit or loss (31 December 2017: the Bank had no securities at fair value through profit or loss).

8. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	30.06.2018 (unaudited)	*31.12.2017*
Held by the Bank		
Corporate eurobonds	76 055	57 539
Eurobonds of IBEC member countries	68 452	97 105
Bonds of IBEC member countries	1 131	2 220
Eurobonds of banks	20 560	33 870
	166 198	**190 734**
Pledged under repurchase agreements		
Eurobonds of IBEC member countries	20 010	5 127
	20 010	**5 127**
Securities at FVOCI	**186 208**	**-**
Available-for-sale investment securities	**-**	**195 861**

(EUR thousand)

Movement in allowance for ECLs from securities at FVOCI for 6 months 2018 is represented below:

	6 months 2018 (unaudited)
As at 31 December 2017	**–**
Impact of adopting IFRS 9 (see Note 5)	**1 116**
As at 1 January 2018 (unaudited)	**1 116**
Stage 1 12-month ECLs	(248)
Stage 2 Lifetime ECLs	(90)
Stage 3 Lifetime ECLs	–
As at 30 June *(unaudited)*	**778**

There was no allowance for impairment of available-for-sale investment securities as at 1 January 2017 and 30 June 2017 and there was no movement in impairment allowance for 6 months 2017.

As at 30 June 2018, the Bank owned securities at FVOCI in the amount of EUR 52,186 thousand issued by state-owned organisations of the Russian Federation, or equal to 28.03% of the total amount of securities at FVOCI (31 December 2017: EUR 66,873 thousand or 34.14% of the total amount of available-for-sale investment securities).

Securities at FVOCI include securities provided as collateral under repurchase transactions, fair value of which amounted to EUR 20,010 thousand as at 30 June 2018 (31 December 2017: EUR 5,127 thousand). According to the agreement, upon termination of transaction the counterparty is obliged to return securities transferred under repurchase transaction (see Note 14).

9. Securities at amortised cost

Securities at amortised cost comprise:

	30.06.2018 (unaudited)	*31.12.2017*
Eurobonds of banks	5 129	-
Corporate Eurobonds	5 716	-
Total securities at amortised cost	**10 845**	**-**
Allowance for ECLs	(48)	-
Securities at amortised cost less allowance for ECLs	**10 797**	**-**
Held-to-maturity investment securities	**-**	**5 188**

Movement in allowance for ECLs on securities at amortised cost for 6 months 2018 is represented below:

	6 months 2018 (unaudited)
As at 31 December 2017	**–**
Impact of adopting IFRS 9 (see Note 5)	**44**
As at 1 January 2018 (unaudited)	**44**
Stage 1 12-month ECLs	4
Stage 2 Lifetime ECLs	–
Stage 3 Lifetime ECLs	–
As at 30 June (unaudited)	**48**

There was no allowance for impairment of held-to-maturity investment securities as at 1 January 2017 and 30 June 2017 and there was no movement in impairment allowance for 6 months 2017.

As at 30 June 2018, the Bank owned securities at amortised cost in the amount of EUR 10,797 thousand issued by state-owned organisations of the Russian Federation, or equal to 100% of the total amount of securities at amortised cost (31 December 2017: EUR 5,188 thousand or 100% of the total amount of held-to-maturity investment securities).

(EUR thousand)

10. Loans and deposits with banks

Loans and deposits with banks comprise:

	30.06.2018 (unaudited)	*31.12.2017*
Term loans and deposits placed with banks of IBEC member countries	16 955	37 320
Loans issued to banks under trade financing	12 117	2 839
Syndicated loans	6 043	5 855
Total loans and deposits with banks	**35 115**	**46 014**
Allowance for ECLs	(410)	(11)
Loans and deposits with banks less allowance for ECLs	**34 705**	**46 003**

Movement in allowance for ECLs on loans and deposits with banks for 6 months 2018 is represented below:

	6 months 2018 (unaudited)
As at 31 December 2017	**11**
Impact of adopting IFRS 9 (see Note 5)	**686**
As at 1 January 2018 (unaudited)	**697**
Stage 1 12-month ECLs	(287)
Stage 2 Lifetime ECLs	–
Stage 3 Lifetime ECLs	–
As at 30 June *(unaudited)*	**410**

Movement in allowance for impairment of loans and deposits with banks for 6 months 2017 is represented below:

	6 months 2017 (unaudited, not reviewed)
As at 1 January	**5 020**
Net reversal	(**5 009)**
As at 30 June	**11**

As at 30 June 2018, there were no loans and deposits with banks with participation of the Russian Federation (31 December 2017: EUR 7,472 thousand or 16.24% of the total amount of loans and deposits with banks).

As at 30 June 2018, the balances of three major counterparties of the Bank amounted to EUR 25,261 thousand or 72.79% of the total amount of loans and deposits with banks (31 December 2017: EUR 22,968 thousand or 49.93% of the total amount of loans and deposits with banks).

(EUR thousand)

11. Loans to customers

Loans to customers comprise:

	30.06.2018 (unaudited)	*31.12.2017*
Loans to legal entities of IBEC member countries	65 240	43 579
Loans to legal entities of other countries	8 562	8 694
Consumer lending	85	84
Total loans to customers	**73 887**	**52 357**
Allowance for ECLs	(39 130)	(39 212)
Loans to customers less allowance for ECLs	**34 757**	**13 145**

Movement in allowance for ECLs on loans to customers for 6 months 2018 is presented below:

	6 months 2018 (unaudited)
As at 31 December 2017	**39 212**
Impact of adopting IFRS 9 (see Note 5)	–
As at 1 January 2018 (unaudited)	**39 212**
Stage 1 12-month ECLs	–
Stage 2 Lifetime ECLs	–
Stage 3 Lifetime ECLs	(82)
As at 30 June (unaudited)	**39 130**

Movement in allowance for impairment of loans to legal entities for 6 months 2017 is presented below:

	6 months 2017 (unaudited, not reviewed)
As at 1 January	**40 816**
Net reversal	(1 604)
As at 30 June	**39 212**

Collateral and other instruments to reduce credit risk

Pursuant to the internal rules and procedures of the Bank, the borrowers provide the following types of collateral:

- guarantees from governments and entities of the IBEC member countries;
- bank guarantees;
- sureties from third parties;
- commercial real estate;
- liquid company equipment which is in fairly wide use 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 the pledged assets must be higher than the amount of the loan, loan interest and other payments to the Bank for the entire term of the loan as provided by the regulations of the international law, requirements of the legislation effective in the country of location of the Bank, common practice or contract/agreement.

