



**IBEC**

**INTERNATIONAL BANK  
FOR ECONOMIC CO-OPERATION**

# **International Bank for Economic Co-operation**

## **Financial statements**

*for the year 2020*

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## Independent auditor's report

To the Council of International Bank  
for Economic Co-operation

### **Opinion**

We have audited the financial statements of International Bank for Economic Co-operation (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

**Key audit matter**

**How our audit addressed the matter**

***Allowance for expected credit losses on loans to customers***

Estimation of the allowance for expected credit losses on loans to customers is a key area of judgement for the Bank's management. Identification of factors of significant credit risk increase and the determination of expected credit losses require significant use of judgment, assumptions and analysis of various factors, including financial and non-financial information by counterparty, macroeconomic projections and assessment of the expected future cash flows on loans to customers, including from the disposal of collateral. The use of various models and assumptions can significantly affect the level of allowance for expected credit losses on loans to customers.

Due to the significance of loans to customers and the complexity of judgments used with regard to expected credit losses in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), the estimation of the allowance for expected credit losses was one of the key audit matters.

Information on expected credit losses on loans to customers and the approach of the Bank's management to assessing allowance for expected credit losses on loans to customers are presented in Note 10 Loans to corporate customers, Note 22 Allowance for expected credit losses, Note 24 Risk management and Note 30 Significant accounting judgments and estimates to the financial statements.

In the course of our audit, we analyzed the methodology for estimating the allowance developed by the Bank in accordance with IFRS 9.

Our audit procedures included a review of the financial and non-financial information by counterparty, debt servicing, internal credit ratings of counterparties, factors of significant credit risk increase and also a calculation of default probability based on the Bank's methodology, an analysis of macroeconomic projections.

In the course of our audit procedures we analyzed the expected future cash flows on loans to customers, including from the disposal of collateral.

We also assessed information disclosed in the notes to the financial statements with regard to the allowance for expected credit losses on loans to customers.

## Key audit matter

## How our audit addressed the matter

### ***Valuation of the buildings classified to property and equipment***

As at 31 December 2020, the aggregate value of the buildings classified to property and equipment was 6% of the total Bank's assets. Bank's management measured the fair value of the buildings classified to property and equipment based on an assessment of an independent appraiser engaged by the Bank's management and analysis of current market information.

The valuation of such assets is carried out using unobservable inputs and assumptions. Changes of these inputs and assumptions may have a significant impact on the result of the valuation. Due to the significance and subjectivity of this valuation it is included in the key audit matters.

Information of the valuation of the buildings classified to property and equipment are presented in Note 12 Property, plant and equipment, intangible assets and right-of-use assets, and Note 25 Fair value measurement, to the financial statements.

Our audit procedures in respect of the buildings classified to property and equipment included examination of the significant assumptions applied and comparison of inputs used in the assessment to available market information on the value of similar objects and other observable data. We involved our real estate valuation specialists to evaluate the valuation methodology and assumptions used.

We also assessed information about the valuation of the buildings classified to property and equipment disclosed in the notes to the financial statements, including information about the sensitivity of fair value to changes in key assumptions.

### ***Other information included in the 2020 Annual Report***

Other information consists of the information included in the 2020 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### ***Responsibilities of management and the Council of International Bank for Economic Co-operation for the financial statements***

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Council of International Bank for Economic Co-operation are responsible for overseeing the Bank's financial reporting process.

### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council of International Bank for Economic Co-operation regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Council of International Bank for Economic Co-operation with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, threat mitigation actions or related safeguards.

From the matters communicated with the Council of International Bank for Economic Co-operation, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is G.A. Shinin.



G.A. Shinin  
Partner  
Ernst & Young LLC

19 February 2021

**Details of the audited entity**

Name: International Bank for Economic Co-operation  
Acting under the Intergovernmental Agreement for the Organization and Activities of IBEC registered with the Secretariat of the United Nations on 20 August 1964 and the Statutes of IBEC registered with the Secretariat of the United Nations on 20 August 1964 under No. 7388.  
Address: Russia 107996, Moscow, Masha Poryvaeva str., 11, GSP-6.

**Details of the auditor**

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

**Statement of financial position****as at 31 December 2020***(EUR thousand)*

	<i>Note</i>	<b>2020</b>	<b>2019</b>
<b>Assets</b>			
Cash and cash equivalents	5	17,589	17,286
Securities at fair value through profit or loss	6	1,119	4,412
- held by the Bank		1,119	4,412
- pledged under repurchase agreements		-	-
Securities at fair value through other comprehensive income	7	286,306	203,303
- held by the Bank		194,444	159,002
- pledged under repurchase agreements		91,862	44,301
Securities at amortized cost	8	64,596	62,532
- held by the Bank		18,136	47,513
- pledged under repurchase agreements		46,460	15,019
Loans and deposits to banks	9	165,276	110,943
- loans issued to banks under trade financing		74,423	77,327
- term deposits with banks		52,327	19,723
- syndicated loans		38,526	13,893
Loans to corporate customers	10	199,043	187,068
Derivative financial assets	11	375	5,689
Property, plant and equipment, intangible assets and right-of-use assets	12	52,989	57,013
Other assets	13	27,836	2,689
<b>Total assets</b>		<b>815,129</b>	<b>650,935</b>
<b>Liabilities</b>			
Due to credit institutions	14	286,507	129,382
Due to customers	15	47,235	97,266
Derivative financial liabilities	11	26,020	1,800
Debt securities issued	16	133,694	102,526
Other liabilities	13	4,563	6,781
<b>Total liabilities</b>		<b>498,019</b>	<b>337,755</b>
<b>Equity</b>			
Share capital	1	200,000	200,000
Revaluation reserve for securities at fair value through other comprehensive income		5,294	4,315
Revaluation reserve for property, plant and equipment		21,528	25,107
Cash flow hedge reserve	11	621	893
Retained earnings less net profit for the year		82,865	76,279
Net profit for the year		6,802	6,586
<b>Total equity</b>		<b>317,110</b>	<b>313,180</b>
<b>Total liabilities and equity</b>		<b>815,129</b>	<b>650,935</b>
<b>Off-balance sheet commitments</b>			
Credit-related commitments	17	139,872	61,949

Denis Ivanov



*D. Ivanov*

Chairman of the Board

Inna Zheleznova

*I. Zheleznova*

Director of the Financial Department

19 February 2021

The accompanying notes 1-30 are an integral part of these financial statements.

**Statement of profit or loss and other comprehensive income****for the year 2020***(EUR thousand)*

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Interest income calculated using the EIR method		17,836	13,096
Other interest income		447	738
Interest expense		(6,528)	(4,695)
<b>Net interest income</b>	<b>18</b>	<b>11,755</b>	<b>9,139</b>
Allowance for expected credit losses from financial assets	22	(3,021)	(1,203)
<b>Net interest income after allowance for expected credit losses</b>		<b>8,734</b>	<b>7,936</b>
Fee and commission income		1,002	658
Fee and commission expense		(213)	(136)
<b>Net fee and commission income</b>	<b>19</b>	<b>789</b>	<b>522</b>
Net gains from operations with securities at fair value through profit or loss		2,069	1,480
Net gains from operations with securities at fair value through other comprehensive income	20	5,909	4,726
Net (losses) gains from operations with derivative financial instruments and foreign currency			
- dealing		481	474
- revaluation of currency items		(1,939)	(471)
Lease income		1,635	2,075
Other banking income	10	4,288	1,375
Administrative and management expenses	21	(14,689)	(14,168)
Net (losses) gains from disposal of property, plant and equipment		(9)	3,127
Other provisions	23	(93)	(38)
Other banking expenses		(373)	(452)
<b>Profit for the year</b>		<b>6,802</b>	<b>6,586</b>

The accompanying notes 1-30 are an integral part of these financial statements.

**Statement of profit or loss and other comprehensive income (continued)***(EUR thousand)*

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Other comprehensive income (loss)</b>			
<i>Items that are or may be subsequently reclassified to profit or loss</i>			
Unrealized gains from operations with securities at fair value through other comprehensive income		6,591	11,935
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	20	(6,118)	(4,787)
Change in allowance for expected credit losses		506	191
Net (losses) gains from cash flow hedges	11	(272)	893
<b>Total items that are or may be subsequently reclassified to profit or loss</b>		<b>707</b>	<b>8,232</b>
<i>Items which may not be subsequently reclassified to profit or loss</i>			
Revaluation of property, plant and equipment		(3,579)	-
<b>Total items which may not be subsequently reclassified to profit or loss</b>		<b>(3,579)</b>	<b>-</b>
<b>Total other comprehensive (loss) income</b>		<b>(2,872)</b>	<b>8,232</b>
<b>Total comprehensive income for the year</b>		<b>3,930</b>	<b>14,818</b>

The accompanying notes 1-30 are an integral part of these financial statements.

## Statement of changes in equity for the year 2020

(EUR thousand)

	<b>Share capital</b>	<b>Revaluation reserve for securities at fair value through other comprehensive income</b>	<b>Revaluation reserve for property, plant and equipment</b>	<b>Cash flow hedge reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>1 January 2020</b>	<b>200,000</b>	<b>4,315</b>	<b>25,107</b>	<b>893</b>	<b>82,865</b>	<b>313,180</b>
Net profit for the year	-	-	-	-	6,802	6,802
<b>Other comprehensive income</b>						
<i>Items that are or may be subsequently reclassified to profit or loss</i>						
Unrealized gains from operations with securities at fair value through other comprehensive income	-	6,591	-	-	-	6,591
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	-	(6,118)	-	-	-	(6,118)
Change in allowance for expected credit losses	-	506	-	-	-	506
Net unrealized gains (losses) from cash flow hedges	-	-	-	(22,400)	-	(22,400)
Net gains (losses) from cash flow hedges, reclassified to profit or loss	-	-	-	22,128	-	22,128
<b>Total items that are or may be subsequently reclassified to profit or loss</b>	<b>-</b>	<b>979</b>	<b>-</b>	<b>(272)</b>	<b>-</b>	<b>707</b>
<i>Items that may not be subsequently reclassified to profit or loss</i>						
Revaluation of property, plant and equipment	-	-	(3,579)	-	-	(3,579)
<b>Total items that may not be subsequently reclassified to profit or loss</b>	<b>-</b>	<b>-</b>	<b>(3,579)</b>	<b>-</b>	<b>-</b>	<b>(3,579)</b>
<b>Total other comprehensive income</b>	<b>-</b>	<b>979</b>	<b>(3,579)</b>	<b>(272)</b>	<b>-</b>	<b>(2,872)</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>979</b>	<b>(3,579)</b>	<b>(272)</b>	<b>6,802</b>	<b>3,930</b>
<b>31 December 2020</b>	<b>200,000</b>	<b>5,294</b>	<b>21,528</b>	<b>621</b>	<b>89,667</b>	<b>317,110</b>

The accompanying notes 1-30 are an integral part of these financial statements.

**Statement of changes in equity (continued)***(EUR thousand)*

	<i>Share capital</i>	<i>Revaluation reserve for securities at fair value through other comprehensive income</i>	<i>Revaluation reserve for property, plant and equipment</i>	<i>Cash flow hedge reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>1 January 2019</b>	<b>200,000</b>	<b>(3,024)</b>	<b>32,388</b>	<b>-</b>	<b>68,998</b>	<b>298,362</b>
Net profit for the year	-	-	-	-	6,586	6,586
<b>Other comprehensive income</b>						
<i>Items that are or may be subsequently reclassified to profit or loss</i>						
Unrealized gains from operations with securities at fair value through other comprehensive income	-	11,935	-	-	-	11,935
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	-	(4,787)	-	-	-	(4,787)
Change in allowance for expected credit losses	-	191	-	-	-	191
Net unrealized gains (losses) from cash flow hedges	-	-	-	4,183	-	4,183
Net gains (losses) from cash flow hedges, reclassified to profit or loss	-	-	-	(3,290)	-	(3,290)
<b>Total items that are or may be subsequently reclassified to profit or loss</b>	<b>-</b>	<b>7,339</b>	<b>-</b>	<b>893</b>	<b>-</b>	<b>8,232</b>
<i>Items that may not be subsequently reclassified to profit or loss</i>						
Transfer of revaluation reserve for property, plant and equipment as a result of disposal	-	-	(7,281)	-	7,281	-
<b>Total items that may not be subsequently reclassified to profit or loss</b>	<b>-</b>	<b>-</b>	<b>(7,281)</b>	<b>-</b>	<b>7,281</b>	<b>-</b>
<b>Total other comprehensive income</b>	<b>-</b>	<b>7,339</b>	<b>(7,281)</b>	<b>893</b>	<b>7,281</b>	<b>8,232</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>7,339</b>	<b>(7,281)</b>	<b>893</b>	<b>13,867</b>	<b>14,818</b>
<b>31 December 2019</b>	<b>200,000</b>	<b>4,315</b>	<b>25,107</b>	<b>893</b>	<b>82,865</b>	<b>313,180</b>

The accompanying notes 1-30 are an integral part of these financial statements.

**Statement of cash flows****for the year 2020***(EUR thousand)*

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>			
<b>Profit for the year</b>		<b>6,802</b>	<b>6,586</b>
Adjustments for:			
Accrued interest receivable		(230)	(536)
Accrued interest payable		(6,295)	2,059
Other accrued income receivable		(129)	42
Other accrued expenses payable		640	251
Depreciation and amortization	21	1,244	1,444
Allowance for expected credit losses from financial assets	22	3,021	1,203
Other provisions	23	93	38
Remeasurement of securities at fair value through profit or loss		42	(99)
Revaluation of currency items		70	315
Fair value remeasurement of hedges		1,869	156
Net gains from operations with securities at fair value through other comprehensive income	20	(5,909)	(4,726)
Net gains from disposal of property, plant and equipment		9	(3,127)
Other differences		–	312
<b>Cash from operating activities before changes in operating assets and liabilities</b>		<b>1,227</b>	<b>3,918</b>
<i>(Increase) decrease in operating assets</i>			
Securities at fair value through profit or loss		3,383	1,833
Loans and deposits to banks		(61,031)	(59,855)
Loans to corporate customers		(18,657)	(102,797)
Other assets		(26,435)	(1,627)
<i>Increase (decrease) in operating liabilities</i>			
Due to credit institutions		112,865	20,548
Due to customers		(38,693)	86,336
Other liabilities		3,855	4,844
<b>Net cash used in operating activities</b>		<b>(23,486)</b>	<b>(46,800)</b>
<b>Cash flows from investing activities</b>			
Purchase of securities at fair value through profit or loss		(1,145)	–
Purchases of securities at fair value through other comprehensive income		(395,053)	(282,734)
Sales of securities at fair value through other comprehensive income		313,257	223,025
Purchases of securities at amortized cost		(10,153)	(29,258)
Proceeds from redemption of securities at amortized cost		6,682	8,622
Purchases of property, plant and equipment		(828)	(1,998)
Sales of property, plant and equipment		–	18,938
<b>Net cash used in investing activities</b>		<b>(87,240)</b>	<b>(63,405)</b>

The accompanying notes 1-30 are an integral part of these financial statements.

**Statement of cash flows (continued)***(EUR thousand)*

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Cash flows from financing activities</b>			
Proceeds from bonds issued	16, 28	63,557	98,032
Proceeds from long-term financing raised from banks	28	49,556	9,900
Long-term financing repaid to banks		(21)	-
Payments for lease liabilities	28	(5)	(2)
<b>Net cash from financing activities</b>		<b>113,087</b>	<b>107,930</b>
<b>Net increase (decrease) in cash and cash equivalents before translation differences</b>			
		<b>2,361</b>	<b>(2,275)</b>
Effect of changes in exchange rates on cash and cash equivalents		(2,058)	1,273
Effect of changes in expected credit losses on cash and cash equivalents		-	-
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>303</b>	<b>(1,002)</b>
<b>Cash and cash equivalents at 31 December of the year preceding the reporting year</b>	5	<b>17,286</b>	<b>18,288</b>
<b>Cash and cash equivalents at 31 December of the reporting year</b>	5	<b>17,589</b>	<b>17,286</b>
<b>Additional information:</b>			
Interest received		18,053	13,298
Interest paid		(12,823)	(2,636)

The accompanying notes 1-30 are an integral part of these financial statements.

*(EUR thousand)*

## 1. Principal activities of the Bank

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

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

In December 2020, the Council of the Bank approved IBEC's Medium-Term Development Strategy for 2021-2025. The main aims of the Bank are as follows:

- ▶ Support the economic prosperity of member countries by building linkages between intra- and interregional trade operations;
- ▶ Develop economies of member countries and assist in financing projects that contribute to the achievement of sustainable development goals due to the Bank's supranational status as an "out of the politics" institution and in accordance with international rules and principles.

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

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

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

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

	<b>2020</b>	<b>%</b>	<b>2019</b>	<b>%</b>
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
<b>Total</b>	<b>200,000</b>	<b>100</b>	<b>200,000</b>	<b>100</b>

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

(EUR thousand)

## 1. Principal activities of the Bank (continued)

The Bank operates in accordance with the Updated Strategy of IBEC until 2020 approved by its member countries on 6 December 2018. In the reporting period, IBEC continued to implement tasks set by the Strategy:

- ▶ In January, Moody's international credit rating agency assigned to IBEC a long-term foreign currency issuer rating at Baa3 with a stable outlook. It is the second investment grade rating assigned to the Bank after the initiation of IBEC's Updated Development Strategy until the end of 2020 and the implementation of a new business profile.
- ▶ In March, Fitch Ratings international credit rating agency revised its outlook for IBEC's long-term rating from stable to positive and confirmed the rating at BBB-. IBEC's short-term rating was confirmed at F3. In June 2020, Fitch Ratings international credit rating agency confirmed the positive outlook for IBEC's rating in the ongoing global crisis environment caused by the COVID-19 pandemic.
- ▶ Chairman of IBEC's Management Board joined the Business Council of Financial and Banking Association of Euro-Asian Cooperation (FBA EAC). FBA EAC's primary goal is to assist its members in creating favorable conditions for effective operation in Eurasia. FBA EAC's area of interest includes small and medium businesses, commercial banks, public private partnerships.
- ▶ IBEC has joined the Project Finance Factory program implemented by VEB.RF and aimed at increasing affordability of project financing for Russian companies operating in priority innovative and high-tech industries.
- ▶ In May, Analytical Credit Rating Agency (ACRA) assigned to IBEC the A- credit rating, with a stable outlook, under the international scale and the AAA(RU) rating, with a stable outlook, under the national scale for the Russian Federation. In accordance with the ACRA national rating scale, AAA(RU) is the highest possible rating for the Russian Federation.
- ▶ In May 2020, ACRA Europe a.s rating agency assigned to IBEC the BBB long-term foreign currency rating with a stable outlook. ACRA Europe a.s. (Bratislava, the Slovak Republic) is a member of ACRA Group and a subsidiary of ACRA (JSC). Ratings assigned by ACRA Europe a.s. may be accepted, inter alia, by governmental authorities as risk measurement tools across the European Union.
- ▶ IBEC signed a loan agreement with Austrian Raiffeisen Bank International AG (RBI), according to which RBI issued a EUR 10 million loan to IBEC for two years. This loan will be used to support the continuing growth of IBEC's business in accordance with its Development Strategy.
- ▶ On 15 June 2020, IBEC successfully placed the second issue of bonds (series 001P-02) on the Moscow Exchange. Investors reacted positively – the issue with a total nominal value of RUB 5 billion was placed in full.
- ▶ In September 2020, the Ministry of Finance of the Russian Federation made a first contribution of EUR 50 million to the International Fund for Technological Development.
- ▶ In October, IBEC joined SWIFT GPI (Global Payment Innovation) and expanded its settlement services potential.
- ▶ In accordance with Decree No. 1528 of the Government of the Russian Federation, IBEC was appointed an authorized bank participating in the agricultural sector support program of the Russian Government.

## 2. Operating environment of the Bank

In 2020, the COVID-19 pandemic resulted in a deep economic downturn worldwide. Most countries introduced restrictive measures to prevent its spread and protect their citizens, which resulted in a significant decline of business activity, consumption and investment demand in the first half of 2020.

By the middle of the year, the economic activity picked up amid lower morbidity and gradual removing of quarantine and restrictive measures. But after that the global recovery slowed down again due to the worsening epidemiological situation. In 2020, governments of many countries made substantial efforts to support economic growth by implementing government incentives to decrease unemployment, protect consumers' income and total demand, as well as to insure stability of national banking systems. Therefore, according to experts, the global economic decline will amount to 4.2% in 2020, which is more optimistic than initially anticipated.

The crisis seriously affected the global trade as well. A downward pressure on the cross-border goods turnover was mostly caused by border closures, supply chain disruptions and weaker investment activities. Experts believe that the global trade will reduce by 9.5% in 2020.

The global financial system was supported by the active implementation of accommodative monetary policy by national central banks. However, it resulted in an increase in global debt, which is a risk factor as well.

Banks are under pressure due to lower profitability and worsening quality of assets. During the year, a number of defaults in most seriously affected sectors and countries increased rapidly and decreasing credit ratings indicate that the situation may be even worse in the future.

(EUR thousand)

### 3. Basis of preparation of financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and IBEC’s principal accounting policies.

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

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

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

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

#### Effect of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in early 2020, governments have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as overall scale of business activity. It is expected that the pandemic itself as well as the related mitigation measures may influence the business of entities in a wide range of industries. Since March 2020, extreme volatility on stock exchange, currency and commodity markets and a drop in oil prices have been observed.

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

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

In accordance with IFRS 9 *Financial Instruments*, the Bank applies the expected credit loss model to measure potential losses and reviews forecast information in a way that reflects “an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes” and “reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.” The Bank also determines to what extent, inter alia, the high level of uncertainty and any unexpected changes in short-term economic forecasts may result in negative consequences. The Bank reflects changes in economic conditions in applied macroeconomic scenarios and their respective weight coefficients. To calculate provisions for expected credit losses as at 31 December 2020, the Bank considered the following:

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

#### Significant accounting estimates and professional judgments

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

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

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

(EUR thousand)

### 3. Basis of preparation of financial statements (continued)

#### Significant accounting estimates and professional judgments (continued)

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

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

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

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

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

#### *Judgments*

Information about judgments, which were used in applying the accounting policies and had the most significant effect on the amounts recognized in the financial statements, is disclosed in the following Notes:

- ▶ Classification of financial assets: assessment of the business model within which financial assets are held and assessment of whether the contractual terms of the financial asset provide for solely payments of principal and interest on the principal amount outstanding (Note 30).
- ▶ Establishment of criteria for assessing whether there has been a significant increase in the credit risk of a financial asset since its initial recognition, determination of a methodology for including forecast data in the estimation of expected credit losses, and selection and approval of models used to estimate expected credit losses (Note 24).

#### *Sensitivity of the fair value of the building*

As at 31 December 2020, the fair value of the building owned by the Bank was EUR 50,078 thousand (2019: EUR 54,636 thousand). The fair value of one square meter was EUR 1,978 (2019: EUR 2,158). If the value of one square meter increases by 10%, the fair value of the building will be EUR 55,086 thousand (2019: EUR 60,100 thousand); if the value of one square meter decreases by 10%, the fair value of the building will be EUR 45,070 thousand (2019: EUR 49,172 thousand).

#### *Assumptions and estimation uncertainty*

Information about the assumptions and estimation uncertainty, which give rise to a significant risk that they may cause a significant adjustment to the data in the financial statements for the year ended 31 December 2020, is disclosed in the following Notes:

- ▶ Impairment of financial instruments: determination of inputs for a model for estimating expected credit losses, including forecast information (Note 24);
- ▶ Fair value measurement (Note 25);
- ▶ Revaluation of the building (Note 12).

#### Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

(EUR thousand)

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

In 2020, the Bank adopted certain amendments and interpretations which do not affect the financial statements of the Bank.

##### *Amendments to IFRS 3: Definition of a Business*

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

##### *Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform*

The amendments to IFRS 7, IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

##### *Amendments to IAS 1 and IAS 8: Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of the Bank, nor is there expected to be any future impact on the Bank.

##### *Conceptual Framework for Financial Reporting issued on 29 March 2018*

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

#### **Standards issued but not yet effective**

##### *Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

In August 2020, the IASB issued *Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* to address the accounting issues which arise upon the replacement of an interbank offered rate (IBOR) with a risk-free rate (RFR).

The amendments include a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to an RFR.

Changes to the basis for determining contractual cash flows as a result of the interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from an IBOR to an RFR takes place on an economically equivalent basis.

The Bank will apply these amendments from January 2021.

(EUR thousand)

**5. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<u>2020</u>	<u>2019</u>
Cash on hand	1,099	900
Correspondent accounts with banks in IBEC member countries	3,452	1,145
Correspondent accounts with banks in other countries	13,038	15,241
<b>Total cash and cash equivalents</b>	<b>17,589</b>	<b>17,286</b>
Allowance for expected credit losses	–	–
<b>Cash and cash equivalents less allowance for expected credit losses</b>	<b>17,589</b>	<b>17,286</b>

As at 31 December 2020, balances with three major counterparties amounted to EUR 14,817 thousand, or 84.24% of total cash and cash equivalents (31 December 2019: EUR 15,405 thousand, or 89.12% of total cash and cash equivalents).

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

<b><i>Cash and cash equivalents (other than cash on hand)</i></b>	<u>2020</u>	<u>2019</u>
Amounts due from central banks	9,276	13,657
<b>Correspondent accounts with banks</b>		
Internationally rated		
<i>from AAA to A-</i>	6,414	165
<i>from BBB+ to BB-</i>	781	2,228
<i>from B+ to B-</i>	5	330
<i>from CCC+ to C</i>	–	6
Internally rated only		
<i>from BBB+ to BB-</i>	14	–
<b>Total</b>	<b>16,490</b>	<b>16,386</b>
Allowance for expected credit losses	–	–
<b>Carrying amount</b>	<b>16,490</b>	<b>16,386</b>

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

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

**6. Securities at fair value through profit or loss**

Securities at fair value through profit or loss comprise:

	<u>2020</u>	<u>2019</u>
<b>Held by the Bank</b>		
Corporate bonds	1,119	4,412
<i>from BBB+ to BB-</i>	1,119	4,412
<b>Securities at fair value through profit or loss</b>	<b>1,119</b>	<b>4,412</b>

As at 31 December 2020 and 31 December 2019, there were no securities pledged under repurchase agreements.

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

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(EUR thousand)

**7. Securities at fair value through other comprehensive income**

Securities at fair value through other comprehensive income comprise:

	<b>2020</b>	<b>2019</b>
<b>Held by the Bank</b>		
<i>Internationally rated</i>		
Corporate Eurobonds	68,876	102,349
<i>from AAA to A-</i>	11,256	-
<i>from BBB+ to BB-</i>	35,186	92,477
<i>from B+ to B-</i>	22,434	9,872
Eurobonds of IBEC member countries	51,882	19,354
<i>from AAA to A-</i>	13,373	3,517
<i>from BBB+ to BB-</i>	35,899	11,256
<i>from B+ to B-</i>	2,610	4,581
Eurobonds of international financial institutions	26,681	2,113
<i>from AAA to A-</i>	26,681	2,113
Corporate bonds	19,649	23,651
<i>from BBB+ to BB-</i>	19,649	23,651
Eurobonds of funds	14,350	6,590
<i>from AAA to A-</i>	14,350	6,590
Bonds of IBEC member countries	7,151	-
<i>from AAA to A-</i>	7,151	-
Eurobonds of banks	2,088	2,395
<i>from AAA to A-</i>	-	201
<i>from BBB+ to BB-</i>	2,088	2,194
Bonds of other countries	838	-
<i>from B+ to B-</i>	838	-
Bonds of banks	327	2,550
<i>from BBB+ to BB-</i>	327	2,550
<i>Internally rated only</i>		
Corporate bonds	2,602	-
<i>from B+ to B-</i>	2,602	-
	<b>194,444</b>	<b>159,002</b>
<b>Pledged under repurchase agreements</b>		
<i>Internationally rated</i>		
Eurobonds of IBEC member countries	47,692	15,826
<i>from AAA to A-</i>	4,767	6,464
<i>from BBB+ to BB-</i>	42,925	9,362
Corporate Eurobonds	36,805	21,595
<i>from BBB+ to BB-</i>	36,805	15,852
<i>from B+ to B-</i>	-	5,743
Eurobonds of other countries	4,961	-
<i>from BBB+ to BB-</i>	4,961	-
Eurobonds of international financial institutions	1,267	-
<i>from AAA to A-</i>	1,267	-
Bonds of IBEC member countries	1,137	-
<i>from AAA to A-</i>	1,137	-
Eurobonds of banks	-	6,880
<i>from AAA to A-</i>	-	3,814
<i>from BBB+ to BB-</i>	-	3,066
	<b>91,862</b>	<b>44,301</b>
<b>Securities at fair value through other comprehensive income</b>	<b>286,306</b>	<b>203,303</b>

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(EUR thousand)

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

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

<b>Securities at fair value through other comprehensive income</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Total</b>
<b>Gross carrying amount at 1 January 2020</b>	<b>203,303</b>	<b>–</b>	<b>203,303</b>
New originated or purchased assets	406,122	546	406,668
Transfer to Stage 2	(6,029)	6,029	–
Assets derecognized or redeemed (excluding write-offs)	(318,227)	(465)	(318,692)
Changes in currency exchange rates	(4,973)	–	(4,973)
<b>Gross carrying amount at 31 December 2020</b>	<b>280,196</b>	<b>6,110</b>	<b>286,306</b>
<b>Allowance for expected credit losses at 1 January 2020</b>	<b>794</b>	<b>–</b>	<b>794</b>
New originated or purchased assets	354	–	354
Transfer to Stage 2	(584)	584	–
Assets derecognized or redeemed (excluding write-offs)	(576)	–	(576)
Changes to models and inputs used for ECL calculations	767	(22)	745
Changes in currency exchange rates	(17)	–	(17)
<b>Allowance for expected credit losses at 31 December 2020</b>	<b>738</b>	<b>562</b>	<b>1,300</b>
<b>Gross carrying amount at 1 January 2019</b>	<b>130,747</b>	<b>–</b>	<b>130,747</b>
New originated or purchased assets	299,534	–	299,534
Assets derecognized or redeemed (excluding write-offs)	(228,263)	–	(228,263)
Changes in currency exchange rates	1,285	–	1,285
<b>Gross carrying amount at 31 December 2019</b>	<b>203,303</b>	<b>–</b>	<b>203,303</b>
<b>Allowance for expected credit losses at 1 January 2019</b>	<b>602</b>	<b>–</b>	<b>602</b>
New originated or purchased assets	676	–	676
Assets derecognized or redeemed (excluding write-offs)	(725)	–	(725)
Changes to models and inputs used for ECL calculations	233	–	233
Changes in currency exchange rates	8	–	8
<b>Allowance for expected credit losses at 31 December 2019</b>	<b>794</b>	<b>–</b>	<b>794</b>

Securities at fair value through other comprehensive income comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 91,862 thousand as at 31 December 2020 (31 December 2019: EUR 44,301 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

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

Eurobonds of IBEC member countries are issued in euros and US dollars for circulation on markets external to the issuing country and for trade in over-the-counter markets. Eurobonds mature from December 2022 to September 2050 (31 December 2019: from December 2022 to July 2031), and coupon rates range from 0% to 5.125% p.a. (31 December 2019: from 1% to 5.125% p.a.).

Eurobonds of international financial institutions are denominated in euros and US dollars and are traded on exchange markets external to the issuing country. Eurobonds mature from January 2022 to July 2035 (31 December 2019: October 2020), and coupon rates range from 0% to 0.5% p.a. (31 December 2019: 1.4514% p.a.).

Corporate bonds denominated in Russian rubles and euros were issued by financial institutions of IBEC member countries for circulation on internal markets of the issuing countries and trade on exchange markets. Corporate bonds mature from December 2024 to November 2033 (31 December 2019: from October 2022 to March 2034), and coupon rates range from 1.75% to 6.95% p.a. (31 December 2019: from 1.75% to 9.1% p.a.).

(EUR thousand)

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

Eurobonds of funds are denominated in euros and comprise Eurobonds issued by international finance funds that are traded on exchange markets external to the issuing country. Eurobonds of funds mature from December 2024 to October 2025 (31 December 2019: from January 2020 to July 2023), and the coupon rate is 0% p.a. (31 December 2019: from 0% to 1.5% p.a.).

Bonds of IBEC member countries are denominated in euros for circulation on internal and exchange markets of the issuing countries and for trade on over-the-counter markets, mature in May 2025 and the coupon rate is 0.25% p.a. The Bank does not have such securities as at 31 December 2019.

Eurobonds of banks are debt securities denominated in euros for circulation on markets external to the issuer. Eurobonds of banks mature in June 2025 (31 December 2019: from April 2021 to July 2029), and the coupon rate is 1.375% p.a. (31 December 2019: from 0% to 5.15% p.a.).

Bonds of other countries were issued in Russian rubles for circulation on internal and exchange markets of the issuing countries and for trade on over-the-counter markets, mature in May 2025 and the coupon rate is 8.5% p.a. The Bank does not have such securities as at 31 December 2019.

Bonds of banks are debt securities denominated in Russian rubles for circulation on the domestic markets of the country where the issuer is located. Bonds of banks mature in December 2021 (31 December 2019: from November 2020 to November 2026), and the coupon rate is 5.75% p.a. (31 December 2019: from 7.27% to 8% p.a.).

Eurobonds of other countries are issued in euros, traded on exchange markets external to the issuing country, mature in November 2030 and the coupon rate is 0.5% p.a. The Bank does not have such securities as at 31 December 2019.