The main types of collateral obtained for loans to legal entities are as follows:

- guarantees from governments of IBEC member countries;
- pledge of real estate;
- sureties from third parties.

(EUR thousand)

The Bank monitors fair value of collateral, requests additional collateral when necessary in accordance with the main agreement.
Information on collateral for loans to legal entities is presented below:

	30.06.2018 (unaudited)	***31.12.2017***
Loans guaranteed by other parties, including loan insurance	8 562	8 694
Loans secured by real estate	26 110	4 367
Total loans to customers	**34 672**	**13 061**

The above table contains the carrying value of loans that was distributed based on the liquidity of assets accepted as collateral. An analysis of credit quality is presented in Note 22.

Concentration of loans to customers

Loans are provided to customers operating in the following industry sectors:

	30.06.2018 (unaudited)		***31.12.2017***	
	Amount	**%**	**Amount**	**%**
Investment: leasing	8 562	24,63	8 694	66,14
Pharmaceutical industry	–	–	3 367	25,61
Trading with agricultural products	1 005	2,89	1 000	7,61
Telecommunications	25 105	72,23	–	–
Consumer lending	85	0,25	84	0,64
Total loans to customers	**34 757**	**100**	**13 145**	**100**

As at 30 June 2018, the balances of three major counterparties of the Bank amounted to EUR 33,668 thousand or 96.87% of the total net loan portfolio of the Bank (31 December 2017: balances of three major counterparties of the Bank amounted to EUR 13,061 thousand or 99.36% of the total net loan portfolio of the Bank).

(EUR thousand)

12. Property, plant and equipment

Below is the movement of property, plant and equipment:

30.06.2018	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Total*
Initial cost						
Balance as at 31 December 2017		**100 768**	**1 462**	**614**	**381**	**103 225**
Additions (unaudited)		17	24	3	114	158
Disposals (unaudited)		–	(3)	(2)	–	(5)
Balance as at 30 June 2018 (unaudited)		**100 785**	**1 483**	**615**	**495**	**103 378**
Accumulated depreciation						
Balance as at 31 December 2017		**28 019**	**1 288**	**432**	**294**	**30 033**
Depreciation for the period (unaudited)	20	646	34	8	28	716
Disposals (unaudited)		–	(2)	(2)	–	(4)
Balance as at 30 June 2018 (unaudited)		**28 665**	**1 320**	**438**	**322**	**30 745**
Carrying value						
As at 31 December 2017		**72 749**	**174**	**182**	**87**	**73 192**
As at 30 June 2018 (unaudited)		**72 120**	**163**	**177**	**173**	**72 633**

30.06.2017	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Total*
Initial cost						
Balance as at 31 December 2016		**100 353**	**1 525**	**610**	**358**	**102 846**
Additions (unaudited, not reviewed)		303	10	6	65	**384**
Disposals (unaudited, not reviewed)		–	(45)	(1)	(42)	**(88)**
Balance as at 30 June 2017 (unaudited, not reviewed)		**100 656**	**1 490**	**615**	**381**	**103 142**
Accumulated depreciation						
Balance as at 31 December 2016		**26 756**	**1 341**	**425**	**279**	**28 801**
Depreciation for the period (unaudited, not reviewed)	20	624	34	7	27	**692**
Disposals (unaudited, not reviewed)		–	(45)	**(1)**	(42)	**(88)**
Balance as at 30 June 2017 (unaudited, not reviewed)		**27 380**	**1 330**	**431**	**264**	**29 405**
Carrying value						
As at 31 December 2016		**73 597**	**184**	**185**	**79**	**74 045**
As at 30 June 2017 (unaudited, not reviewed)		**73 276**	**160**	**184**	**117**	**73 737**
As at 31 December 2017		**72 749**	**174**	**182**	**87**	**73 192**

(EUR thousand)

13. Other assets and liabilities

Other assets comprise:

	Note	30.06.2018 (unaudited)	31.12.2017
Receivables under financial and business operations		598	391
Repossessed collateral		403	403
Guarantee deposit		320	110
Derivative financial assets		132	963
Inventory		62	53
Fees and commissions receivable from customers	21	22	18
Allowance for ECLs		(21)	(17)
		1 516	**1 921**

Other liabilities comprise:

	Note	30.06.2018 (unaudited)	31.12.2017
Social security contributions payable		1 169	1 060
Derivative financial liabilities		872	11
Provision for unused vacations	21	125	129
Payables under financial and business operations		108	134
Provision for litigation charges	21	11	11
Deferred income		1	2
Other accrued liabilities		1	37
		2 287	**1 384**

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

	30.06.2018 (unaudited)		
	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Financial derivatives – agreements with residents of IBEC member countries	20 673	94	560
Financial derivatives – agreements with non-residents of IBEC member countries	19 654	38	312
Total derivative assets/liabilities		**132**	**872**

	31.12.2017		
	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Financial derivatives – agreements with residents of IBEC member countries	30 354	628	11
Financial derivatives – agreements with non-residents of IBEC member countries	18 694	335	–
Total derivative assets/liabilities		**963**	**11**

(EUR thousand)

14. Due to credit institutions

Due to credit institutions comprises:

	30.06.2018 (unaudited)	*31.12.2017*
Term loans and deposits from banks of the IBEC member countries	30 558	17 426
Repurchase agreements	17 713	5 020
Correspondent accounts of banks of the IBEC member countries	242	273
Due to credit institutions	**48 513**	**22 719**

As at 30 June 2018, balances of three major counterparties of the Bank amounted to EUR 40,190 thousand or 82.84% of total amounts due to credit institutions (31 December 2017: balances of the main counterparty of the Bank amounted to EUR 15,264 thousand or 67.19% of total amounts due to credit institutions).

The Bank entered into repurchase agreements with resident banks of the IBEC member countries. These are the agreements for selling the eurobonds of IBEC member countries with an obligation to buy back ('repurchase agreements'), the fair value of which as at 30 June 2018 amounts to EUR 20,010 thousand (31 December 2017: EUR 5,127 thousand) (Note 8).