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

**8. Securities at amortized cost**

Securities at amortized cost comprise:

	<u>2020</u>	<u>2019</u>
<b>Held by the Bank</b>		
<i>Internationally rated</i>		
Corporate Eurobonds	10,661	22,663
from BBB+ to BB-	-	16,134
from B+ to B-	10,661	6,529
Eurobonds of banks	4,214	17,170
from BBB+ to BB-	-	12,515
from B+ to B-	4,214	4,655
Corporate bonds	668	8,054
from BBB+ to BB-	668	8,054
<i>Internally rated only</i>		
Corporate bonds	3,003	-
from B+ to B-	3,003	-
	<u>18,546</u>	<u>47,887</u>
<b>Pledged under repurchase agreements</b>		
<i>Internationally rated</i>		
Corporate Eurobonds	29,041	9,949
from BBB+ to BB-	29,041	9,949
Eurobonds of banks	12,483	-
from BBB+ to BB-	12,483	-
Eurobonds of IBEC member countries	5,148	5,163
from BBB+ to BB-	5,148	5,163
	<u>46,672</u>	<u>15,112</u>
<b>Total securities at amortized cost</b>	<b>65,218</b>	<b>62,999</b>
Allowance for expected credit losses	(622)	(467)
<b>Securities at amortized cost</b>	<b>64,596</b>	<b>62,532</b>

(EUR thousand)

**8. Securities at amortized cost (continued)**

Securities at amortized cost comprise securities pledged as collateral under repurchase agreements with an amortized cost of EUR 46,460 thousand as at 31 December 2020 (31 December 2019: EUR 15,019 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

Corporate Eurobonds and bonds are debt securities issued in euros, US dollars and Russian rubles by financial and industrial entities of IBEC member countries for circulation on markets internal and external to the issuer and for trade on over-the-counter and exchange markets. Eurobonds mature from May 2021 to February 2028 (31 December 2019: from February 2020 to May 2027), and coupon rates range from 1.5% to 7.75% p.a. (31 December 2019: from 1.5% to 7.75% p.a.). Corporate bonds mature from December 2024 to December 2025 (31 December 2019: from January 2020 to December 2024), and coupon rates range from 1.75% to 6.89% p.a. (31 December 2019: from 1.75% to 9.1% p.a.).

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

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

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

<b>Securities at amortized cost</b>	<b>Stage 1</b>	<b>Total</b>
<b>Gross carrying amount at 1 January 2020</b>	<b>62,999</b>	<b>62,999</b>
New originated or purchased assets	12,452	12,452
Assets derecognized or redeemed (excluding write-offs)	(9,048)	(9,048)
Changes in currency exchange rates	(1,185)	(1,185)
	<b>65,218</b>	<b>65,218</b>
<b>Gross carrying amount at 31 December 2020</b>		
<b>Allowance for expected credit losses at 1 January 2020</b>	<b>467</b>	<b>467</b>
New originated or purchased assets	42	42
Assets derecognized or redeemed (excluding write-offs)	(41)	(41)
Changes to models and inputs used for ECL calculations	175	175
Changes in currency exchange rates	(21)	(21)
	<b>622</b>	<b>622</b>
<b>Allowance for expected credit losses at 31 December 2020</b>		
<b>Gross carrying amount at 1 January 2019</b>	<b>41,034</b>	<b>41,034</b>
New originated or purchased assets	31,318	31,318
Assets derecognized or redeemed (excluding write-offs)	(10,022)	(10,022)
Changes in currency exchange rates	669	669
	<b>62,999</b>	<b>62,999</b>
<b>Gross carrying amount at 31 December 2019</b>		
<b>Allowance for expected credit losses at 1 January 2019</b>	<b>118</b>	<b>118</b>
New originated or purchased assets	157	157
Assets derecognized or redeemed (excluding write-offs)	(13)	(13)
Changes to models and inputs used for ECL calculations	203	203
Changes in currency exchange rates	2	2
	<b>467</b>	<b>467</b>
<b>Allowance for expected credit losses at 31 December 2019</b>		

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

	<b>2020</b>	<b>2019</b>
Credit investment portfolio of securities	32,230	29,635
Securities purchased on capital markets	32,366	32,897
<b>Securities at amortized cost</b>	<b>64,596</b>	<b>62,532</b>

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

(EUR thousand)

**9. Loans and deposits to banks**

Loans and deposits to banks comprise:

	<b>2020</b>	<b>2019</b>
Loans issued to banks under trade financing	74,782	77,805
Term deposits with banks in IBEC member countries	52,497	16,024
Term deposits with banks in other countries	–	3,925
Syndicated loans	38,792	14,078
<b>Total loans and deposits to banks</b>	<b>166,071</b>	<b>111,832</b>
Allowance for expected credit losses	(795)	(889)
<b>Loans and deposits to banks</b>	<b>165,276</b>	<b>110,943</b>

As at 31 December 2020, balances with three major counterparties amounted to EUR 61,991 thousand, or 37.51% of total loans and deposits to banks (31 December 2019: EUR 46,725 thousand, or 42.12% of total loans and deposits to banks).

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

<b>Loans and deposits to banks</b>	<b>2020</b>	<b>2019</b>
Internationally rated		
from BBB+ to BB-	43,404	5,194
from B+ to B-	121,922	76,802
from CCC+ to C	–	27,261
Internally rated only		
from BBB+ to BB-	–	574
from B+ to B-	745	2,001
<b>Total</b>	<b>166,071</b>	<b>111,832</b>
Allowance for expected credit losses	(795)	(889)
<b>Carrying amount</b>	<b>165,276</b>	<b>110,943</b>

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

<b>Loans and deposits to banks</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying amount at 1 January 2020</b>	<b>111,832</b>	–	–	<b>111,832</b>
New originated or purchased assets	307,286	6	–	<b>307,292</b>
Transfer to Stage 2	(12,469)	12,469	–	–
Assets derecognized or redeemed (excluding write-offs)	(236,369)	(10,035)	–	<b>(246,404)</b>
Changes in currency exchange rates	(6,649)	–	–	<b>(6,649)</b>
<b>Gross carrying amount at 31 December 2020</b>	<b>163,631</b>	<b>2,440</b>	–	<b>166,071</b>
<b>Allowance for expected credit losses at 1 January 2020</b>	<b>889</b>	–	–	<b>889</b>
New originated or purchased assets	1,918	–	–	<b>1,918</b>
Transfer to Stage 2	(109)	109	–	–
Assets derecognized or redeemed (excluding write-offs)	(368)	(86)	–	<b>(454)</b>
Changes to models and inputs used for ECL calculations	(1,504)	–	–	<b>(1,504)</b>
Changes in currency exchange rates	(54)	–	–	<b>(54)</b>
<b>Allowance for expected credit losses at 31 December 2020</b>	<b>772</b>	<b>23</b>	–	<b>795</b>

(EUR thousand)

**9. Loans and deposits to banks (continued)**

<i>Loans and deposits to banks</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Gross carrying amount at 1 January 2019</b>	<b>51,327</b>	–	11	<b>51,338</b>
New originated or purchased assets	204,929	–	–	<b>204,929</b>
Assets derecognized or redeemed (excluding write-offs)	(145,074)	–	(11)	<b>(145,085)</b>
Changes in currency exchange rates	650	–	–	<b>650</b>
<b>Gross carrying amount at 31 December 2019</b>	<b>111,832</b>	–	–	<b>111,832</b>
<b>Allowance for expected credit losses at 1 January 2019</b>	<b>227</b>	–	11	<b>238</b>
New originated or purchased assets	1,812	–	–	<b>1,812</b>
Assets derecognized or redeemed (excluding write-offs)	(312)	–	(11)	<b>(323)</b>
Changes to models and inputs used for ECL calculations	(841)	–	–	<b>(841)</b>
Changes in currency exchange rates	3	–	–	<b>3</b>
<b>Allowance for expected credit losses at 31 December 2019</b>	<b>889</b>	–	–	<b>889</b>

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

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

**10. Loans to corporate customers**

Loans to corporate customers comprise:

	<i>2020</i>	<i>2019</i>
Loans issued to legal entities from IBEC member countries	102,330	83,208
Syndicated loans issued to legal entities from other countries	45,028	27,682
Loans for foreign trade purposes issued to legal entities from IBEC member countries	40,323	40,010
Syndicated loans issued to legal entities from IBEC member countries	13,794	36,545
<b>Total loans to corporate customers</b>	<b>201,475</b>	<b>187,445</b>
Allowance for expected credit losses	(2,432)	(377)
<b>Loans to corporate customers less allowance for expected credit losses</b>	<b>199,043</b>	<b>187,068</b>

As at 31 December 2020, the Bank introduced some amendments to the process of estimating expected credit losses, i.e. the Bank updated forecast information, including macroeconomic forecasts and scenario weights. The review of these indicators had an insignificant effect on allowances for expected credit losses.

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

	<i>2020</i>		<i>2019</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Transport	59,558	29.92	12,830	6.86
Gas industry	39,972	20.08	50,012	26.73
Food industry	37,776	18.98	–	–
Investment activities (leases)	28,282	14.21	28,021	14.98
Finance	14,983	7.53	–	–
Aluminum industry	6,324	3.18	9,002	4.81
Investing activities	4,998	2.51	–	–
Retail trade	4,722	2.37	5,034	2.69
Telecommunications	2,428	1.22	22,369	11.96
Power industry	–	–	39,953	21.36
Pharmaceuticals	–	–	19,847	10.61
<b>Total loans to corporate customers</b>	<b>199,043</b>	<b>100</b>	<b>187,068</b>	<b>100</b>

(EUR thousand)

**10. Loans to corporate customers (continued)**

As at 31 December 2020, balances with three major counterparties of the Bank amounted to EUR 115,309 thousand, or 57.93% of the Bank's total loan portfolio less allowance for expected credit losses (31 December 2019: EUR 110,267 thousand, or 58.94% of the Bank's total loan portfolio less allowance for expected credit losses).

Loans are issued to customers operating in the following countries:

	<b>2020</b>	<b>2019</b>
Republic of Bulgaria	59,953	58,518
Mongolia	39,649	–
Russian Federation	27,942	68,909
Republic of Poland	14,212	4,177
Romania	13,474	27,900
Hungary	–	19,847
Other countries	43,813	7,717
<b>Total</b>	<b>199,043</b>	<b>187,068</b>

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

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

<b>Loans to corporate customers</b>	<b>2020</b>	<b>2019</b>
Internationally rated from BBB+ to BB-	62,503	42,807
Internally rated only from AAA to A-	–	4,178
from BBB+ to BB-	83,560	140,460
from B+ to B-	55,412	–
<b>Total</b>	<b>201,475</b>	<b>187,445</b>
Allowance for expected credit losses	(2,432)	(377)
<b>Carrying amount</b>	<b>199,043</b>	<b>187,068</b>

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

<b>Loans to corporate customers</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying amount at 1 January 2020</b>	<b>179,611</b>	<b>7,834</b>	<b>–</b>	<b>187,445</b>
New originated or purchased assets	176,696	848	499	178,043
Transfers from Stage 1 to Stage 2	(14,058)	14,058	–	–
Transfers from Stage 2 to Stage 3	–	(7,834)	7,834	–
Assets derecognized or redeemed (excluding write-offs)	(155,902)	(2,473)	(408)	(158,783)
Changes in currency exchange rates	(3,474)	(1,071)	(685)	(5,230)
<b>Gross carrying amount at 31 December 2020</b>	<b>182,873</b>	<b>11,362</b>	<b>7,240</b>	<b>201,475</b>
<b>Allowance for expected credit losses at 1 January 2020</b>	<b>260</b>	<b>117</b>	<b>–</b>	<b>377</b>
New originated or purchased assets	1,191	–	–	1,191
Transfers from Stage 1 to Stage 2	(21)	21	–	–
Transfers from Stage 2 to Stage 3	–	(117)	117	–
Assets derecognized or redeemed (excluding write-offs)	(210)	–	–	(210)
Changes to models and inputs used for ECL calculations	(302)	304	1,133	1,135
Changes in currency exchange rates	(4)	(10)	(47)	(61)
<b>Allowance for expected credit losses at 31 December 2020</b>	<b>914</b>	<b>315</b>	<b>1,203</b>	<b>2,432</b>

(EUR thousand)

**10. Loans to corporate customers (continued)**

<i>Loans to corporate customers</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Gross carrying amount at 1 January 2019</b>	<b>74,989</b>	<b>8,814</b>	–	<b>83,803</b>
New originated or purchased assets	117,259	575	–	<b>117,834</b>
Assets derecognized or redeemed (excluding write-offs)	(13,088)	(1,750)	–	<b>(14,838)</b>
Changes in currency exchange rates	451	195	–	<b>646</b>
<b>Gross carrying amount at 31 December 2019</b>	<b>179,611</b>	<b>7,834</b>	–	<b>187,445</b>
<b>Allowance for expected credit losses at 1 January 2019</b>	<b>311</b>	<b>155</b>	–	<b>466</b>
New originated or purchased assets	135	–	–	<b>135</b>
Assets derecognized or redeemed (excluding write-offs)	–	(1)	–	<b>(1)</b>
Changes to models and inputs used for ECL calculations	(190)	(40)	–	<b>(230)</b>
Changes in currency exchange rates	4	3	–	<b>7</b>
<b>Allowance for expected credit losses at 31 December 2019</b>	<b>260</b>	<b>117</b>	–	<b>377</b>

In 2020, the Bank sold to an unrelated party its loan receivable previously recognized by the Council of the Bank as bad debt. Total outstanding loan receivable of EUR 15,749 thousand (including past due interest receivable of EUR 1,565 thousand and fines of EUR 3,164 thousand) was previously written off as expenses against the Bank's provision. The selling price was EUR 3,500 thousand. It was recognized as other banking income in the statement of profit or loss and other comprehensive income.

**Collateral and other credit enhancements**

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

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

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

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

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

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

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(EUR thousand)

**10. Loans to corporate customers (continued)****Collateral and other credit enhancements (continued)**

Collateral obtained for loans to corporate customers comprises:

	<u>2020</u>	<u>2019</u>
Loans secured by pledge of (movable) property	60,437	21,075
Loans guaranteed by other parties, including credit insurance	39,626	11,123
Loans secured by real estate	16,742	57,472
Loans secured by deposits	8,098	50,012
Unsecured loans	74,140	47,386
<b>Total loans to corporate customers</b>	<b><u>199,043</u></b>	<b><u>187,068</u></b>

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

As at 31 December 2020 the Bank has modified the terms and conditions of loans to two borrowers, including introduction of payment holidays, as part of the measures related to consequences of COVID-19 pandemic (31 December 2019: no modified nor restructured loans). The Bank considered effect from these modifications to be insignificant.

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

**11. Derivative financial instruments**

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

	<i>Notional principal</i>	<i>Fair value</i>	
		<i>Asset</i>	<i>Liability</i>
<b>2020</b>			
<b>Foreign exchange contracts</b>			
Derivative financial instruments (contracts with residents of IBEC member countries)	44,173	341	605
Derivative financial instruments (contracts with residents other countries)	3,291	34	–
<b>Cross-currency interest rate contracts used as hedging instruments</b>			
Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments	111,948	–	19,195
Derivative financial instruments (contracts with residents of other countries) used as hedging instruments	38,498	–	6,220
<b>Total derivative assets/liabilities</b>		<b><u>375</u></b>	<b><u>26,020</u></b>
<b>2019</b>			
<b>Cross-currency interest rate contracts</b>			
Derivative financial instruments (contracts with residents of IBEC member countries)	24,662	1,968	–
<b>Foreign exchange contracts</b>			
Derivative financial instruments (contracts with residents of IBEC member countries)	19,824	–	1,800
<b>Cross-currency interest rate contracts used as hedging instruments</b>			
Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments	73,691	3,721	–
<b>Total derivative assets/liabilities</b>		<b><u>5,689</u></b>	<b><u>1,800</u></b>

(EUR thousand)

**11. Derivative financial instruments (continued)**

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

	2020		2019	
	<i>Contracts with positive fair value</i>	<i>Contracts with negative fair value</i>	<i>Contracts with positive fair value</i>	<i>Contracts with negative fair value</i>
<b>Cross-currency interest rate swaps: fair value at the end of the reporting period</b>				
- USD payable on settlement (-)	-	-	19,016	-
- RUB receivable on settlement (+)	-	-	25,738	-
- EUR payable on settlement (-)	-	-	4,754	-
<b>Foreign exchange swaps: fair value at the end of the reporting period</b>				
- USD payable on settlement (-)	-	12,150	-	16,724
- EUR receivable on settlement (+)	28,656	18,500	-	17,319
- Payable in other currencies on settlement (-)	28,281	6,955	-	2,395
<b>Cross-currency interest rate swaps used as hedging instruments: fair value at the end of the reporting period</b>				
- EUR payable on settlement (-)	-	157,285	76,990	-
- RUB receivable on settlement (+)	-	131,870	80,711	-
<b>Net fair value of interest rate, foreign exchange and cross-currency interest rate swaps</b>	<b>375</b>	<b>(26,020)</b>	<b>5,689</b>	<b>(1,800)</b>

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

**Cash flow hedges**

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

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

In 2020 and 2019, the Bank designated the following financial liabilities as hedged items in cash flow hedge relationships:

<b>Cash flow hedges</b>	<b>Cash flow hedge reserve</b>	
	<b>Continuing hedges</b>	<b>Discontinued hedges</b>
<b>2020</b>		
RUB-denominated bonds with a fixed interest rate	621	-
<b>2019</b>		
RUB-denominated bonds with a fixed interest rate	893	-

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

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

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

(EUR thousand)

**11. Derivative financial instruments (continued)****Cash flow hedges (continued)**

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

	Notional principal	Carrying amount			Changes in the fair values of hedging instruments used for measuring hedge ineffectiveness			Reclassified to profit or loss in		
		Assets	Liabilities	Total	Effective portion	Effective portion	Hedge ineffectiveness	Recognized in the statement of profit or loss within net (losses) gains	Interest income (expense) calculated using the EIR method	Net (losses) gains from operations with derivative financial instruments and foreign currency
<b>2020</b>										
Cross-currency interest rate swaps	150,446	–	25,415	<b>(22,300)</b>	(21,650)	(750)	100	<b>6,114</b>	<b>(27,674)</b>	<b>(568)</b>
<b>2019</b>										
Cross-currency interest rate swaps	73,691	3,721	–	<b>4,115</b>	4,536	(353)	(68)	<b>1,146</b>	<b>2,232</b>	<b>(88)</b>

The cumulative amount of the change in the fair value of the hedged item amounted to EUR (17,114) thousand as at 31 December 2020 (31 December 2019: EUR 4,536 thousand). The cumulative amount of the change in the fair value of the hedging instrument, excluding basis currency spread, amounted to EUR (17,953) thousand as at 31 December 2020 (31 December 2019: EUR 4,590 thousand). In 2020 and 2019, the effective portion of hedging relationships recognized in other comprehensive income (cash flow hedge reserve, excluding basis currency spread) was adjusted to the smallest of the two amounts.