Transferred financial assets that are not derecognised in their entirety

The table below demonstrates financial assets which were transferred in such a way that the transferred financial assets, in their entirety or in their part, do not meet the criteria for derecognition:

	Note	*Repurchase agreements 30.06.2018 (unaudited)*
Carrying value of transferred assets – Securities at FVOCI	8	20 010
Carrying value of associated liabilities – Due to credit institutions	14	(17 713)

	Note	*Repurchase agreements 31.12.2017*
Carrying value of transferred assets – Available-for-sale investment securities	8	5 127
Carrying value of associated liabilities – Due to credit institutions	14	(5 020)

The Bank transfers the securities under the repurchase agreement to the third party, without derecognition, and receives cash or other financial assets as a consideration. In case of an increase in the value of securities the Bank, in certain situations, may claim for additional financing. In case of a decrease in the value of securities the Bank may be required to provide additional collateral in the form of securities or partially return the cash received earlier. The Bank has concluded that it retains substantially all the risks and rewards associated with such securities that include credit risks, market risks, country risks and operational risks, and therefore continues to recognise them. In addition, the Bank has recognised the financial liability in relation to the received cash.

15. Due to customers

Due to customers comprises:

	30.06.2018 (unaudited)	*31.12.2017*
Current accounts and deposits of entities in the IBEC member countries	6 059	3 524
Current accounts of other entities	25	110
Other current accounts	5 872	5 028
Due to customers	**11 956**	**8 662**

Current accounts of entities include accounts of private companies. As at 30 June 2018, the balances of three major clients of the Bank amounted to EUR 2,815 thousand or 23.54% of total customer accounts (31 December 2017: balances of three major clients of the Bank amounted to EUR 3,132 thousand or 36.16% of total customer accounts).

(EUR thousand)

Classification of customer accounts (entities) by industries is demonstrated below:

	30.06.2018 (unaudited)		*31.12.2017*	
	Amount	*%*	***Amount***	*%*
Trade	2 789	45,8	2 752	75,7
Financial sector	1 965	32,3	18	0,5
Manufacturing	649	10,7	100	2,8
Transport	539	8,9	253	7,0
Construction	31	0,5	328	9,0
Other	111	1,8	183	5,0
Total due to customers (entities)	**6 084**	**100**	**3 634**	**100**

16. Share capital

In accordance with the Agreement the authorised share capital consists of contributions of IBEC member countries and amounts to EUR 400,000 thousand.

As at 30 June 2018, the paid-in authorised capital of IBEC amounts to EUR 200,000 thousand (31 December 2017: EUR 200,000 thousand).

17. Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans.

The Bank applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers.

Credit related commitments comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Credit related commitments		
Loan commitments	16 100	16 921
Total contractual and contingent liabilities	**16 100**	**16 921**

The majority of loan commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan commitments do not represent an unconditional credit related commitment by the Bank.

18. Net fee and commission income

	6 months of 2018 (unaudited)	*6 months of 2017 (unaudited, not reviewed)*
Fee and commission for granting a loan/credit facility.	209	–
Currency control	183	75
Cash and settlement operations	43	33
Account maintenance	27	21
Documentary operations	1	–
Fee and commission income	**463**	**129**
Fee and commission expense	**(34)**	**(21)**
Net fee and commission income	**429**	**108**

(EUR thousand)

19. Net gains from operations with securities at FVOCI

Net gains from operations with securities at FVOCI recognised in profit or loss comprise:

	6 months of 2018 (unaudited)	*6 months of 2017 (unaudited, not reviewed)*
Result from disposal of debt securities	2 062	3 353
Total net gains from operations with securities at FVOCI	**2 062**	**3 353**

Gain from the revaluation of securities at FVOCI due to their disposal during 6 months 2018 is transferred from other comprehensive income to “Net gains from transactions with securities at FVOCI” in the amount of EUR 1,844 thousand (6 months 2017: EUR 2,994 thousand (unaudited, not reviewed)).

20. Administrative and management expenses

	6 months of 2018 (unaudited)	*6 months of 2017 (unaudited, not reviewed)*
Staff costs	4 050	3 724
Building, equipment and apartment repair and maintenance	750	866
Depreciation	716	692
Building security expenses	133	151
Information and advisory expenses	123	69
Telecommunication expenses	122	143
Business trip expenses	97	43
Expenses for vehicles	95	115
Office expenses	57	60
Audit services	49	49
Meetings of the Council of the Bank, Audit Committee, Working Group of Authorised Representatives and representative expenses	33	69
Training	24	13
Other administrative and management expenses	24	34
Total administrative and management expenses	**6 273**	**6 028**

Staff costs include contributions to:

	6 months of 2018 (unaudited)	*6 months of 2017 (unaudited, not reviewed)*
Pension Fund of the Russian Federation	371	335
Compulsory Medical Insurance Fund of the Russian Federation	117	104
Pension funds of other IBEC member countries	21	10
Social Insurance Fund of the Russian Federation	21	21
Total	**530**	**470**

(EUR thousand)

21. Other allowances and provisions

	Allowance for ECL	*Provision for litigation charges*	*Provision for unused vacations*	*Total*
As at 31 December 2016	**18**	**11**	**148**	**177**
Charge (unaudited, not reviewed)	1	–	24	25
Write-offs (unaudited, not reviewed)	(1)	–	–	(1)
As at 30 June 2017 (unaudited, not reviewed)	**18**	**11**	**172**	**201**
As at 31 December 2017	17	11	129	157
Charge (unaudited, not reviewed)	4	–	24	28
Write-offs (unaudited, not reviewed)	–	–	(28)	(28)
As at 30 June 2018 (unaudited)	**21**	**11**	**125**	**157**

Allowance for ECLs is deducted from the carrying value of the related assets. Provisions for unused vacations and litigation charges are recognised as part of other liabilities. As at 30 June 2018, provisions for litigation charges include the amount of expected legal expenses and possible payments in connection with the proceedings in which the Bank acts as a plaintiff and/or defendant.

22. Risk management

Risk management

Introduction

The Bank manages risks in the course of the ongoing process of identification, assessment and monitoring as well as through establishing risk limits and other internal control measures. The risk management process is crucial to maintain stable operation of the Bank. In the course of its business the Bank is exposed to financial risks: credit, liquidity and market risks. The Bank is also exposed to operational risks.

Risk management structure

The Council of the Bank, the Board of Management of the Bank, the IBEC Credit Committee, the IBEC Asset and Liability Management Committee and the Risk Management Department are responsible for managing risks. Each business unit of the Bank is responsible for risks associated with its functions.

Council of the Bank
The Council of the Bank is responsible for the general approach to managing risks, approving the IBEC Risk Management Policy and other strategic documents regulating risk management procedure and principles.

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.