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(EUR thousand)

**11. Derivative financial instruments (continued)****Cash flow hedges (continued)**

The table below shows the maturity and interest rate risk profiles of the Bank's hedging instruments used in its cash flow hedges:

<i>Cash flow hedges</i>	<i>12 months to 5 years</i>	<i>Total</i>
<b>2020</b>		
Cross-currency interest rate swaps		
Notional principal	150,446	<b>150,446</b>
Average fixed interest rate, EUR	1.24%	<b>1.24%</b>
Average fixed interest rate, RUB	7.14%	<b>7.14%</b>
Average EUR/RUB exchange rate	0.0123	<b>0.0123</b>
<b>2019</b>		
Cross-currency interest rate swaps		
Notional principal	73,691	<b>73,691</b>
Average fixed interest rate, EUR	1.1%	<b>1.1%</b>
Average fixed interest rate, RUB	7.9%	<b>7.9%</b>
Average EUR/RUB exchange rate	0.0142	<b>0.0142</b>

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

<i>Cash flow hedges</i>	<i>Cash flow hedge reserve net of basis currency spread</i>	<i>Basis currency spread</i>
<b>Balance at 1 January 2020</b>	<b>1,158</b>	<b>(265)</b>
Effective portion of changes in the fair value of cross-currency interest rate swaps	(21,650)	(750)
Net amounts reclassified to profit or loss:		
- interest expense	(6,114)	-
- net gains (losses) from operations with derivative financial instruments and foreign currency	27,674	568
<b>Balance at 31 December 2020</b>	<b>1,068</b>	<b>(447)</b>
<b>Balance at 1 January 2019</b>	<b>-</b>	<b>-</b>
Effective portion of changes in the fair value of cross-currency interest rate swaps	4,536	(353)
Net amounts reclassified to profit or loss:		
- interest expense	(1,146)	-
- net gains (losses) from operations with derivative financial instruments and foreign currency	(2,232)	88
<b>Balance at 31 December 2019</b>	<b>1,158</b>	<b>(265)</b>

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(EUR thousand)

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

Movements in property, plant and equipment for 2020 were as follows:

2020	Note	Building	Office equipment and computer hardware	Furniture	Transport	Intangible assets and investments in intangible assets	Right-of-use assets	Total
<b>Cost</b>								
Balance at 1 January 2020		78,386	1,632	557	568	1,605	25	82,773
Additions		54	485	-	-	268	1	808
Disposals		-	(556)	(39)	-	-	-	(595)
Revaluation		(5,231)	-	-	-	-	-	(5,231)
<b>Balance at 31 December 2020</b>		<b>73,209</b>	<b>1,561</b>	<b>518</b>	<b>568</b>	<b>1,873</b>	<b>26</b>	<b>77,755</b>
<b>Accumulated depreciation</b>								
Balance at 1 January 2020		23,750	1,371	340	296	1	2	25,760
Depreciation charges for year	21	1,033	110	16	79	1	5	1,244
Disposals		-	(556)	(30)	-	-	-	(586)
Revaluation		(1,652)	-	-	-	-	-	(1,652)
<b>Balance at 31 December 2020</b>		<b>23,131</b>	<b>925</b>	<b>326</b>	<b>375</b>	<b>2</b>	<b>7</b>	<b>24,766</b>
<b>Net book value</b>								
Net book value at 1 January 2020		54,636	261	217	272	1,604	23	57,013
Net book value at 31 December 2020		50,078	636	192	193	1,871	19	52,989

Movements in property, plant and equipment for 2019 were as follows:

2019	Note	Building	Office equipment and computer hardware	Furniture	Transport	Intangible assets and investments in intangible assets	Right-of-use assets	Total
<b>Cost</b>								
Balance at 1 January 2019		100,859	1,455	577	568	-	-	103,459
Additions		142	198	52	-	1,605	25	2,022
Disposals		(22,615)	(21)	(72)	-	-	-	(22,708)
<b>Balance at 31 December 2019</b>		<b>78,386</b>	<b>1,632</b>	<b>557</b>	<b>568</b>	<b>1,605</b>	<b>25</b>	<b>82,773</b>
<b>Accumulated depreciation</b>								
Balance at 1 January 2019		29,312	1,310	375	215	-	-	31,212
Depreciation charges for year	21	1,255	82	23	81	1	2	1,444
Disposals		(6,817)	(21)	(58)	-	-	-	(6,896)
<b>Balance at 31 December 2019</b>		<b>23,750</b>	<b>1,371</b>	<b>340</b>	<b>296</b>	<b>1</b>	<b>2</b>	<b>25,760</b>
<b>Net book value</b>								
Net book value at 1 January 2019		71,547	145	202	353	-	-	72,247
Net book value at 31 December 2019		54,636	261	217	272	1,604	23	57,013

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

	2020	2019
<b>Cost</b>	<b>48,290</b>	<b>48,235</b>
Accumulated depreciation	(15,238)	(14,573)
<b>Net book value</b>	<b>33,052</b>	<b>33,662</b>

(EUR thousand)

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

As at 31 December 2020, an independent assessment of the fair value of the buildings was performed by an independent firm of professional appraisers with required qualifications and relevant professional experience in the valuation of property of a similar category and in a similar location.

In 2019, the Bank did not engage an independent appraiser for the independent assessment of the fair value of the building. Management of the Bank performed an analysis and concluded that there were no significant changes in the real estate market and in the condition of the building in 2019. In addition, in 2019, the Bank sold part of the building.

To revalue the building, the market method and the income capitalization method were used.

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

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

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

The Bank expects to receive the following operating lease payments after 31 December 2020: within 30 days: EUR 183 thousand; 31 days to 180 days: EUR 910 thousand; 181 days to one year: EUR 628 thousand; over one year to 3 years: EUR 139 thousand.

**13. Other assets and liabilities**

Other assets comprise:

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Financial assets</b>			
Margin call		26,750	1,778
Accounts receivable under financial and business operations		478	446
Consumer lending		313	293
Bank fees receivable from customers		139	28
Allowance for expected credit losses from financial assets	22	(3)	(7)
<b>Total financial assets less allowance for expected credit losses</b>		<b>27,677</b>	<b>2,538</b>
<b>Non-financial assets</b>			
Property transferred to the Bank in repayment of the loan		103	103
Inventories		56	48
<b>Total non-financial assets</b>		<b>159</b>	<b>151</b>
<b>Total other assets</b>		<b>27,836</b>	<b>2,689</b>

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

Other liabilities comprise:

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Financial liabilities</b>			
Settlements under financial and business operations		1,941	5,180
Contributions to social security funds		1,786	1,218
Advances received		241	85
Lease liabilities		19	23
Other accrued liabilities		–	11
<b>Total financial liabilities</b>		<b>3,987</b>	<b>6,517</b>
<b>Non-financial liabilities</b>			
Allowance for expected credit losses from credit-related commitments	17, 22	384	154
Provision for unused vacations	23	181	99
Allowance for litigation charges	23	11	11
<b>Total non-financial liabilities</b>		<b>576</b>	<b>264</b>
		<b>4,563</b>	<b>6,781</b>

(EUR thousand)

**14. Due to credit institutions**

Amounts due to credit institutions comprise:

	<u>2020</u>	<u>2019</u>
Repurchase agreements	121,413	54,205
Loans from banks in IBEC member countries	74,382	59,278
Long-term related financing from banks of IBEC member countries	39,740	–
Loans from banks in other countries	26,919	4,599
Loans from international financial institutions	13,546	1,010
Long-term financing from banks in other countries	9,929	9,920
Correspondent accounts of banks from IBEC member countries	577	370
Correspondent accounts with banks in other countries	1	–
<b>Due to credit institutions</b>	<b><u>286,507</u></b>	<b><u>129,382</u></b>

As at 31 December 2020, balances due to three major counterparties amounted to EUR 133,366 thousand, or 46.55% of total amounts due to credit institutions (31 December 2019: EUR 70,364 thousand due to three major counterparties, or 54.38% of total amounts due to credit institutions).

The Bank entered into repurchase agreements with banks in IBEC member countries and banks in other countries with encumbrances on securities with a fair value of EUR 138,322 thousand as at 31 December 2020 (31 December 2019: EUR 59,320 thousand) (Notes 7, 8).

**Transferred financial assets not derecognized**

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

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Carrying amount of transferred assets – securities at fair value through other comprehensive income	7	91,862	44,301
Carrying amount of transferred assets – securities at amortized cost	8	46,460	15,019
Carrying amount of associated liabilities – due to credit institutions		(121,413)	(54,205)

The Bank transfers securities under repurchase agreements to a third party for cash or other financial assets and does not derecognize them. In certain circumstances, when the value of securities increases, the Bank may demand additional financing. If the value of securities decreases, the Bank may have to provide additional collateral in the form of securities or partially repay the cash received. The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

**15. Due to customers**

Amounts due to customers comprise:

	<u>2020</u>	<u>2019</u>
Deposits of organizations in IBEC member countries	31,321	82,357
Amounts due to the Fund	7,809	–
Current accounts of organizations in IBEC member countries	3,090	9,437
Current accounts of organizations in other countries	475	449
Other current accounts	4,540	5,023
<b>Due to customers</b>	<b><u>47,235</u></b>	<b><u>97,266</u></b>

As at 31 December 2020, balances due to three major customers of the Bank amounted to EUR 38,506 thousand, or 81.52% of total amounts due to customers (31 December 2019: EUR 88,754 thousand, or 91.25% of total amounts due to customers).

Amounts due to the Fund represent amounts due to the International Fund for Technological Development held in a fiduciary capacity at the end of 2020.

(EUR thousand)

**15. Due to customers (continued)**

An analysis of amounts due to customers (entities) excluded other current accounts and amounts due to the Fund by industry is as follows:

	2020		2019	
	Amount	%	Amount	%
Power industry	22,597	64.8	30,175	32.7
Gas industry	8,100	23.2	50,882	55.2
Pharmaceuticals	1,027	2.9	712	0.8
Construction	920	2.6	7,714	8.4
Finance	825	2.4	874	0.9
Manufacturing	702	2.0	326	0.3
Research	159	0.5	843	0.9
Trade	107	0.3	235	0.3
Transport	49	0.1	205	0.2
Other	400	1.2	277	0.3
<b>Total due to customers</b>	<b>34,886</b>	<b>100</b>	<b>92,243</b>	<b>100</b>

**16. Debt securities issued**

Debt securities issued comprise:

	2020	2019
RUB-denominated bonds	133,694	102,526
<b>Debt securities issued</b>	<b>133,694</b>	<b>102,526</b>

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

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

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

**17. Credit-related commitments**

Credit-related commitments comprise the following:

	2020	2019
Loan commitments	69,978	18,448
Guarantees issued	36,954	24,502
Reimbursement obligations	25,890	17,080
Letters of credit	7,434	2,073
<b>Total credit-related commitments</b>	<b>140,256</b>	<b>62,103</b>
Allowance for expected credit losses (Notes 13, 22)	(384)	(154)
<b>Credit-related commitments</b>	<b>139,872</b>	<b>61,949</b>

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

	2020	2019
Russian Federation	85,139	28,673
Mongolia	9,663	1,416
Romania	5,796	1,673
Republic of Bulgaria	5,000	-
Czech Republic	2,052	-
Republic of Poland	981	12,568
Other countries	31,241	17,619
<b>Total</b>	<b>139,872</b>	<b>61,949</b>

*(EUR thousand)***17. Credit-related commitments (continued)**

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

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

<b><i>Credit-related commitments</i></b>	<b><i>Stage 1</i></b>	<b><i>Total</i></b>
<b>Amount of commitments at 1 January 2020</b>	<b>62,103</b>	<b>62,103</b>
New exposures	320,547	<b>320,547</b>
Exposures expired or amounts paid	(236,041)	<b>(236,041)</b>
Changes in currency exchange rates	(6,353)	<b>(6,353)</b>
	<b>140,256</b>	<b>140,256</b>
<b>Amount of commitments at 31 December 2020</b>		
<b>Allowance for expected credit losses at 1 January 2020</b>	<b>154</b>	<b>154</b>
New exposures	1,171	<b>1,171</b>
Exposures expired or amounts paid	(812)	<b>(812)</b>
Changes to models and inputs used for ECL calculations	(116)	<b>(116)</b>
Changes in currency exchange rates	(13)	<b>(13)</b>
	<b>384</b>	<b>384</b>
<b>Allowance for expected credit losses at 31 December 2020</b>		
<b>Amount of commitments at 1 January 2019</b>	<b>38,639</b>	<b>38,639</b>
New exposures	79,844	<b>79,844</b>
Exposures expired or amounts paid	(60,401)	<b>(60,401)</b>
Changes in currency exchange rates	4,021	<b>4,021</b>
	<b>62,103</b>	<b>62,103</b>
<b>Amount of commitments at 31 December 2019</b>		
<b>Allowance for expected credit losses at 1 January 2019</b>	<b>36</b>	<b>36</b>
New exposures	158	<b>158</b>
Exposures expired or amounts paid	(23)	<b>(23)</b>
Changes to models and inputs used for ECL calculations	(21)	<b>(21)</b>
Changes in currency exchange rates	4	<b>4</b>
	<b>154</b>	<b>154</b>
<b>Allowance for expected credit losses at 31 December 2019</b>		

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

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

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

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

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

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

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

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(EUR thousand)

**18. Interest income and interest expense**

	<u>2020</u>	<u>2019</u>
<b>Interest income</b>		
<b><i>Interest income calculated using the EIR method</i></b>		
Loans to corporate customers	5,764	3,530
Securities at fair value through other comprehensive income	4,993	4,737
Loans and deposits to banks	4,814	2,762
- loans issued to banks under trade financing	2,295	1,745
- syndicated loans	1,307	78
- term deposits with banks	1,212	939
Securities at amortized cost	2,253	2,062
Other	12	5
<b><i>Other interest income</i></b>		
Securities at fair value through profit or loss	447	738
<b>Total interest income</b>	<u><b>18,283</b></u>	<u><b>13,834</b></u>
<b>Interest expense</b>		
<b><i>Interest expense calculated using the EIR method</i></b>		
Due to customers	(2,556)	(1,540)
Debt securities issued	(2,452)	(625)
Due to credit institutions	(1,494)	(2,527)
Lease liabilities	(2)	(1)
Other	(24)	(2)
<b>Total interest expense</b>	<u><b>(6,528)</b></u>	<u><b>(4,695)</b></u>
<b>Net interest income</b>	<u><u><b>11,755</b></u></u>	<u><u><b>9,139</b></u></u>

**19. Net fee and commission income**

	<u>2020</u>	<u>2019</u>
Documentary operations	587	306
Fiduciary operations	120	-
Fee for servicing a loan/credit facility	110	166
Cash and settlement operations	80	90
Accounts maintenance	47	58
Currency control	45	38
Other	13	-
<b>Fee and commission income</b>	<u><b>1,002</b></u>	<u><b>658</b></u>
Fee and commission expense	(213)	(136)
<b>Net fee and commission income</b>	<u><u><b>789</b></u></u>	<u><u><b>522</b></u></u>

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

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

	<u>2020</u>	<u>2019</u>
Result from disposal of debt securities	5,909	4,726
<b>Total net gains from operations with securities at fair value through other comprehensive income</b>	<u><u><b>5,909</b></u></u>	<u><u><b>4,726</b></u></u>

The gain from the revaluation of securities at fair value through other comprehensive income due to their disposal during 2020 is reclassified from other comprehensive income to net gains from operations with securities at fair value through other comprehensive income in the amount of EUR 6,118 thousand (2019: EUR 4,787 thousand).