Credit Committee (the "CC")

The CC is a permanent collective consultative body of the Board of Management of the Bank created to support the Board of Management of the Bank in conducting credit activities and managing credit risks in accordance with the Bank's objectives and goals. The CC reports to the Board of Management of the Bank.

Assets and Liabilities Management Committee (the "ALCO")

The ALCO is a permanent collective consultative body of the Board of Management of the Bank created to provide the Board of Management of the Bank with methodological support in forming and implementing the Bank's current and long-term policy with regard to the management of assets and liabilities, efficient use of resources, and management of market and liquidity risks. The ALCO reports to the Board of Management of the Bank.

Risk Management Department (the "RMD")

The RMD is an independent division of the Bank coordinating the interaction of all structural units with regard to risk management which conducts an independent review of banking risks, develops and coordinates actions to improve the risk management system, and is responsible for the implementation and execution of risk management procedures.

(EUR thousand)

Internal Audit Division (the "IAD")

The IAD carries out reviews of the sufficiency of risk management procedures and their execution by the Bank and presents the results of reviews performed, its conclusions and recommendations to the Board of Management of the Bank.

Risk assessment and reporting systems

The Bank's risk management policy is based on the conservative approach, which assumes that the Bank avoids potential operations with high or undeterminable risk level, irrespective of their profitability.

Risks are assessed and managed using the comprehensive approach whereby all existing risk factors and relationships between such factors are taken into consideration. Monitoring and control of risks are primarily performed based on the limits established by the Bank. Such limits reflect the business strategy and market environment of the Bank as well as the level of risk the Bank is ready to take.

Information received from all business activities is analysed by the Bank's departments and processed in order to analyse, control and timely identify risks. The Bank's departments prepare regular reports on their operations and communicate current risk status to the RMD. For the purpose of effective risk management the Bank's departments together with the RMD monitor current risks to which the Bank's customers, counterparties, certain transactions and portfolios might be exposed. The reports are provided to the collective bodies: the Board of Management and Council of the Bank.

Risk mitigation

In the context of risk management the Bank applies various risk limitation and minimisation methods, such as diversification, limitation, and hedging. The Bank uses collateral in order to reduce its credit risks.

Excessive concentration of credit risks

Risk concentrations arise when changes in economical, political or other conditions produce similar effect on counterparties' ability to perform contractual obligations in a situation when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic characteristics. Concentrations of risks reflect relative sensitivity of the Bank's performance to changes in the conditions that affect a particular industry or geographical region.

In order to avoid excessive concentrations of risks the Bank's policies and procedures include specific guidelines aimed at maintaining a diversified portfolio.

Credit risk

Credit risk is the risk of loss that the Bank will incur because its customers or counterparties fail to discharge their contractual obligations to the Bank in full or in part. The Bank manages and controls credit risks by setting limits for the amount of the risk the Bank is ready to take in relation to individual counterparties, and by monitoring the compliance with the limits set for such risk.

All operations that bear credit risk are assessed using the quantitative and qualitative analysis methods set forth in the credit and risk management regulations of the Bank. The Bank applies its internal methodology to assign each customer or counterparty a risk rating that reflects the Bank's exposure to credit risk.

The Bank uses ratings of international rating agencies S&P, Moody's and Fitch to manage the credit quality of financial assets. For loans to legal entities the Bank performs the analysis and simulation of cash flows (presented below) in addition to a financial analysis of the counterparty.

Credit risk management is performed by the Bank through regular analysis of the ability of its customers and counterparties to discharge their principal and interest payment obligations. The Bank's customers or counterparties are monitored on a regular basis; a regular control and improvement of the cash flows model is performed; their financial positions are reviewed to ensure that internal credit ratings are appropriately assigned and, where necessary, adjustments are made. The credit quality review procedure enables the Bank to assess potential losses from the risks to which it is exposed and to take required actions to mitigate them. In addition, credit risk management is performed by obtaining collateral on loans in the form of a pledge, guarantees, including state guarantees, and sureties from legal entities and individuals.

Information on the maximum exposure to credit risk is disclosed in Notes 6-11, 13.

Credit related commitments risks

Credit related commitments risk is defined as a probability of incurring a loss due to inability of another party to the operation to fulfill the obligations under the contract. Under these contracts the Bank bears risks that are similar to credit risks and that are mitigated using the same assessment, monitoring and control procedures.

(EUR thousand)

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank (for loans to legal entities).

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same counterparty of the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

When determining whether the credit risk (i.e. the risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

It is identified whether a significant increase in credit risk has occurred for an exposure by comparing, among other things, the following:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if internal or external rating decreased by 2 notches since initial recognition. In measuring increases in credit risk, remaining lifetime ECLs are adjusted for changes in maturity.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is overdued for more than 30 days (loans to legal entities). Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECLs (Stage 1) measurement to credit-impaired (Stage 3); and
- there is no unwarranted volatility in allowance for ECLs from transfers between 12-month ECLs (Stage 1) and lifetime ECLs measurements (Stage 2).

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

(EUR thousand)

Each exposure will be allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring usually includes the analysis of the following data:

- information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections;
- data from credit reference agencies, press articles, changes in external credit ratings;
- quoted bond and credit default swap (CDS) prices for the borrower where available;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- payment record – this includes overdue status
- requests for and granting of forbearance
- existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit rating agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic 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 exposures, key macro-economic indicator is likely to be the change of GDP, consumer price index.

For exposures to specific 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 into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD);
- cash flows used to service debt under different scenarios (loans to legal entities);
- volatility of shares price/index (for operations with banks-counterparties that do not have a credit rating assigned by international rating agencies).

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

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

ECLs level estimate for loans to legal entities is based on the determination of the difference between contractual and expected cash inflows to the Bank discounted at the original effective interest rate and adjusted for collateral level and recovery rate.

LGD is the magnitude of the likely loss if there is a default and depends on the recovery rate. For corporate investment and dealing securities the recovery rate taken is consistent with average historical figures as per Moody's. For default level securities the recovery rate is 0%. For loans and deposits to banks the recovery rate taken is consistent with historical data of Moody's on average historical recovery rates for unsecured bank loans.

EAD represents the expected credit risk exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment.

(EUR thousand)

Forward-looking information

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, and certain individual and scientific forecasts, information provided by Bloomberg, Thomson Reuters, etc.

The Bank will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other 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 between macro-economic variable and credit risk and credit losses. These key drivers are GDP forecasts and consumer price index.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 7 years.