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*(EUR thousand)***21. Administrative and management expenses**

	<b>2020</b>	<b>2019</b>
Staff costs	9,942	8,687
Repair and maintenance of the building, equipment and apartments	1,796	1,761
Depreciation of property, plant and equipment	1,244	1,444
Information and advisory expenses	373	355
Building security expenses	290	338
Other administrative and management expenses	1,044	1,583
<b>Total administrative and management expenses</b>	<b>14,689</b>	<b>14,168</b>

Staff costs comprise contributions to:

	<b>2020</b>	<b>2019</b>
Pension Fund of the Russian Federation	765	717
Compulsory Medical Insurance Fund of the Russian Federation	281	257
Pension funds of other IBEC member countries	60	42
Social Insurance Fund of the Russian Federation	–	14
<b>Total</b>	<b>1,106</b>	<b>1,030</b>

**22. Allowances for expected credit losses**

The tables below show (gains) losses associated with allowances for expected credit losses from financial assets recognized in profit or loss for 2020 and 2019:

<b>2020</b>	<b>Note</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Securities at fair value through other comprehensive income	7	545	(22)	–	523
Securities at amortized cost	8	176	–	–	176
Loans and deposits to banks	9	46	(86)	–	(40)
Loans to corporate customers	10	679	304	1,133	2,116
Credit-related commitments	17	243	–	–	243
Other financial assets	13	3	–	–	3
		<b>1,692</b>	<b>196</b>	<b>1,133</b>	<b>3,021</b>

<b>2019</b>	<b>Note</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Securities at fair value through other comprehensive income	7	184	–	–	184
Securities at amortized cost	8	347	–	–	347
Loans and deposits to banks	9	659	–	(11)	648
Loans to corporate customers	10	(55)	(41)	–	(96)
Credit-related commitments	17	114	–	–	114
Other financial assets	13	6	–	–	6
		<b>1,255</b>	<b>(41)</b>	<b>(11)</b>	<b>1,203</b>

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(EUR thousand)

**22. Allowances for expected credit losses (continued)**

The reconciliation of balances of the allowance for expected credit losses from financial assets as at 31 December 2020 and 31 December 2019 is presented below:

	<i>Securities at fair value through other comprehensive income</i>	<i>Securities at amortized cost</i>	<i>Loans and deposits to banks</i>	<i>Loans to corporate customers</i>	<i>Credit-related commitments</i>	<i>Other financial assets</i>	<i>Total</i>
<b>Balance at 1 January 2020</b>	<b>794</b>	<b>467</b>	<b>889</b>	<b>377</b>	<b>154</b>	<b>7</b>	<b>2,688</b>
New originated or purchased assets	354	42	1,918	1,191	1,171	5	<b>4,681</b>
Assets derecognized or redeemed (excluding write-offs)	(576)	(41)	(454)	(210)	(812)	(2)	<b>(2,095)</b>
Changes to models and inputs used for ECL calculations	745	175	(1,504)	1,135	(116)	–	<b>435</b>
Write-offs	–	–	–	–	–	(7)	<b>(7)</b>
Changes in currency exchange rates	(17)	(21)	(54)	(61)	(13)	–	<b>(166)</b>
<b>Balance at 31 December 2020</b>	<b>1,300</b>	<b>622</b>	<b>795</b>	<b>2,432</b>	<b>384</b>	<b>3</b>	<b>5,536</b>
<b>Balance at 1 January 2019</b>	<b>602</b>	<b>118</b>	<b>238</b>	<b>466</b>	<b>36</b>	<b>11</b>	<b>1,471</b>
New originated or purchased assets	676	157	1,812	135	158	13	<b>2,951</b>
Assets derecognized or redeemed (excluding write-offs)	(725)	(13)	(323)	(1)	(23)	(7)	<b>(1,092)</b>
Changes to models and inputs used for ECL calculations	233	203	(841)	(230)	(21)	–	<b>(656)</b>
Write-offs	–	–	–	–	–	(10)	<b>(10)</b>
Changes in currency exchange rates	8	2	3	7	4	–	<b>24</b>
<b>Balance at 31 December 2019</b>	<b>794</b>	<b>467</b>	<b>889</b>	<b>377</b>	<b>154</b>	<b>7</b>	<b>2,688</b>

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(EUR thousand)

**23. Other provisions**

Movements in other provisions are presented below:

	<i>Provisions for legal claims</i>	<i>Provision for unused vacations</i>	<i>Total</i>
<b>1 January 2020</b>	<b>11</b>	<b>99</b>	<b>110</b>
Charge	–	93	<b>93</b>
Write-offs	–	(11)	<b>(11)</b>
	<b>11</b>	<b>181</b>	<b>192</b>
<b>31 December 2020</b>			
<b>1 January 2019</b>	<b>11</b>	<b>119</b>	<b>130</b>
Charge	–	38	<b>38</b>
Write-offs	–	(58)	<b>(58)</b>
	<b>11</b>	<b>99</b>	<b>110</b>
<b>31 December 2019</b>			

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

**24. Risk management****Introduction**

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

**Risk management structure**

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

*Council of the Bank*

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

*Board of the Bank*

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

*Credit Committee (CC)*

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

*Assets, Liabilities and Risk Management Committee (ALRMC)*

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

*Risk Control Department (RCD)*

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

(EUR thousand)

## 24. Risk management (continued)

### Risk management structure (continued)

#### *Internal Audit Department (IAD)*

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

### Risk measurement and reporting systems

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

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

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

### Risk mitigation

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

### Excessive risk concentration

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

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

### Credit risk

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

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

The Bank considers credit ratings assigned by S&P, Moody's, and Fitch agencies to manage the credit quality of its financial assets. If no external rating is available, the Bank determines its internal credit rating on the basis of the sovereign rating ceiling. In addition to the analysis of the financial standing of counterparties, the Bank also analyzes cash flows and prepares cash flow models for its corporate lending transactions.

The Bank manages credit risk through regular analysis of the ability of its customers and counterparties to discharge their principal and interest repayment obligations. The Bank's customers/counterparties are regularly monitored; their cash flow models are controlled and clarified, their financial positions are reviewed for compliance with the assigned internal credit ratings, and, where necessary, respective adjustments are made.

The credit quality review process allows the Bank to assess potential losses on risks to which it is exposed and take appropriate mitigation actions. In addition, credit risk is further mitigated by obtaining collateral, guarantees (including state guarantees) and warranties from legal entities and individuals.

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

(EUR thousand)

## 24. Risk management (continued)

### Credit risk (continued)

#### *Risks associated with credit-related commitments*

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

#### *Definition of default*

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

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

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

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

#### *Significant increase in credit risk*

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

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

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

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

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

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

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

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

(EUR thousand)

## 24. Risk management (continued)

### Credit risk (continued)

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

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

### Credit risk levels (grades)

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

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

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

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

### Creating a term structure of probability of default

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

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

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

(EUR thousand)

## 24. Risk management (continued)

### Credit risk (continued)

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

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

#### *Inputs for measuring expected credit losses*

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

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

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

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

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

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

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

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

#### *Forward-looking information*

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

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

(EUR thousand)

**24. Risk management (continued)****Credit risk (continued)**

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

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

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

*Credit quality per class of financial assets*

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

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

The table below shows the credit quality of assets exposed to credit risk (by three stages of impairment) by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available) as at 31 December 2020:

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Total</b>
<b>Cash and cash equivalents (other than cash on hand)</b>				
<i>Due from central banks</i>	9,276	-	-	<b>9,276</b>
<i>Correspondent accounts with internationally rated banks</i>	7,200	-	-	<b>7,200</b>
<i>Correspondent accounts with banks having internal credit ratings only</i>	14	-	-	<b>14</b>
<b>Total</b>	<b>16,490</b>	<b>-</b>	<b>-</b>	<b>16,490</b>
Allowance for expected credit losses	-	-	-	-
<b>Carrying amount</b>	<b>16,490</b>	<b>-</b>	<b>-</b>	<b>16,490</b>

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(EUR thousand)

**24. Risk management (continued)****Credit risk (continued)**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Total</b>
<b>Securities at fair value through other comprehensive income</b>				
<b>- held by the Bank</b>				
<i>Internationally rated</i>	185,732	6,110	-	191,842
<i>Internally rated only</i>	2,602	-	-	2,602
<b>Carrying amount</b>	<b>188,334</b>	<b>6,110</b>	<b>-</b>	<b>194,444</b>
<b>Allowance for expected credit losses</b>	<b>(560)</b>	<b>(562)</b>	<b>-</b>	<b>(1,122)</b>
<b>- pledged under repurchase agreements</b>				
<i>Internationally rated</i>	91,862	-	-	91,862
<b>Carrying amount</b>	<b>91,862</b>	<b>-</b>	<b>-</b>	<b>91,862</b>
<b>Allowance for expected credit losses</b>	<b>(178)</b>	<b>-</b>	<b>-</b>	<b>(178)</b>
<b>Securities at amortized cost</b>				
<b>- held by the Bank</b>				
<i>Internationally rated</i>	15,543	-	-	15,543
<i>Internally rated only</i>	3,003	-	-	3,003
<b>Total</b>	<b>18,546</b>	<b>-</b>	<b>-</b>	<b>18,546</b>
Allowance for expected credit losses	(410)	-	-	(410)
<b>Carrying amount</b>	<b>18,136</b>	<b>-</b>	<b>-</b>	<b>18,136</b>
<b>- pledged under repurchase agreements</b>				
<i>Internationally rated</i>	46,672	-	-	46,672
<b>Total</b>	<b>46,672</b>	<b>-</b>	<b>-</b>	<b>46,672</b>
Allowance for expected credit losses	(212)	-	-	(212)
<b>Carrying amount</b>	<b>46,460</b>	<b>-</b>	<b>-</b>	<b>46,460</b>
<b>Loans and deposits to banks</b>				
<i>Internationally rated</i>	162,886	2,440	-	165,326
<i>Internally rated only</i>	745	-	-	745
<b>Total</b>	<b>163,631</b>	<b>2,440</b>	<b>-</b>	<b>166,071</b>
Allowance for expected credit losses	(772)	(23)	-	(795)
<b>Carrying amount</b>	<b>162,859</b>	<b>2,417</b>	<b>-</b>	<b>165,276</b>
<b>Loans to corporate customers</b>				
<i>Internationally rated</i>	62,503	-	-	62,503
<i>Internally rated only</i>	120,370	11,362	7,240	138,972
<b>Total</b>	<b>182,873</b>	<b>11,362</b>	<b>7,240</b>	<b>201,475</b>
Allowance for expected credit losses	(914)	(315)	(1,203)	(2,432)
<b>Carrying amount</b>	<b>181,959</b>	<b>11,047</b>	<b>6,037</b>	<b>199,043</b>

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

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Total</b>
<b>Cash and cash equivalents (other than cash on hand)</b>				
<i>Due from central banks</i>	13,657	-	-	13,657
<i>Correspondent accounts with internationally rated banks</i>	2,729	-	-	2,729
<b>Total</b>	<b>16,386</b>	<b>-</b>	<b>-</b>	<b>16,386</b>
Allowance for expected credit losses	-	-	-	-
<b>Carrying amount</b>	<b>16,386</b>	<b>-</b>	<b>-</b>	<b>16,386</b>

(EUR thousand)

**24. Risk management (continued)****Credit risk (continued)**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Total</b>
<b>Securities at fair value through other comprehensive income</b>				
<b>- held by the Bank</b>				
<i>Internationally rated</i>	159,002	-	-	159,002
<b>Carrying amount</b>	<b>159,002</b>	<b>-</b>	<b>-</b>	<b>159,002</b>
<b>Allowance for expected credit losses</b>	<b>(546)</b>	<b>-</b>	<b>-</b>	<b>(546)</b>
<b>- pledged under repurchase agreements</b>				
<i>Internationally rated</i>	44,301	-	-	44,301
<b>Carrying amount</b>	<b>44,301</b>	<b>-</b>	<b>-</b>	<b>44,301</b>
<b>Allowance for expected credit losses</b>	<b>(248)</b>	<b>-</b>	<b>-</b>	<b>(248)</b>
<b>Securities at amortized cost</b>				
<b>- held by the Bank</b>				
<i>Internationally rated</i>	47,887	-	-	47,887
<b>Total</b>	<b>47,887</b>	<b>-</b>	<b>-</b>	<b>47,887</b>
Allowance for expected credit losses	(374)	-	-	(374)
<b>Carrying amount</b>	<b>47,513</b>	<b>-</b>	<b>-</b>	<b>47,513</b>
<b>- pledged under repurchase agreements</b>				
<i>Internationally rated</i>	15,112	-	-	15,112
<b>Total</b>	<b>15,112</b>	<b>-</b>	<b>-</b>	<b>15,112</b>
Allowance for expected credit losses	(93)	-	-	(93)
<b>Carrying amount</b>	<b>15,019</b>	<b>-</b>	<b>-</b>	<b>15,019</b>
<b>Loans and deposits to banks</b>				
<i>Internationally rated</i>	109,257	-	-	109,257
<i>Internally rated only</i>	2,575	-	-	2,575
<b>Total</b>	<b>111,832</b>	<b>-</b>	<b>-</b>	<b>111,832</b>
Allowance for expected credit losses	(889)	-	-	(889)
<b>Carrying amount</b>	<b>110,943</b>	<b>-</b>	<b>-</b>	<b>110,943</b>
<b>Loans to corporate customers</b>				
<i>Internationally rated</i>	42,807	-	-	42,807
<i>Internally rated only</i>	136,804	7,834	-	144,638
<b>Total</b>	<b>179,611</b>	<b>7,834</b>	<b>-</b>	<b>187,445</b>
Allowance for expected credit losses	(261)	(116)	-	(377)
<b>Carrying amount</b>	<b>179,350</b>	<b>7,718</b>	<b>-</b>	<b>187,068</b>

Credit-related commitments relate to Stage 1 as at 31 December 2020 and 31 December 2019.

There were no transfers of other financial assets between stages in 2020 and 2019.

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(EUR thousand)

**24. Risk management (continued)****Geographical risk**

Information on risk concentration by geographical region is based on the geographical location of the Bank's counterparties. The table below shows risk concentration by geographical region as at 31 December 2020:

<b>Country</b>	<b>Cash and cash equivalents (other than cash on hand)</b>	<b>Securities at fair value through profit or loss held by the Bank</b>	<b>Securities at fair value through profit or loss pledged under repurchase agreements</b>	<b>Securities at fair value through other comprehensive income held by the Bank</b>	<b>Securities at fair value through other comprehensive income pledged under repurchase agreements</b>	<b>Securities at amortized cost held by the Bank</b>	<b>Securities at amortized cost pledged under repurchase agreements</b>	<b>Loans and deposits to banks</b>	<b>Loans to corporate customers</b>	<b>Derivative financial assets</b>	<b>Other financial assets</b>	<b>Total</b>	<b>Share, %</b>
Russian Federation	1,214	1,119	–	27,026	27,181	4,674	23,083	35,187	27,942	292	18,702	<b>166,420</b>	<b>21.87</b>
Mongolia	5	–	–	2,610	–	4,076	–	51,395	39,649	–	1	<b>97,736</b>	<b>12.84</b>
Republic of Bulgaria	14	–	–	3,104	17,817	–	10,150	–	59,953	49	–	<b>91,087</b>	<b>11.97</b>
Romania	180	–	–	32,554	10,684	9,386	5,142	–	13,474	–	–	<b>71,420</b>	<b>9.39</b>
Czech Republic	–	–	–	52,295	12,800	–	5,075	–	–	–	1	<b>70,171</b>	<b>9.22</b>
Republic of Poland	2,039	–	–	15,677	12,269	–	–	–	14,212	–	–	<b>44,197</b>	<b>5.81</b>
IFI <sup>1</sup>	–	–	–	41,031	1,267	–	–	–	–	–	–	<b>42,298</b>	<b>5.56</b>
Socialist Republic of Vietnam	–	–	–	–	–	–	–	27,228	–	–	–	<b>27,228</b>	<b>3.58</b>
Slovak Republic	–	–	–	11,111	4,883	–	3,010	–	–	–	3	<b>19,007</b>	<b>2.50</b>
Hungary	–	–	–	2,088	4,961	–	–	–	–	–	–	<b>7,049</b>	<b>0.93</b>
Other countries	13,038	–	–	6,948	–	–	–	51,466	43,813	34	8,970	<b>124,269</b>	<b>16.33</b>
<b>Total</b>	<b>16,490</b>	<b>1,119</b>	<b>–</b>	<b>194,444</b>	<b>91,862</b>	<b>18,136</b>	<b>46,460</b>	<b>165,276</b>	<b>199,043</b>	<b>375</b>	<b>27,677</b>	<b>760,882</b>	<b>100</b>

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

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<sup>1</sup> IFI – international financial funds and institutions. As at 31 December 2020, IFI are represented by the European Investment Bank, the European Financial Stability Facility, the European Stability Mechanism and the European Union.