Expected credit losses are recognised in the interim condensed financial information through an allowance account to write down the asset's carrying value to the present value of expected cash flows discounted at the original effective interest rate of the 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 by classes of financial assets

The Bank applies its internal credit rating assignment system to manage credit quality of financial assets.

(EUR thousand)

The table below shows the credit quality of assets exposed to credit risk (by three stages of impairment) with a breakdown by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available) as at 30 June 2018 (unaudited):

	Stage 1, ***12-months ECLs***	***Stage 2,*** ***Lifetime ECLs***	***Stage 3,*** ***Lifetime ECLs***	***Total***
Cash and cash equivalents (other than cash on hand)				
Amounts due from Central Banks	7 469	-	-	7 469
Correspondent accounts in other banks				
Internationally rated				
between AAA and A-	1 554	-	-	1 554
between BBB+ and BB-	4 546	-	-	4 546
between CCC+ and C	7	-	-	7
Internally rated only				
between BBB+ and BB-	433	-	-	433
Total	**14 009**	**-**	**-**	**14 009**
Allowance for expected credit losses	**–**	**-**	**-**	**–**
Carrying amount	**14 009**	-	-	**14 009**
Securities at amortised cost				
Internationally rated				
between BBB+ and BB-	10 845	-	-	10 845
Total	**10 845**	-	-	**10 845**
Allowance for expected credit losses	**(48)**	-	-	**(48)**
Carrying amount	**10 797**	-	-	**10 797**
Securities at fair value through other comprehensive income				
- held by the Bank				
Internationally rated				
between AAA and A-	15 948	-	-	15 948
between BBB+ and BB-	138 010	-	-	138 010
between B+ and B-	9 017	3 223	-	12 240
Carrying amount	**162 975**	**3 223**	-	**166 198**
Allowance for expected credit losses	**(627)**	**(120)**		**(747)**
- pledged under sale and repurchase agreements				
Internationally rated				
between AAA and A-	3 380	-	-	3 380
between BBB+ and BB-	16 630	-	-	16 630
Carrying amount	**20 010**	-	-	**20 010**
Allowance for expected credit losses	**(31)**	-	-	**(31)**

(EUR thousand)

	Stage 1, 12-months ECLs	**Stage 2, Lifetime ECLs**	**Stage 3, Lifetime ECLs**	**Total**
Loans and deposits to banks				
Internationally rated				
between BBB+ and BB-	185	-	-	185
between B+ and B-	13 042	-	-	13 042
between CCC+ and C	21 877	-	-	21 877
no rating	-	-	11	11
Total	**35 104**	**-**	**11**	**35 115**
Allowance for expected credit losses	**(399)**	**-**	**(11)**	**(410)**
Carrying amount	**34 705**	**-**	**-**	**34 705**
Loans to customers:				
Loans to legal entities				
Internationally rated				
between BBB+ and BB-	25 105	-	-	25 105
Internally rated only				
between B+ and B-	-	9 567	-	9 567
no rating	-	-	39 130	39 130
Total	**25 105**	**9 567**	**39 130**	**73 802**
Allowance for expected credit losses	**-**	**-**	**(39 130)**	**(39 130)**
Carrying amount	**25 105**	**9 567**	**-**	**34 672**

For valuation of financial assets Bank applies internal credit ratings scale, which is consistent to ratings assigned by international rating agencies.

Internal credit ratings “B” are consistent with international ratings “between BB and B-“, internal credit ratings “BB” are usually consistent with international ratings “between BB+ and BB“, except for cases when international rating is limited by sovereign rating. Internal credit ratings “BBB” are consistent with international ratings “between BBB+ and BBB-“.

Loans and deposits to banks and debt investment securities as at 31 December 2017 are presented in the table below as per S&P, Moody’s, Fitch international ratings. High ratings are ratings between AAA and A-, standard ratings include ratings between BBB+ and B-. Consumer lending (loans to the Bank’s employees) is limited and was categorised into the “high rating” category.

(EUR thousand)

	Not overdue or impaired			
31 December 2017	***High rating***	***Standard rating***	***Individually impaired***	***Total***
Cash and cash equivalents (other than cash on hand)	82	6 428	-	6 510
Loans and deposits to banks	-	46 003	-	46 003
Loans to customers:				
Corporate lending	-	*13 061*	-	*13 061*
Consumer lending	*84*	-	-	*84*
	166	**65 492**	**-**	**65 658**
Available-for-sale investment securities:				
- held by the Bank	*18 490*	*172 244*	-	*190 734*
- pledged under sale and repurchase agreements	*5 127*	-	-	*5 127*
Held-to-maturity investment securities	-	5 188	-	5 188
	23 617	**177 432**	**-**	**201 049**
Total	**23 783**	**242 924**	**-**	**266 707**

(EUR thousand)

Geographical risk

Information on risk concentration by geographical regions is based on geographical location of the Bank's counterparties. The table below shows risk concentration by geographical location as at 30 June 2018 (unaudited data):

Country	*Cash and cash equivalents (other than cash on hand)*	*Securities measured at FVTPL*	*Securities measured at FVOCI held by the Bank*	*Securities measured at FVOCI pledged under sale and repurchase agreements*	*Securities at amortised cost*	*Loans and deposits to banks*	*Loans to customers*	*Total*	*Share, %*
Russia	4 280	9 911	68 825	-	10 797	1 968	85	**95 866**	**33,01**
Romania	7	-	41 463	-	-	-	16 044	**57 514**	**19,81**
Mongolia	7	-	7 135	-	-	32 737	-	**39 879**	**13,73**
Bulgaria	13	-	10 577	16 630	-	-	10 066	**37 286**	**12,84**
Czech Republic	11	-	19 684	-	-	-	-	**19 695**	**6,78**
Poland	1	-	15 947	3 380	-	-	-	**19 328**	**6,66**
Panama	-	-	-	-	-	-	8 562	**8 562**	**2,95**
Luxembourg	1 529	-	-	-	-	-	-	**1 529**	**0,53**
Germany	6 145	-	-	-	-	-	-	**6 145**	**2,12**
Vietnam	-	-	2 567	-	-	-	-	**2 567**	**0,88**
Austria	2 016	-	-	-	-	-	-	**2 016**	**0,69**
TOTAL	**14 009**	**9 911**	**166 198**	**20 010**	**10 797**	**34 705**	**34 757**	**290 387**	**100,00**

(EUR thousand)

The table below shows risk concentration by geographical location as at 31 December 2017:

Country	*Cash and cash equivalents (other than cash on hand)*	*Available-for-sale investment securities held by the Bank*	*Available-for-sale investment securities pledged under sale and repurchase agreements*	*Investment securities held to maturity*	*Loans and deposits to banks*	*Loans to customers*	*Total*	*Share, %*
Russia	3 032	66 873	-	5 188	9 333	84	**84 510**	**31,69**
Romania	119	44 045	-	-	-	1 000	**45 164**	**16,93**
Mongolia	7	6 967	-	-	34 157	-	**41 131**	**15,42**
Bulgaria	2	39 813	-	-	-	-	**39 815**	**14,93**
Poland	-	17 419	5 127	-	-	-	**22 546**	**8,45**
Panama	-	-	-	-	-	8 694	**8 694**	**3,26**
Netherlands	-	4 754	-	-	-	-	**4 754**	**1,78**
Slovakia	-	1 072	-	-	-	3 367	**4 439**	**1,67**
Cyprus	-	4 270	-	-	-	-	**4 270**	**1,60**
Vietnam	-	894	-	-	2 513	-	**3 407**	**1,28**
Czech Republic	11	2 695	-	-	-	-	**2 706**	**1,02**
Germany	2 269	-	-	-	-	-	**2 269**	**0,85**
Luxembourg	68	1 932	-	-	-	-	**2 000**	**0,75**
Austria	996	-	-	-	-	-	**996**	**0,37**
Switzerland	6	-	-	-	-	-	**6**	**0,00**
TOTAL	**6 510**	**190 734**	**5 127**	**5 188**	**46 003**	**13 145**	**266 707**	**100,00**

(EUR thousand)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to fulfil its payment obligations when they fall due in normal or unforeseen circumstances. The Bank's exposure to liquidity risk arises due to a mismatch of maturities of assets and liabilities.

The Bank maintains necessary liquidity levels to ensure that funds will be available at all times to meet all obligations as they become due. The Treasury is the key element in the Bank's system responsible for the liquidity management.

The tables below show the remaining maturities of the financial liabilities of the Bank as at 30 June 2018 and as at 31 December 2017, based on contractual undiscounted cash flows. Liabilities which are to be paid on the first notice are considered as if collection notice was given at the earliest possible date:

30 June 2018 (unaudited)	***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 value***
Loans and deposits to banks	18 579	27 555	2 606	-	48 740	48 513
Due to customers	11 956	-	-	-	11 956	11 956
Derivatives settled on a gross basis:						
- Inflow	(908)	(24 865)	-	(3 416)	(29 189)	(29 189)
- Outflow	908	25 494	-	3 659	30 061	30 061
Other liabilities	1 415	-	-	-	1 415	1 415
Total	**31 950**	**28 184**	**2 606**	**243**	**62 983**	**62 756**
31 December 2017						
Loans and deposits to banks	7 795	15 029	-	-	22 824	22 719
Due to customers	8 662	-	-	-	8 662	8 662
Derivatives settled on a gross basis:						
- Inflow	(1 571)	-	-	-	(1 571)	(1 571)
- Outflow	1 582	-	-	-	1 582	1 582
Other liabilities	1 373	-	-	-	1 373	1 373
Total	**17 841**	**15 029**	**-**	**-**	**32 870**	**32 765**

The table below shows the contractual maturities of credit related commitments. All outstanding credit related commitments are included in that period, which contains the earliest date when the client may withdraw them:

	On demand and less than 1 month	***Total***
30 June 2018 (unaudited)	16 100	16 100
31 December 2017	16 921	16 921

(EUR thousand)

Classification of assets and liabilities by maturity

The table below shows a breakdown of financial assets and liabilities of the Bank as at 30 June 2018 (unaudited) by their remaining contractual maturities excluding securities at FVTPL. The specified financial assets are included into the "Demand and less than 1 month" category as the Bank believes that these are liquid assets that can be realised in short-term in case of lack of liquidity.

	Demand and less than 1 month	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*More than 5 years*	*Total*
Cash and cash equivalents	14 879	–	–	–	–	14 879
Securities at FVTPL	9 911	–	–	–	–	9 911
Securities at FVOCI:						
- held by the Bank	–	8 297	3 574	53 826	100 501	166 198
- pledged under sale and repurchase agreements	–	–	–	3 380	16 630	20 010
Loans and deposits to banks	1 931	23 828	8 946	–	–	34 705
Loans to customers	153	1 128	3	25 065	8 408	34 757
Securities at amortised cost	–	–	5 096	2 655	3 046	10 797
Other financial assets	1 014	36	–	–	–	1 050
Total financial assets	**27 888**	**33 289**	**17 619**	**84 926**	**128 585**	**292 307**
Due to credit institutions	18 561	27 378	2 574	–	–	48 513
Due to customers	11 956	–	–	–	–	11 956
Other financial liabilities	1 279	629	–	243	–	2 151
Total financial liabilities	**31 796**	**28 007**	**2 574**	**243**	**–**	**62 620**
Net position	**(3 908)**	**5 282**	**15 045**	**84 683**	**128 585**	**229 687**
Cumulative liquidity gap for financial instruments	**(3 908)**	**1 374**	**16 419**	**101 102**	**229 687**	**–**

(EUR thousand)

The table below shows the breakdown of financial assets and liabilities as at 31 December 2017 by their remaining contractual maturities:

	Demand and less than 1 month	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*More than 5 years*	*Total*
Cash and cash equivalents	7 082	-	-	-	-	7 082
Investment securities available-for-sale						
- held by the Bank	-	12 072	8 252	39 738	130 672	190 734
- pledged under sale and repurchase agreements	-	-	-	-	5 127	5 127
Loans and deposits to banks	22 386	14 941	8 676	-	-	46 003
Loans to customers	-	164	18	4 426	8 537	13 145
Investment securities held to maturity	-	-	-	5 188	-	5 188
Other financial assets	700	515	249	-	-	1 464
Total financial assets	**30 168**	**27 692**	**17 195**	**49 352**	**144 336**	**268 743**
Due to credit institutions	7 789	14 930	-	-	-	22 719
Due to customers	8 647	15	-	-	-	8 662
Other financial liabilities:	1 244	-	-	-	-	1 244
Total financial liabilities	**17 680**	**14 945**	**-**	**-**	**-**	**32 625**
Net position	**12 488**	**12 747**	**17 195**	**49 352**	**144 336**	**236 118**
Cumulative liquidity gap for financial instruments	**12 488**	**25 235**	**42 430**	**91 782**	**236 118**	**-**

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Board of Management of the Bank sets limits on the level of acceptable risks and monitors the compliance with the limits 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 changes, but may also reduce or create losses in the event that unexpected movements occur.