(EUR thousand)

**24. Risk management (continued)****Geographical risk (continued)**

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

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

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

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

(EUR thousand)

**24. Risk management (continued)****Liquidity risk and funding management**

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

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

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

	<i>On demand and less than 30 days</i>	<i>31 to 180 days</i>	<i>181 to 365 days</i>	<i>Over 365 days</i>	<i>Total gross amount of cash (inflow) outflow</i>	<i>Carrying amount</i>
<b>2020</b>						
Due to credit institutions	76,429	150,892	10,415	52,495	290,231	286,507
Due to customers	31,372	42	7,869	8,467	47,750	47,235
Debt securities issued	-	4,745	4,745	146,929	156,419	133,694
Other liabilities	4,544	2	3	14	4,563	4,563
Gross settled derivative financial instruments						
- inflow	(6,893)	(8,994)	(7,060)	(163,981)	(186,928)	(150,370)
- outflow	6,954	5,006	2,960	159,384	174,304	176,390
<b>Total</b>	<b>112,406</b>	<b>151,693</b>	<b>18,932</b>	<b>203,308</b>	<b>486,339</b>	<b>498,019</b>

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

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

	<i>On demand and less than 1 month</i>	<i>1 to 6 months</i>	<i>6 to 12 months</i>	<i>12 months to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2020	37,736	905	36,887	12,766	51,578	<b>139,872</b>
2019	25,794	2,420	-	16,970	16,765	<b>61,949</b>

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*(EUR thousand)***24. Risk management (continued)****Classification of assets and liabilities by maturity**

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

<b>2020</b>	<b>On demand and less than 1 month</b>	<b>1 to 6 months</b>	<b>6 to 12 months</b>	<b>12 months to 5 years</b>	<b>Over 5 years</b>	<b>Overdue</b>	<b>Total</b>
Cash and cash equivalents	17,589	-	-	-	-	-	<b>17,589</b>
Securities at fair value through profit or loss							
- held by the Bank	1,119	-	-	-	-	-	<b>1,119</b>
- pledged under repurchase agreements	-	-	-	-	-	-	<b>-</b>
Securities at fair value through other comprehensive income							
- held by the Bank	194,444	-	-	-	-	-	<b>194,444</b>
- pledged under repurchase agreements	4,964	86,898	-	-	-	-	<b>91,862</b>
Securities at amortized cost							
- held by the Bank	-	-	-	14,640	3,496	-	<b>18,136</b>
- pledged under repurchase agreements	-	46,460	-	-	-	-	<b>46,460</b>
Loans and deposits to banks	30,866	51,443	60,245	22,722	-	-	<b>165,276</b>
Loans to corporate customers	8,871	40,859	10,545	88,681	49,722	365	<b>199,043</b>
Derivative financial assets	66	309	-	-	-	-	<b>375</b>
Other financial assets	27,363	7	49	258	-	-	<b>27,677</b>
<b>Total financial assets</b>	<b>285,282</b>	<b>225,976</b>	<b>70,839</b>	<b>126,301</b>	<b>53,218</b>	<b>365</b>	<b>761,981</b>
Due to credit institutions	76,363	150,627	9,941	9,917	39,659	-	<b>286,507</b>
Due to customers	31,326	2	7,809	-	8,098	-	<b>47,235</b>
Derivative financial liabilities	61	2,328	3,376	20,255	-	-	<b>26,020</b>
Debt securities issued	-	1,580	-	132,114	-	-	<b>133,694</b>
Other financial liabilities	3,968	2	3	14	-	-	<b>3,987</b>
<b>Total financial liabilities</b>	<b>111,718</b>	<b>154,539</b>	<b>21,129</b>	<b>162,300</b>	<b>47,757</b>	<b>-</b>	<b>497,443</b>
<b>Net position</b>	<b>173,564</b>	<b>71,437</b>	<b>49,710</b>	<b>(35,999)</b>	<b>5,461</b>	<b>365</b>	<b>264,538</b>
<b>Cumulative liquidity gap for financial instruments</b>	<b>173,564</b>	<b>245,001</b>	<b>294,711</b>	<b>258,712</b>	<b>264,173</b>	<b>264,538</b>	<b>-</b>

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(EUR thousand)

**24. Risk management (continued)****Classification of assets and liabilities by maturity (continued)**

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

**Market risk**

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

**Interest rate risk**

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

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

*Interest rate sensitivity analysis*

	<b>2020</b>		<b>2019</b>	
	<b>Profit or loss</b>	<b>Equity</b>	<b>Profit or loss</b>	<b>Equity</b>
<b>1 bp parallel fall</b>	<b>945</b>	<b>945</b>	<b>247</b>	<b>187</b>
EUR	285	285	(293)	(353)
USD	573	573	257	257
RUB	279	279	168	168
Other currencies	(192)	(192)	115	115
<b>1 bp parallel rise</b>	<b>(945)</b>	<b>(945)</b>	<b>(247)</b>	<b>(187)</b>
EUR	(285)	(285)	293	353
USD	(573)	(573)	(257)	(257)
RUB	(279)	(279)	(168)	(168)
Other currencies	192	192	(115)	(115)

*(EUR thousand)***24. Risk management (continued)****Interest rate risk (continued)***Average interest rates*

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

	2020				2019			
	Average interest rate, %				Average interest rate, %			
	EUR	USD	RUB	Other currencies	EUR	USD	RUB	Other currencies
<b>Interest-bearing assets</b>								
Correspondent accounts with banks in IBEC member countries and other banks	(0.61)	–	–	(0.31)	(0.01)	0.30	–	(0.01)
Securities at fair value through profit or loss								
- held by the Bank	–	–	7.25	–	–	–	7.77	–
- pledged under repurchase agreements	–	–	–	–	–	–	–	–
Securities at fair value through other comprehensive income								
- held by the Bank	1.59	2.75	6.22	–	2.26	4.73	7.44	1.05
- pledged under repurchase agreements	1.57	–	6.60	–	2.66	4.72	–	0.90
Securities at amortized cost								
- held by the Bank	2.54	7.50	6.89	–	3.19	7.50	9.10	–
- pledged under repurchase agreements	3.03	–	–	–	2.98	–	–	–
Loans and deposits to banks	1.99	3.68	8.61	–	2.61	4.66	10.58	–
Loans to corporate customers	4.13	5.38	7.13	1.40	1.63	5.77	10.00	5.36
Consumer lending	3.00	–	–	–	3.00	–	–	–
<b>Interest-bearing liabilities</b>								
Due to credit institutions	0.21	0.71	4.32	1.41	0.23	2.49	6.62	2.97
Correspondent accounts of banks from IBEC member countries and other credit institutions	(0.50)	–	–	–	(0.01)	–	1.37	–
Due to customers	–	1.15	5.05	–	–	2.00	8.07	–
Debt securities issued	–	–	7.19	–	–	–	7.90	–

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(EUR thousand)

**24. Risk management (continued)****Currency risk**

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

The table below shows a general analysis of the currency risk of the Bank for its financial assets and liabilities as at 31 December 2020:

	<i>Note</i>	<i>USD</i>	<i>RUB</i>	<i>EUR</i>	<i>Other</i>	<i>Total</i>
Cash and cash equivalents		1,724	1,159	11,618	3,088	<b>17,589</b>
Securities at fair value through profit or loss						
- held by the Bank		-	1,119	-	-	<b>1,119</b>
- pledged under repurchase agreements		-	-	-	-	<b>-</b>
Securities at fair value through other comprehensive income						
- held by the Bank		5,056	20,814	168,574	-	<b>194,444</b>
- pledged under repurchase agreements		-	4,964	86,898	-	<b>91,862</b>
Securities at amortized cost						
- held by the Bank		8,086	664	9,386	-	<b>18,136</b>
- pledged under repurchase agreements		-	-	46,460	-	<b>46,460</b>
Loans and deposits to banks		77,616	1,551	86,109	-	<b>165,276</b>
Loans to corporate customers		29,322	10,980	114,416	44,325	<b>199,043</b>
Other financial assets	13	10	479	27,187	1	<b>27,677</b>
<b>Total financial assets</b>		<b>121,814</b>	<b>41,730</b>	<b>550,648</b>	<b>47,414</b>	<b>761,606</b>
Due to credit institutions		101,111	7,761	166,311	11,324	<b>286,507</b>
Due to customers		8,752	24,080	14,294	109	<b>47,235</b>
Debt securities issued		-	133,694	-	-	<b>133,694</b>
Other financial liabilities	13	4	1,130	2,828	25	<b>3,987</b>
<b>Total financial liabilities</b>		<b>109,867</b>	<b>166,665</b>	<b>183,433</b>	<b>11,458</b>	<b>471,423</b>
<b>Net balance sheet position</b>		<b>11,947</b>	<b>(124,935)</b>	<b>367,215</b>	<b>35,956</b>	<b>290,183</b>
<b>Net off-balance sheet position</b>		<b>(12,150)</b>	<b>131,870</b>	<b>(110,129)</b>	<b>(35,236)</b>	<b>(25,645)</b>
<b>Net balance sheet and off-balance sheet position</b>		<b>(203)</b>	<b>6,935</b>	<b>257,086</b>	<b>720</b>	<b>264,538</b>

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

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

(EUR thousand)

**24. Risk management (continued)****Currency risk (continued)**

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

	<u>2020</u>	<u>2019</u>
20% appreciation of USD against EUR	(41)	383
20% appreciation of RUB against EUR	1,387	(702)

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

**Operational risk**

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

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

**25. Fair value measurement****Fair value measurements**

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

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

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

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

**Fair value hierarchy**

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- ▶ Level 2: valuation techniques for which all inputs which have a significant effect on the fair value recorded in the financial statements are observable, either directly or indirectly;
- ▶ Level 3: valuation techniques not based on observable market data, which use inputs that have a significant effect on the recorded fair value and that are not based on observable market data. If a fair value measurement uses observable inputs that require significant adjustment, the measurement is a Level 3 measurement. Significance of used inputs is assessed for aggregated fair value measurement.

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

(EUR thousand)

**25. Fair value measurement (continued)****Fair value hierarchy (continued)**

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

2020	Fair value measurement using			Total
	Level 1 inputs	Level 2 inputs	Level 3 inputs	
<b>Assets measured at fair value</b>				
Securities at fair value through profit or loss held by the Bank				
- corporate bonds	1,119	-	-	1,119
Securities at fair value through other comprehensive income held by the Bank				
- corporate Eurobonds	66,866	2,010	-	68,876
- Eurobonds of IBEC member countries	51,882	-	-	51,882
- Eurobonds of international financial institutions	26,681	-	-	26,681
- corporate bonds	17,007	5,244	-	22,251
- Eurobonds of funds	14,350	-	-	14,350
- bonds of IBEC member countries	7,151	-	-	7,151
- Eurobonds of banks	2,088	-	-	2,088
- bonds of other countries	838	-	-	838
- bonds of banks	327	-	-	327
Securities at fair value through other comprehensive income pledged under repurchase agreements				
- Eurobonds of IBEC member countries	47,692	-	-	47,692
- corporate Eurobonds	36,805	-	-	36,805
- Eurobonds of other countries	4,961	-	-	4,961
- Eurobonds of international financial institutions	1,267	-	-	1,267
- bonds of IBEC member countries	1,137	-	-	1,137
Derivative financial assets	-	375	-	375
Property, plant and equipment – buildings	-	-	50,078	50,078
	<b>280,171</b>	<b>7,629</b>	<b>50,078</b>	<b>337,878</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	-	-	17,589	17,589
Securities at amortized cost	-	-	64,596	64,596
Loans and deposits to banks	-	-	165,276	165,276
Loans to corporate customers	-	-	199,043	199,043
	-	-	<b>446,504</b>	<b>446,504</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	-	26,020	-	26,020
<b>Liabilities for which fair values are disclosed</b>				
Due to credit institutions	-	-	286,507	286,507
Due to customers	-	-	47,235	47,235
Debt securities issued	-	-	133,694	133,694
	-	-	<b>467,436</b>	<b>467,436</b>

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(EUR thousand)

**25. Fair value measurement (continued)****Fair value hierarchy (continued)**

2019	Fair value measurement using			Total
	Level 1 inputs	Level 2 inputs	Level 3 inputs	
<b>Assets measured at fair value</b>				
Securities at fair value through profit or loss held by the Bank				
- corporate bonds	4,412	-	-	4,412
Securities at fair value through other comprehensive income held by the Bank				
- corporate Eurobonds	102,349	-	-	102,349
- corporate bonds	18,600	5,051	-	23,651
- Eurobonds of IBEC member countries	19,354	-	-	19,354
- Eurobonds of funds	6,590	-	-	6,590
- bonds of banks	2,550	-	-	2,550
- Eurobonds of banks	2,395	-	-	2,395
- Eurobonds of international financial institutions	2,113	-	-	2,113
Securities at fair value through other comprehensive income pledged under repurchase agreements				
- corporate Eurobonds	21,595	-	-	21,595
- Eurobonds of IBEC member countries	15,826	-	-	15,826
- Eurobonds of banks	6,880	-	-	6,880
Derivative financial assets	-	5,689	-	5,689
Property, plant and equipment – buildings	-	-	54,636	54,636
	<b>202,664</b>	<b>10,740</b>	<b>54,636</b>	<b>268,040</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	-	-	17,286	17,286
Securities at amortized cost	-	-	62,532	62,532
Loans and deposits to banks	-	-	110,943	110,943
Loans to corporate customers	-	-	187,068	187,068
	-	-	<b>377,829</b>	<b>377,829</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	-	1,800	-	1,800
<b>Liabilities for which fair values are disclosed</b>				
Due to credit institutions	-	-	129,382	129,382
Due to customers	-	-	97,266	97,266
Debt securities issued	-	-	102,526	102,526
	-	-	<b>329,174</b>	<b>329,174</b>

**Derivative financial instruments**

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

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

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

(EUR thousand)

**25. Fair value measurement (continued)****Securities at fair value**

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

*Transfers between Level 1 and Level 2*

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

	<b><u>Transfers from Level 1 to Level 2</u></b>
<b>Financial assets</b>	
Securities at fair value through other comprehensive income held by the Bank	
- corporate bonds	5,244
- corporate Eurobonds	2,010
	<b><u>7,254</u></b>

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

	<b><u>Transfers from Level 1 to Level 2</u></b>
<b>Financial assets</b>	
Securities at fair value through other comprehensive income held by the Bank	
- corporate bonds	5,051
	<b><u>5,051</u></b>

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

There were no transfers from Level 2 to Level 1 during 2020 and 2019.

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

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

**26. Segment reporting**

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

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

(EUR thousand)

**26. Segment reporting (continued)**

Management monitors the operating results of each segment separately to make decisions on allocation of resources and to assess their operating performance. Segment performance is measured on the basis of operating profit or loss, which is calculated using a method different from that used to measure operating profit or loss in the financial statements, as indicated in the table below.

The following table shows information about segment income, expenses and profit for 2020 and 2019, respectively:

<b>2020</b>	<b>Development portfolio</b>	<b>Other banking activities</b>	<b>Other activities</b>	<b>Total</b>
Interest income calculated using the EIR method	13,129	4,695	12	<b>17,836</b>
Other interest income	311	136	–	<b>447</b>
Interest expense	(5,896)	(593)	(39)	<b>(6,528)</b>
<b>Net interest income (expense)</b>	<b>7,544</b>	<b>4,238</b>	<b>(27)</b>	<b>11,755</b>
Allowance for expected credit losses from financial assets	(2,589)	(432)	–	<b>(3,021)</b>
<b>Net interest income (expense) after allowance for expected credit losses</b>	<b>4,955</b>	<b>3,806</b>	<b>(27)</b>	<b>8,734</b>
Net fee and commission income (expense)	742	48	(1)	<b>789</b>
Net gains from operations with securities at fair value through profit or loss	1,424	645	–	<b>2,069</b>
Net gains from operations with securities at fair value through other comprehensive income	3,332	2,577	–	<b>5,909</b>
Net (losses) gains from operations with derivative financial instruments and foreign currency	(685)	(863)	90	<b>(1,458)</b>
Lease income	–	–	1,635	<b>1,635</b>
Other banking income	2	4,094	192	<b>4,288</b>
Net losses from disposal of property, plant and equipment	–	–	(9)	<b>(9)</b>
Other provisions	–	–	(93)	<b>(93)</b>
Other banking expenses	(314)	(24)	(35)	<b>(373)</b>
<b>Segment profit</b>	<b>9,456</b>	<b>10,283</b>	<b>1,752</b>	<b>21,491</b>
<b>2019</b>	<b>Development portfolio</b>	<b>Other banking activities</b>	<b>Other activities</b>	<b>Total</b>
Interest income calculated using the EIR method	8,293	4,798	5	<b>13,096</b>
Other interest income	435	303	–	<b>738</b>
Interest expense	(4,232)	(426)	(37)	<b>(4,695)</b>
<b>Net interest income (expense)</b>	<b>4,496</b>	<b>4,675</b>	<b>(32)</b>	<b>9,139</b>
Allowance for expected credit losses from financial assets	(936)	(267)	–	<b>(1,203)</b>
<b>Net interest income (expense) after allowance for expected credit losses</b>	<b>3,560</b>	<b>4,408</b>	<b>(32)</b>	<b>7,936</b>
Net fee and commission income (expense)	572	(49)	(1)	<b>522</b>
Net gains from operations with securities at fair value through profit or loss	1,194	286	–	<b>1,480</b>
Net gains from operations with securities at fair value through other comprehensive income	1,932	2,794	–	<b>4,726</b>
Net (losses) gains from operations with derivative financial instruments and foreign currency	(720)	772	(49)	<b>3</b>
Net gains from disposal of property, plant and equipment	–	–	3,127	<b>3,127</b>
Lease income	–	–	2,075	<b>2,075</b>
Other banking income	–	1,304	71	<b>1,375</b>
Other provisions	–	–	(38)	<b>(38)</b>
Other banking expenses	(102)	(47)	(303)	<b>(452)</b>
<b>Segment profit</b>	<b>6,436</b>	<b>9,468</b>	<b>4,850</b>	<b>20,754</b>

(EUR thousand)

**26. Segment reporting (continued)**

The reconciliation of total segment profit with the Bank's profit is as follows:

	<u>2020</u>	<u>2019</u>
<b>Total segment profit</b>	<b>21,491</b>	<b>20,754</b>
Other unallocated expenses	(14,689)	(14,168)
<b>Profit for the year</b>	<b>6,802</b>	<b>6,586</b>

The table below shows the assets and liabilities of the Bank's operating segments:

	<u>Development portfolio</u>	<u>Other banking activities</u>	<u>Other activities</u>	<u>Total</u>
<b>Segment assets</b>				
At 31 December 2020	519,365	241,833	53,931	<b>815,129</b>
At 31 December 2019	435,715	157,336	57,884	<b>650,935</b>

	<u>Development portfolio</u>	<u>Other banking activities</u>	<u>Other activities</u>	<u>Total</u>
<b>Segment liabilities</b>				
At 31 December 2020	320,712	168,945	8,362	<b>498,019</b>
At 31 December 2019	264,347	61,843	11,565	<b>337,755</b>

	<u>Development portfolio</u>	<u>Other banking activities</u>	<u>Other activities</u>	<u>Total</u>
<b>Credit-related commitments</b>				
At 31 December 2020	69,898	69,974	–	<b>139,872</b>
At 31 December 2019	43,510	18,439	–	<b>61,949</b>

In 2020, the Bank's revenue from lease transactions with two external counterparties (31 December 2019: two external counterparties) exceeded 20% of the Bank's income for 2020 amounting to EUR 1,382 thousand (2019: EUR 1,575 thousand).