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

Interest rate sensitivity analysis

	30 June 2018 (unaudited)		*31 December 2017*	
	Profit or loss	*Equity*	*Profit or loss*	*Equity*
100 bp parallel rise	43	43	271	271
100 bp parallel fall	(43)	(43)	(271)	(271)

(EUR thousand)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 30 June 2018 and 31 December 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	30 June 2018 (unaudited)				*31 December 2017*			
	Average effective interest rate				*Average effective interest rate*			
	Euro	*USD*	*RUB*	*Other currencies*	*Euro*	*USD*	*RUB*	*Other currencies*
Interest bearing assets								
Correspondent accounts with banks in IBEC member countries and other credit insitutions	(0,42)	(1,21)	7,00	(0,08)	(0,27)	(0,19)	-	(0,09)
Securities at FVTPL	-	4,25	-	-	-	-	-	-
Securities at FVOCI / Investment securities available-for-sale								
- held by the Bank	2,89	7,62	-	2,41	2,86	6,98	-	2,31
- pledged under sale and repurchase agreements	2,69	3,00	-	-	-	3,00	-	-
Securities at amortised cost / Investment securities held-to-maturity	2,92	-	-	-	3,08	-	-	-
Loans and deposits to banks	3,05	5,62	8,02	-	2,18	4,28	7,68	-
Loans to legal entities	3,07	8,93	-	-	6,27	7,00	-	-
Consumer lending	3,00	-	-	-	3,00	-	-	-
Interest bearing liabilities								
Due to credit institutions	-	2,39	7,35	-	-	1,83	8,00	-
Correspondent accounts with banks in IBEC member countries and other credit institutions	(0,50)	-	2,38	-	(0,50)	-	2,82	-
Due to customers	-	-	-	-	-	-	6,50	-

(EUR thousand)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. In their policies the Board of Management of the Bank follows the conservative approach to foreign currency operations aimed to minimise 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 a general analysis of currency risk of the Bank for financial assets and liabilities as at 30 June 2018 (unaudited):

	Note	*USD*	*RUB*	*Euro*	*Other*	*Total*
Cash and cash equivalents		2 095	4 427	8 279	78	14 879
Securities at FVTPL		9 911	–	–	–	9 911
Securities at FVOCI:						
- held by the Bank		21 235	–	130 710	14 253	166 198
- pledged under sale and repurchase agreements		3 380	–	16 630	–	20 010
Loans and deposits to banks		29 041	2 604	3 060	–	34 705
Loans to customers		8 562	–	26 195	–	34 757
Securities at amortised cost		–	–	10 797	–	10 797
Other assets (excluding derivatives)	13,23	–	437	947	–	1 384
Total financial assets		**74 224**	**7 468**	**196 618**	**14 331**	**292 641**
Due to credit institutions		43 390	1 963	3 155	5	48 513
Due to customers		1 592	5 440	4 924	–	11 956
Other liabilities (excluding derivatives)	13,23	–	102	1 313	–	1 415
Total financial liabilities		**44 982**	**7 505**	**9 392**	**5**	**61 884**
Net balance sheet position		**29 242**	**(37)**	**187 226**	**14 326**	**230 757**
Net off-balance sheet position		**(26 497)**	**–**	**40 327**	**(14 570)**	**(740)**
Net balance sheet and off-balance sheet position		**2 745**	**(37)**	**227 553**	**(244)**	**230 017**

(EUR thousand)

The table below shows a general analysis of currency risk of the Bank for financial assets and liabilities as at 31 December 2017:

	Note	USD	RUB	Euro	Other	Total
Cash and cash equivalents		1 710	753	4 425	194	7 082
Investment securities available-for-sale:						
- held by the Bank		17 289	-	153 290	20 155	190 734
- pledged under sale and repurchase agreements		5 127	-	-	-	5 127
Loans and deposits to banks		22 812	3 344	19 847	-	46 003
Loans to customers		8 694	-	4 451	-	13 145
Investment securities held-to-maturity		-	-	5 188	-	5 188
Other assets (excluding derivatives)	13,23	42	310	601	5	958
Total financial assets		**55 674**	**4 407**	**187 802**	**20 354**	**268 237**
Due to credit institutions		21 825	805	84	5	22 719
Due to customers		858	2 944	4 752	108	8 662
Other liabilities (excluding derivatives)	13,23	-	168	1 205	-	1 373
Total financial liabilities		**22 683**	**3 917**	**6 041**	**113**	**32 754**
Net balance sheet position		**32 991**	**490**	**181 761**	**20 241**	**235 483**
Net off-balance sheet position		**(29 407)**	**-**	**49 048**	**(18 689)**	**952**
Net balance sheet and off-balance sheet position		**3 584**	**490**	**230 809**	**1 552**	**236 435**

A weakening of the EUR, as indicated below, against the following currencies as at 30 June 2018 and 31 December 2017, would have increased (decreased) equity and profit or loss by the amounts shown 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 impact on equity does not differ from that on the statement of profit and loss.

	30 June 2018 (unaudited)	31 December 2017
20% appreciation of USD against EUR	549	717
20% appreciation of RUB against EUR	(7)	98

A strengthening of the EUR against the above currencies at 30 June 2018 and 31 December 2017 would have had the opposite effect subject to the condition that all other variables had remained constant.

Operational risk

Operational risk is a risk occurring due to a systemic failure, personnel’s mistakes, fraud or external events. Operational risks can injure the reputation, have legal consequences, or lead to financial losses. The Bank cannot make an assumption that all operational risks have been eliminated, but using the control system and monitoring relevant responses to potential risks the Bank is able to manage and minimise such risks.

To reduce the negative impact of operational risks, the Bank accumulates and classifies information on operational risk events, creates a database of risk events, conducts an assessment and monitoring, and prepares management reporting. Simultaneously, according to the existing methodology, the Bank measures operational risk based on a basic indicator under Basel II recommendations.

(EUR thousand)

23. Derivative financial instruments

The fair value of receivables and payables on currency forward contracts and swap contracts entered into by the Bank as at the end of the reporting period broken down by currency is shown in the table below. The table comprises contracts with a settlement date after the end of the relevant reporting period; amounts of these operations are shown on a gross basis – before the set-off of positions (payments) with each counterparty. Operations are short-term in their nature.