The tables below show segment revenue from contracts with external customers that are within the scope of IFRS 15 for 2020 and 2019, respectively:

<u>2020</u>	<u>Development portfolio</u>	<u>Other banking activities</u>	<u>Other activities</u>	<u>Total</u>
Interest income	13,440	4,831	12	<b>18,283</b>
Fee and commission income	853	149	–	<b>1,002</b>
- Documentary operations	587	–	–	<b>587</b>
- Fiduciary operations	–	120	–	<b>120</b>
- Fee for servicing a loan/credit facility	110	–	–	<b>110</b>
- Cash and settlement operations	64	16	–	<b>80</b>
- Accounts maintenance	36	11	–	<b>47</b>
- Currency control	43	2	–	<b>45</b>
- Other	13	–	–	<b>13</b>
Lease income	–	–	1,635	<b>1,635</b>
<b>Total revenue from contracts with customers</b>	<b>14,293</b>	<b>4,980</b>	<b>1,647</b>	<b>20,920</b>

<u>2019</u>	<u>Development portfolio</u>	<u>Other banking activities</u>	<u>Other activities</u>	<u>Total</u>
Interest income	8,728	5,101	5	<b>13,834</b>
Fee and commission income	645	13	–	<b>658</b>
- Documentary operations	306	–	–	<b>306</b>
- Fee for servicing a loan/credit facility	166	–	–	<b>166</b>
- Cash and settlement operations	86	4	–	<b>90</b>
- Accounts maintenance	49	9	–	<b>58</b>
- Currency control	38	–	–	<b>38</b>
Lease income	–	–	2,075	<b>2,075</b>
<b>Total revenue from contracts with customers</b>	<b>9,373</b>	<b>5,114</b>	<b>2,080</b>	<b>16,567</b>

(EUR thousand)

**27. Related party transactions**

For the purposes of these financial statements, parties are considered related if one of them has a possibility to control the other party or exercise significant influence over the other party in making strategic, financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

**Transactions with the Bank's key management personnel**

During 2020, remuneration to the key management personnel of the Bank amounted to EUR 1,822 thousand (2019: EUR 1,908 thousand). Remuneration to the key management personnel of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 37 thousand (2019: EUR 37 thousand), the pension funds of IBEC member countries in the amount of EUR 12 thousand (2019: EUR 16 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 18 thousand (2019: EUR 18 thousand).

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

	<u>2020</u>	<u>2019</u>
Current accounts	1,166	1,363

**Transactions with government-related companies**

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

The table below discloses transactions with government-related companies:

<b><i>Statement of financial position</i></b>	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and cash equivalents	3,434	651
Securities at fair value through profit or loss	1,119	4,412
Securities at fair value through other comprehensive income	168,605	114,166
Securities at amortized cost	45,135	50,046
Loans and deposits to banks	50,893	19,043
Loans to corporate customers	107,563	118,920
Derivative financial assets	19	2,634
Other assets	7,072	1,828
<b>Liabilities</b>		
Due to credit institutions	101,433	18,793
Due to customers	38,603	81,129
Derivative financial liabilities	8,318	1,793
Other liabilities	378	113
<b>Off-balance sheet commitments</b>		
Credit-related commitments	18,741	5,765

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

<b><i>Statement of profit or loss</i></b>	<u>2020</u>	<u>2019</u>
Interest income calculated using the EIR method	8,668	7,132
Other interest income	164	457
Interest expense	(2,925)	(2,104)
Allowance for expected credit losses from financial assets	(399)	(484)
Fee and commission income	52	28
Fee and commission expense	(10)	(5)
Net gains from operations with securities at fair value through profit or loss	1,362	1,235
Net gains from operations with securities at fair value through other comprehensive income	3,130	4,520
Net (losses) gains from operations with derivative financial instruments and foreign currency	(1,736)	1,557
Lease income	1,581	1,579
Other banking income	116	14
Administrative and management expenses	(335)	(481)
Other banking expenses	(17)	(14)

(EUR thousand)

**28. Changes in liabilities arising from financing activities**

	<i>Note</i>	<i>Long-term financing from banks</i>	<i>Debt securities issued</i>	<i>Lease liabilities</i>	<i>Total liabilities arising from financing activities</i>
<b>Carrying amount at 1 January 2020</b>	13, 14, 16	<b>9,920</b>	<b>102,526</b>	<b>23</b>	<b>112,469</b>
Proceeds		49,556	63,557	–	113,113
Liability arising as a result of recognition of the respective asset		–	–	1	1
Transfer of a liability to another item based on maturity		(9,955)	–	–	(9,955)
Redemption		(21)	–	(5)	(26)
Interest paid		(227)	(8,083)	(2)	(8,312)
Currency revaluation		–	(32,953)	–	(32,953)
Interest accrued		396	8,647	2	9,045
<b>Carrying amount at 31 December 2020</b>	13, 14, 16	<b>49,669</b>	<b>133,694</b>	<b>19</b>	<b>183,382</b>
<b>Carrying amount at 1 January 2019</b>	13, 14, 16	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Proceeds		9,900	98,032	–	107,932
Liability arising as a result of recognition of the respective asset		–	–	25	25
Redemption		–	–	(2)	(2)
Interest paid		–	–	(1)	(1)
Currency revaluation		–	2,705	–	2,705
Interest accrued		20	1,789	1	1,810
<b>Carrying amount at 31 December 2019</b>	13, 14, 16	<b>9,920</b>	<b>102,526</b>	<b>23</b>	<b>112,469</b>

**29. Capital adequacy**

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

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

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

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

The Bank's capital adequacy ratio as at 31 December 2020 and 31 December 2019 comprised 43.7% and 57.2%, respectively. This indicates that the Bank maintains the requisite level of capital adequacy.

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

	<b>2020</b>	<b>2019</b>
Capital	317,110	313,180
<b>Total capital</b>	<b>317,110</b>	<b>313,180</b>
<b>Risk-weighted assets</b>		
Credit risk	617,878	450,169
Market risk	99,893	90,122
Operational risk	8,577	7,459
<b>Total risk-weighted assets</b>	<b>726,348</b>	<b>547,750</b>

(EUR thousand)

### 30. Summary of accounting policies

Except for changes described in Note 3, the Bank consistently applied the following accounting policies to all periods presented in these financial statements.

#### Interest income and expense

##### *Effective interest rate*

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

- ▶ Gross carrying amount of the financial asset, or
- ▶ Amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments that are not initially recognized as credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, excluding expected credit losses (ECLs). For financial assets that are credit-impaired at initial recognition, the effective interest rate adjusted for credit risk is calculated using the expected future cash flows, including ECLs.

The effective interest rate is calculated using the transaction costs and fees and amounts paid or received, that are an integral part of the effective interest rate. Transaction costs include additional costs directly attributable to the acquisition or issue of the financial asset or liability.

##### *Amortized cost and gross carrying amount*

Amortized cost of the financial asset or liability is determined as the amount in which financial asset or liability is measured at initial recognition minus payments of principal amount, plus or minus accumulated amortization of the difference between the indicated initial amount and amount payable at maturity calculated using the effective interest rate method for financial assets and adjusted for the allowance for ECLs.

Gross carrying amount of the financial asset measured at amortized cost is the amortized cost of the financial asset before adjustment for the allowance for ECLs.

##### *Calculation of interest income and expense*

The effective interest rate for financial asset or financial liability is calculated at initial recognition of the financial asset or financial liability. When calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is credit-impaired) or to the amortized cost of the liability.

The effective interest rate is revised following regular reassessment of cash flows from floating-rate instruments in order to reflect changes in the market interest rates.

However, for financial assets that become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the financial asset is no longer credit-impaired, calculation of interest income is based on the gross carrying amount.

For financial assets that are credit-impaired at initial recognition, interest income is calculated on the basis of the effective interest rate adjusted for credit risk applied to the amortized cost of the financial asset. Calculation of interest income for such assets is not based on the gross carrying amount even if the credit risk relevant to these assets will further decrease.

##### *Presentation*

Interest income calculated using the effective interest rate method and recorded in the statement of profit or loss and other comprehensive income includes:

- ▶ Interest income on financial assets at amortized cost;
- ▶ Interest income on debt financial instruments at fair value through other comprehensive income (FVOCI).

Other interest income recorded in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial assets at fair value through profit or loss (FVPL).

Interest expense recorded in the statement of profit or loss and other comprehensive income includes:

- ▶ Interest expense on financial liabilities at amortized cost;
- ▶ Interest expense on non-derivative debt financial liabilities at FVPL.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Fee and commission income and expense

Fee and commission income and expense that are an integral part of the effective interest rate on financial asset or financial liability are included in the calculation of the effective interest rate.

Additional fee and commission under the agreement that are not included in the effective interest rate are recorded as fee and commission income.

Other fee and commission expenses primarily include service costs that are expensed as respective services are received.

#### Net trading income

Net trading income consists of gains less losses related to assets and liabilities held for trading and includes all changes in fair value and foreign exchange differences.

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand, payment documents at the Bank's cash desk, balances with the Bank of Russia and balances of current accounts of the IBEC member countries and other credit institutions, as well as all interbank loans with initial maturity not exceeding 7 days.

#### Financial assets and financial liabilities

##### *Classification of financial assets*

A financial asset is classified at initial recognition as measured either at amortized cost or at FVOCI, or at FVPL.

A standard operation to sell or purchase any financial asset is recognized on the settlement date.

Settlement date is the date of the asset delivery. Under settlement date accounting, (a) the asset is recognized when received and (b) the asset is derecognized and the profit or loss on disposal of the asset is recognized when the asset is delivered.

Regular way purchases and sales of financial assets include transactions that require delivery within the time frame established by legislation or market convention.

A financial asset is measured at amortized cost if both of the following conditions are met and if the Bank selected not to measure it at FVPL:

- ▶ The asset is held under a business model designed to hold financial assets in order 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 accrued on the principal amount outstanding.

A debt instrument is measured at FVOCI if both of the following conditions are met and if the Bank selected not to measure it at FVPL:

- ▶ The asset is held under a business model whose objective 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 accrued on the principal amount outstanding.

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

- ▶ Interest income calculated using the effective interest rate method;
- ▶ ECLs and reversed impairment losses, and
- ▶ Foreign exchange gains and losses.

When the financial asset at FVOCI is derecognized, accumulated gains and losses previously recognized within other comprehensive income are reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVPL.

In addition, at initial recognition the Bank may make an irrevocable election to designate a financial asset, which qualifies to be measured at amortized cost or FVOCI as measured at FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Financial assets and financial liabilities (continued)

##### *Reclassification*

Financial assets are not reclassified after initial recognition, except for the period following the period when the Bank changes its business model to manage financial assets. The Bank should reclassify its financial assets only when it changes its business model to manage these financial assets. Such changes are expected to occur rarely. These changes should be determined by the Bank's management as resulting from external or internal developments and should be significant for the Bank's activities and evident to the third parties. Accordingly, the objective of the Bank's business model may be changed when, and only when, the Bank commences or ceases any operations significant to its business. This may be the case when the Bank acquires, disposes of or ceases certain business activities.

Financial liabilities may not be reclassified after initial recognition.

##### *Business model assessment*

The Bank assesses the business model under which the asset is held at the level of the portfolio of financial instruments, as it best reflects the model used to manage business and present information to management. The following information should be considered:

- ▶ Policies and objectives established to manage the portfolio, and actual use of the accounting policies. In particular, whether the Bank's strategy is focused on generating contractual interest income, maintaining certain structure of interest rates, ensuring the match between the maturities of the financial assets and the maturities of financial liabilities used to finance these assets, and realizing cash flows through the sale of assets;
- ▶ The procedure to assess the performance of the portfolio and the way this information is communicated to the Bank's management;
- ▶ Risks that affect the business model effectiveness (and the performance of financial assets held within that business model) and, in particular, the way these risks are managed;
- ▶ The procedure to reward business managers;
- ▶ Frequency, volume and timing of sales in prior periods, reasons for such sales and expected future level of sales. However, information on the level of sales should not be considered separately, but should be subject to a comprehensive integral analysis of how the Bank achieves its objective on asset management and how the cash flows are realized.

Financial assets held for trading, which are managed and their performance is evaluated on a fair value basis, are measured at FVPL, as they are not held solely to collect contractual cash flows as well as to collect contractual cash flows or sell financial assets.

##### *Determining whether the contractual cash flows are solely payments of principal and interest*

For the purpose of this assessment, principal is defined as fair value of a financial asset at initial recognition. Interest is defined as consideration for the time value of money for credit risk related to principal amount outstanding for a certain period, as well as for other primary credit-related risks and costs (for example, liquidity risk and administrative expenses), and also include profit margin.

When determining whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion), the Bank analyzes contractual terms of the financial instrument. This includes the assessment of whether a financial asset contains a contractual provision that can change the terms or amount of contractual cash flows so that the financial assets will no longer comply with the requirement under analysis. When performing the assessment, the Bank considers:

- ▶ Contingencies that can change the terms or the amount of cash flows;
- ▶ Leverage features;
- ▶ Early repayment and extension provisions;
- ▶ Provisions limiting the Bank's claims with cash flows from the specified assets (e.g. non-recourse asset arrangements);
- ▶ Provisions that modify consideration for the time value of money (e.g. regular revision of the interest rate).

The Bank holds a portfolio of long-term loans with fixed interest rates in relation to which the Bank has the right to revise the interest rate in case of changes in economic environment. Borrowers may either accept the revised interest rate or repay the loan at the nominal value without significant penalties. The Bank determined that the contractual cash flows on these loans are solely payments of principal and interest, as due to this right the interest rate is changed in a way that interest represents consideration for the time value of money, credit risk, other credit-related primary risks and costs related to the primary outstanding amount. Consequently, the Bank considers these loans to be loans with floating interest rates in nature.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Financial assets and financial liabilities (continued)

##### *Financial liabilities*

The Bank classifies financial liabilities as measured at amortized cost or at FVPL. Financial liabilities may not be reclassified after initial recognition.

##### *Derecognition of financial assets and liabilities*

The Bank derecognizes financial assets when:

- ▶ The assets are redeemed or the rights to 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 (i) also transferred substantially all the risks and rewards of ownership of the assets or (ii) 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 retained all or part of the risks and rewards relating to the transferred assets.

The Bank derecognizes a financial liability when the contractual obligation is fulfilled, voided or expired.

When the financial asset is derecognized, the difference between the carrying amount of the asset (or the carrying amount allocated to the derecognized part of the asset) and the amount of consideration received (including the amount of the asset received less new assumed liability) and any accumulated profit or loss recognized within other comprehensive income, is recognized within profit or loss.

The Bank enters into transactions whereby it transfers the assets recognized in the statement of financial position, but retains all or substantially all risks and rewards of ownership of transferred assets or their part. In such cases, transferred assets are not derecognized. Examples of such transactions include securities lending and repurchase transactions.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of the asset and retains control of the transferred asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset, determined as the Bank's exposure to the risk that the value of the transferred asset may be changed.

##### *Financial liabilities*

The Bank derecognizes a financial liability when the contractual obligation is fulfilled, voided or expired.