	Note	*30 June 2018 (unaudited)*		*31 December 2017*	
		Contracts with positive fair value	*Contracts with negative fair value*	*Contracts with positive fair value*	*Contracts with negative fair value*
Currency forward contracts and swap contracts: fair value as at the end of reporting period					
- Payables in USD (-)		4 261	22 236	27 824	1 582
- Receivables in Euro (+)		11 138	29 189	47 476	1 571
- Payables in other currencies (-)		6 745	7 825	18 689	-
Net fair value of currency forward contracts and swap contracts	13	**132**	**(872)**	**963**	**(11)**

Currency derivative financial instruments involved in the Bank's operations are usually the subject of trade at the OTC market with professional participants based on standardised contracts. Derivative financial instruments have either potentially favorable terms (and are assets), or potentially unfavorable terms (and are liabilities) due to fluctuations in interest rates at the market, currency exchange rates or other variable factors associated with these instruments. The total fair value of derivative financial instruments can change considerably with time.

24. Fair value of financial instruments

Fair value hierarchy

The Bank uses the following hierarchical structure of evaluation methods to determine and disclose information on the fair value of financial instruments.

- Level 1: quoted market price (unadjusted) in an active market for an identical asset or liability;
- Level 2: valuation models where all significant inputs are directly or indirectly observable from market data;
- Level 3: valuation models that are not based on observable market data and use inputs that have a significant impact on fair value amounts recorded in the financial statements and are not based on observable market data. If observable inputs that require significant adjustments are used for the valuation of fair value, such valuation is designated into Level 3. The significance of the inputs used is evaluated for the entire fair value estimate in aggregate.

(EUR thousand)

The table below analyses financial instruments presented in the interim condensed financial information at fair value by the level in the fair value hierarchy:

	Level 1	Level 2	Total
30 June 2018 (unaudited)			
Financial assets			
Securities at FVTPL			
• eurobonds of IBEC member countries	9 911	-	9 911
Securities at FVOCI held by the Bank:			
• corporate eurobonds	76 055	-	76 055
• eurobonds of IBEC member countries	68 452	-	68 452
• bonds of IBEC member countries	1 131	-	1 131
• eurobonds of banks	20 560	-	20 560
Securities at FVOCI pledged under sale and repurchase agreements:			
• eurobonds of IBEC member countries	20 010	-	20 010
Derivative financial assets	-	132	132
	196 119	**132**	**196 251**
Financial liabilities			
Derivative financial liabilities	-	(872)	**(872)**

	Level 1	Level 2	Total
31 December 2017			
Financial assets			
Available-for-sale investment securities held by the Bank			
• eurobonds of IBEC member countries	97 105	-	97 105
• bonds of IBEC member countries	2 220	-	2 220
• eurobonds of banks	33 870	-	33 870
• corporate eurobonds	57 539	-	57 539
Available-for-sale investment securities pledged under sale and repurchase agreements:			
• eurobonds of IBEC member countries	5 127	-	5 127
Derivative financial assets	-	963	963
	195 861	**963**	**196 824**
Financial liabilities			
Derivative financial liabilities	-	(11)	**(11)**

Derivative financial instruments

All derivative financial instruments are recognised at fair value as assets if the fair value of these instruments is positive, and as liabilities if the fair value is negative. According to IAS 39, the fair value of an instrument at its commencement is usually equal to the transaction price. If the transaction price differs from the amount determined at the commencement of a financial instrument using valuation methods, the difference is depreciated over the life of the financial instrument.

Fair value measurement procedures

External appraisers are involved for valuation of significant assets, such as the Bank's building. The Board of Management of the Bank decides on the involvement of third party appraisers on an annual basis. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

The fair value of the building is categorised into Level 3 of the fair value hierarchy.

(EUR thousand)

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

As at 30 June 2018 and 31 December 2017, the fair values of financial assets and liabilities not measured in the interim condensed statement of financial position at fair values do not differ significantly from their carrying values. Financial assets and liabilities not measured in the interim condensed statement of financial position at fair values comprise loans and deposits to banks, loans to customers, amounts due to credit institutions and customer accounts.

Assets and liabilities whose fair value is approximately equal to their carrying amounts.

Financial assets and financial liabilities that are liquid or have a short maturity period (less than three months) have a fair value approximately equal to their carrying value.

25. Related party transactions

For the purposes of these interim condensed financial information and according to IAS 24 *Related Party Disclosures* parties are considered to be related if one of the parties has control or significant influence over another party when making strategic, financial and operational decisions. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely to the legal form.

In the ordinary course of business the Bank engages into contractual relationships with state-owned organisations. In the ordinary course of business the Bank mainly carries out transactions with entities from IBEC member countries (Notes 8-10).

For 6 months of 2018 remuneration to management of the Bank amounted to EUR 1,120 thousand (unaudited) (6 months of 2017: EUR 828.2 thousand (unaudited, not reviewed)). The remuneration to management of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 38.2 thousand (unaudited) (6 months of 2017: EUR 16.2 thousand (unaudited, not reviewed)) and Pension funds of IBEC member countries – EUR 8.3 thousand (unaudited) (6 months of 2017: EUR 4.2 thousand (unaudited, not reviewed)) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 17.8 thousand (unaudited) (6 months of 2017: EUR 7.4 thousand (unaudited, not reviewed)).

As at 30 June 2018 and 31 December 2017, balances on accounts of the Bank's management comprised:

	30 June 2018 (unaudited)	***31 December 2017***
Current accounts	2 298	2 224

There were no other transactions with related partied carried out by the Bank for 6 months of 2018 (unaudited) and in 2017.

26. Capital adequacy

The Bank manages the capital adequacy level to protect itself from inherent risks of the banking industry. Among other things, the capital adequacy is controlled using methods, principles, and ratios set forth in the Basel Capital Accord.

The main objective of the capital management for the Bank is to ensure the compliance with the capital adequacy ratio required to carry out activities.

The capital adequacy ratio of the Bank approved by the Council of IBEC is established in the amount not less than 25%.

The Bank manages its capital structure and updates it in the light of changes in economic conditions and profiles of risk of the activities it carries out.

The capital adequacy ratio of the Bank calculated as of 30 June 2018 (unaudited) and as at the end of 2017 makes up 129% and 142% respectively and shows that the Bank’s capital adequacy is maintained at the appropriate level in terms of significant prevalence of equity over liabilities.