#### **Modifications to the terms of financial assets and financial liabilities**

##### *Financial assets*

If the terms of the financial asset are changed, the Bank assesses whether cash flows related to such modified asset change substantially. If there is a substantial change in cash flows (substantial modification), the rights to contractual cash flows on original financial asset are considered to be expired. In such case, the original financial asset is derecognized and the new financial asset is recognized at fair value plus the respective transaction costs. Fees resulting from the modification are recognized as follows:

- ▶ Fees recognized when the fair value of the new asset is measured and fees comprising compensation of transactions costs are included in the initial measurement of this asset, and
- ▶ Other fees are recognized within profit or loss as part of profit or loss from derecognition.

If there is a non-substantial change in cash flows, in accordance with IFRS 9, the Bank recalculates the gross carrying amount of the financial asset (or amortized cost of the financial liability) by discounting modified contractual cash flows at the initial effective interest rate and recognizes any amount resulting from the adjustment as modification gain or loss within profit or loss.

The Bank performs quantitative and qualitative assessment of whether modification of terms is substantial, i.e., whether cash flows on the original financial asset and cash flows on modified or replaced financial asset are substantially different. The Bank performs qualitative and quantitative assessment of whether modification of terms is substantial by analyzing qualitative factors, quantitative factors and cumulative effect of qualitative and quantitative factors. If the cash flows are substantially different, the contractual rights to cash flows on the original financial asset are deemed to have expired. This assessment is based on the guidance on derecognition of financial liabilities.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Financial assets and financial liabilities (continued)

The Bank concludes that the modification is substantial based on the following qualitative factors:

- ▶ The currency of a financial asset has changed.
- ▶ The collateral or other credit enhancement have changed.

Generally, if the modification results from the financial difficulties of the borrower, the objective of such modification is to recover the maximum value of the asset in accordance with the original terms of the agreement, and not to create (issue) a new asset on substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of a portion of contractual cash flows, then it first considers whether a part of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative assessment and results in non-compliance with the criteria for derecognition of the respective financial assets in such cases. The Bank also performs a qualitative assessment of whether the modification is substantial.

If the modification of the terms of the financial asset measured at amortized cost or FVOCI does not result in derecognition of this financial asset, the Bank recalculates the gross carrying amount of such asset using the original effective interest rate and recognizes the arising differences as modification gain or loss within profit or loss. For financial assets with floating interest rate, the original effective interest rate used to calculate modification gain or loss is adjusted in order to reflect current market conditions when modification takes place. Costs incurred and fees paid or earned as a result of such modification are used to adjust the gross carrying amount of the modified financial asset and are amortized over the remaining life of the modified financial asset.

If the modification takes place due to the financial difficulties of the borrower, the respective gain or loss are presented separately. In all other cases, the respective gain or loss are presented within interest income calculated using the effective interest rate method.

For loans with fixed interest rates, where the borrower has the right of early repayment of the loan at the nominal value without penalties, a change in the interest rate to market level in response to a change in the market conditions is accounted for by the Bank in a way similar to the accounting for the instruments with the floating interest rate, i.e., the effective interest rate is revised prospectively.

#### *Financial liabilities*

The Bank derecognizes the financial liability when its terms are modified in such a way, that the amount of cash flows under the modified liability substantially changes. In such case, the new financial liability with modified terms is recognized at fair value. Difference between the carrying amount of the original financial liability and new financial liability with modified terms is recognized within profit or loss. Consideration paid includes transferred non-financial assets, if any, and assumed liabilities, including new modified financial liability.

The Bank performs qualitative and quantitative assessment of whether modification is substantial by analyzing qualitative factors, quantitative factors and cumulative effect of qualitative and quantitative factors. The Bank concludes that modification is substantial based on the following qualitative factors:

- ▶ The currency of a financial liability has changed;
- ▶ The collateral or other credit enhancement has changed;
- ▶ Conversion term has been added;
- ▶ The subordination of a financial liability has changed.

For the purpose of quantitative assessment, the terms are considered to be substantially different if the present value of the cash flows under the modified terms, including net fees, discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows under the initial terms.

If modification of the terms of a financial liability does not result in its derecognition, the amortized cost of the liability is recalculated by discounting the modified cash flows using the original effective interest rate and the difference is recognized as modification gain or loss within profit or loss. For financial liabilities with a floating interest rate, the original effective interest rate used to calculate modification gain or loss is adjusted in order to reflect current market conditions when modification takes place. Costs incurred and fees paid as a result of modification are recognized as the adjustment to the carrying amount of the liability and are amortized over the remaining maturity of the modified financial liability by recalculating the respective effective interest rate.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Financial assets and financial liabilities (continued)

##### *Impairment of financial assets*

Impairment applies to the following financial instruments that are not measured at FVPL:

- ▶ Financial assets that are debt instruments;
- ▶ Lease receivables, and
- ▶ Loan commitments and financial guarantee contracts.

The model of expected credit losses is used.

Impairment loss is not recognized for investments in equity instruments.

Allowances for ECLs are recognized in the amount equal to 12-month expected credit losses or lifetime ECLs. Lifetime ECLs are ECLs arising from all probable defaults over the life of a financial instrument, and 12-month ECLs are part of ECLs arising from defaults that may occur during 12 months after the reporting date. Financial instruments for which 12-month ECLs are recognized, are included in Stage 1 financial instruments.

Lifetime ECLs are ECLs arising from all probable defaults over the life of a financial instrument. Financial instruments that are not purchased or originated credit impaired (POCI) assets for which lifetime ECLs are recognized, are included in Stage 2 (if the credit risk on financial instrument increased significantly after initial recognition but the financial instrument is not credit impaired) or Stage 3 (if the financial instrument is credit impaired).

The Bank recognizes allowances for ECLs in the amount of the lifetime ECLs, except for the following instruments, for which the allowance is based on 12-month ECLs:

- ▶ Debt investment securities that have low credit risk as at the reporting date, and
- ▶ Other financial instruments (except for lease receivables), for which the credit risk has not increased significantly since initial recognition.

The Bank believes that a debt security has low credit risk if its credit rating corresponds to the generally accepted definition of the investment quality.

12-month ECLs are ECLs resulting from defaults on a financial instrument that are possible within 12 months after the reporting date.

##### *Measuring ECLs*

ECLs are probability-weighted estimates of credit losses that are measured as follows:

- ▶ *Financial assets that are not credit-impaired at the reporting date:* the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Bank under the contract and cash flows that the Bank expects to receive);
- ▶ *Financial assets that are credit-impaired at the reporting date:* the difference between the gross carrying amount of assets and the present value of estimated future cash flows;
- ▶ *Unused portion of loan commitments:* the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive if the loan is issued, and
- ▶ *Financial guarantees:* the present value of expected payments to reimburse the holder for a credit loss less any amounts that the Bank expects to recover.

Allowances for ECLs on lease receivables are measured in the amount of lifetime ECLs.

##### *Restructured financial assets*

If the terms of the financial asset are revised or modified by mutual agreement of the parties, or if the existing financial asset is replaced by the new financial asset due to financial difficulties of the borrower, the assessment of whether the asset should be derecognized is made and ECLs are measured as follows:

- ▶ If the expected restructuring does not result in derecognition of the financial asset, expected cash flows on modified financial asset are included in the calculation of cash shortfalls on the existing asset.
- ▶ If the expected restructuring results in derecognition of the existing asset, the expected fair value of the new asset is treated as the final cash flows on the existing asset at the time of derecognition. This amount is included in calculating cash shortfalls on 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.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Financial assets and financial liabilities (continued)

##### *Credit-impaired financial assets*

At each reporting date the Bank assesses financial assets carried at amortized cost and debt financial assets carried at FVOCI for credit impairment. A financial asset is determined to be credit-impaired when there are one or more events that have a negative effect on the estimated future cash flows from this asset.

In particular, the following observable data may serve as the evidence of credit impairment of a financial asset:

- ▶ Significant financial difficulties of a borrower or an issuer;
- ▶ Breaches of the agreement, such as default or late payment;
- ▶ Probability of bankruptcy or any other reorganization of a borrower, and
- ▶ Disappearance of an active market for any security due to financial difficulties.

Generally, a loan, for which the terms were renegotiated in case of deterioration of financial position, is credit-impaired if there is no evidence of a significant decrease in the risk that contractual cash flows will not be received and there are no other indicators of impairment.

##### *Recording allowance for ECLs in the statement of financial position*

Allowance for ECLs is presented in the statement of financial position as follows:

- ▶ *Financial assets at amortized cost:* as the decrease of the gross carrying amount of these assets.
- ▶ *Debt instruments at FVOCI:* allowance for ECLs is not recorded in the statement of financial position as these assets are carried at their fair value. However, allowance for ECLs is disclosed and recognized within the fair value change provision.
- ▶ *Loan commitments and financial guarantee contracts:* generally, as a provision.
- ▶ *Where a financial instrument contains both drawn and undrawn component, and the Bank cannot determine the ECLs on the loan commitment separately from ECLs on the drawn component (loan issued):* the Bank presents cumulative allowance for ECLs for both components. This amount is presented as a decrease in the gross carrying amount of the drawn component (loan issued). Any excess of the allowance for ECLs over the gross carrying amount of the loan issued is recorded as a provision.

##### *Write-offs*

Financial assets are subject to write-off (partial or full) when there is no reasonable expectation that they will be recovered. This is generally the case when the Bank determines that the borrower has no assets or sources of income that may generate cash flows in the adequate amount to settle debt subject to write-off. For written-off financial assets, the Bank continues its activities to collect debt. Recoveries of amounts previously written off are recorded within other banking income in the statement of profit or loss and other comprehensive income.

#### Loans to corporate customers

Loans to corporate customers recorded in the statement of financial position comprise loans to customers measured at amortized cost. Such loans are initially measured at fair value plus additional direct transaction costs and are subsequently measured at amortized cost using the effective interest rate method.

#### Derivative financial instruments

Derivatives used by the Bank include currency swaps, currency forwards and cross-currency interest rate swaps.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

The method used to recognize profit or loss arising from changes in the fair value of the respective derivative depends on whether the derivative is a hedging instrument.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Derivative financial instruments (continued)

##### *Hedge accounting*

The Bank makes use of derivatives to manage exposures to fluctuations both of cash flows from interest received and paid, and of fair values for specifically determined items. Therefore, hedge accounting is used for operations that satisfy the criteria established in IFRS 9 *Financial Instruments*.

At inception of the hedge relationship, the Bank documents the relationship between the hedged item and the hedging instrument, including the nature of the hedging risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge.

Hedging effectiveness is assessed at the inception of the hedge relationship and further on a monthly basis.

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the statement of profit or loss within net income (loss) from operations with derivatives and foreign currencies. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as an adjustment of the carrying amount of the hedged item in the statement of profit or loss within net income (losses) from operations with derivatives and foreign currencies.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised.

For designated and qualifying cash flow hedges, the effective portion of profit or loss of a hedging instrument is recognized through other comprehensive income in sub-item "Net income from cash flow hedges" and within the Bank's equity in the cash flow hedge reserve. The ineffective portion of profit or loss on hedging instrument is recognized immediately in the statement of profit or loss within net income (loss) from operations with derivatives and foreign currencies.

Accrued interest included in the fair value of foreign currency interest rate swap being the hedging instrument with determined relationship, is reclassified on a monthly basis from the cash flow hedge reserve to interest income or interest expense in the statement of profit or loss in order to reduce accrued interest expense/income on the respective hedged item, as it affects cash flows from the hedged item.

When a hedging instrument expires, or is sold, terminated or exercised, any cumulative income or expenses existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative income or expenses that were recorded in equity is immediately reclassified to net income (expenses) from operations with derivatives and foreign currencies.

#### Financial assets under repurchase agreements

Repurchase agreements comprise loans collateralized by securities.

Securities transferred under repurchase agreements without derecognition are recognized in the financial statements within those financial assets in which they were previously recognized.

The difference between the price to sell a security and repurchase price is recorded as interest expense and accrued over the life of repurchase agreement using the effective interest method.

#### Financial guarantees and loan commitments

##### *Financial guarantees*

Financial guarantee is an agreement, according to which the Bank must make payments to a holder of a guarantee to compensate for loss incurred by the latter as a result of the contractual borrower's failure to make a payment within the time frames set by the debt instrument. Loan commitment is binding commitment to provide a loan on previously agreed terms and within the established time frames.

Issued financial guarantees and commitments to provide loans at a below-market rate are initially recognized at fair value, and are subsequently measured at the higher of the amount of the allowance for ECLs determined in accordance with IFRS 9 and initially recognized amount less, as applicable, accumulated income recognized in accordance with IFRS 15.

The Bank has no loan commitments measured at FVPL.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Financial guarantees and loan commitments (continued)

##### *Loan commitments*

For other loan commitments, the Bank recognizes allowance for ECLs.

Financial liabilities recognized with respect to the issued financial guarantees and loan commitments are included in provisions.

#### Property, plant and equipment

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

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

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 derecognized.

Depreciation is calculated over the following estimated useful lives of property, plant and equipment:

- ▶ 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 amount of an asset as a result of impairment is charged to profit or loss.

Any revaluation surplus of a building is recorded in the statement of financial position within the property, plant and equipment revaluation reserve within equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of profit or loss and other comprehensive income, in which case the increase is recognized in the statement of profit or loss and other comprehensive income. A revaluation deficit is recognized in the statement of profit or loss and 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 property, plant and equipment revaluation reserve.

Property, plant and equipment revaluation reserve is taken directly to retained earnings (uncovered loss) when the asset is written off or disposed of.

#### Operating leases

Where the Bank acts as a lessor and assets are leased out under an operating lease, the lease payments receivable are recognized as lease income on a straight-line basis over the lease term.

#### Intangible assets

Intangible assets include software, licenses and trademarks.

An intangible asset is recognized at actual cost incurred to acquire and bring them to use, or at their contractual value.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

#### Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Right-of-use assets (continued)

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are tested for impairment.

#### Finance lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term.

Lease payments comprise fixed payments (including in-substance fixed payments) less any incentive lease payments to be received, variable lease payments that depend on a rate, and amounts that are expected to be paid under residual value guarantees. Lease payments also include the purchase option exercise price if the Bank is reasonably certain that it will exercise this option, and fines for lease termination if it is probable that the Bank may exercise its early termination option during the lease term.

Variable lease payments that do not depend on a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate in the respective currency set by the Bank at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the substantially fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

#### *Short-term leases and leases of low-value assets*

For accounting purposes, the Bank applies the short-term lease recognition exemption to its short-term leases, i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Bank also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below EUR five (5) thousand).

Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over lease term.

#### *Significant judgment in determining the lease term of contracts with renewal options*

The Bank determines the lease term as the non-cancellable term of the lease together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

If the Bank has the option, under some of its new leases to lease the assets for additional term, the Bank will apply judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the extension option.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

#### Due to credit institutions

Amounts due to credit institutions are recorded when cash or other assets are received by the Bank from counterparty banks.

Term loans and deposits from banks are recognized in the financial statements at amortized cost using the effective interest rate method.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Due to customers

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

#### Debt securities issued

Debt securities issued include bonds issued by the Bank.

Bonds issued are initially recognized at fair value. Fair value is measured at initial recognition using observable market inputs. If the effective interest rate on bonds issued is not substantially different from the market rate, the fair value of debt obligations at initial recognition is determined as the amount of raised funds.

Bonds issued are subsequently measured at amortized cost decreased by the amount of costs directly related to funds raised under the issue.

Debt securities are recorded at amortized cost using the effective interest method.

If the Bank purchases debt securities issued, these securities are excluded from the statement of financial position (and are recognized on off-balance sheet accounts), and the difference between the carrying amount of repaid or transferred debt obligation (or its part) and the amount of consideration paid by the Bank is recognized within gains less losses arising from termination of liabilities.

#### Revaluation reserve for property, plant and equipment

The revaluation reserve for property, plant and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

#### Revaluation reserve for securities at fair value through other comprehensive income

Revaluation reserve for securities at fair value through other comprehensive income reflects the change in the fair value and allowance for ECLs on financial assets at FVOCI.

#### Provisions for liabilities and charges

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

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events. 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 accounts payable

Accounts payable are recognized when the counterparty has fulfilled its obligations and are carried at amortized cost.

#### Currency translation

Transactions denominated in foreign currency are recorded at the exchange rate prevailing on the transaction date. For the purposes of the Bank's financial statements, any currency other than the euro is treated as a foreign currency.

Monetary and non-monetary assets and liabilities denominated in foreign currencies are recorded in the financial statements in the functional currency (euro) at a rate of exchange ruling at the reporting date. Euro exchange rate is obtained from publicly available sources: the exchange rates of IBEC member country currencies are obtained from the websites of the respective countries' central banks, while the exchange rates of other currencies are obtained from the European Central Bank website.

Items of the statement of profit or 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 foreign exchange differences are recorded in the statement of profit or loss and other comprehensive income.

(EUR thousand)

### 30. Summary of accounting policies (continued)

#### Offset

Generally, financial assets and liabilities are not subject to offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### Income and expense recognition

Income and expenses are recognized in the financial statements using the accrual principle. These amounts are recognized in the statement of profit or loss and other comprehensive income with simultaneous recognition of debt in the statement of financial position, which is recorded as part of other assets and liabilities.

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

#### 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, in the member countries.

This provision does not apply to the payments of salaries to individuals being the citizens of the country where the Bank is located, and to utility charges.