IBEC

INTERNATIONAL BANK FOR ECONOMIC CO-OPERATION

International Bank for Economic Co-operation

Financial statements

for the year 2021

Contents

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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 of 31 December 2021, 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 of 31 December 2021 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' (IESBA) 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 key audit 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 key audit matter
Valuation of the buildings classified to property and equipment	
As at 31 December 2021, the aggregate value of the buildings classified to property and equipment was 7% of the total Bank's assets. Bank's management measured the fair value of the buildings classifies to property and equipment bases on 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 2021 Annual Report

Other information consists of the information included in the 2021 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The 2021 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 do 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 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 Cooperation 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.

As 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, actions taken to eliminate threats or safeguards applied.

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,
acting on behalf of Ernst & Young LLC
on the basis of power of attorney dated 13 October 2020,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 22006013387)

18 February 2022

Details of the auditor

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

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.

Statement of financial position

as at 31 December 2021

(EUR thousand)

	Note	*2021*	*2020*
Assets			
Cash and cash equivalents	5	27,855	17,589
Securities at fair value through profit or loss	6	10,307	1,119
- held by the Bank		*10,307*	*1,119*
- pledged under repurchase agreements		–	–
Securities at fair value through other comprehensive income	7	200,695	286,306
- held by the Bank		*148,538*	*194,444*
- pledged under repurchase agreements		*52,157*	*91,862*
Securities at amortized cost	8	77,634	64,596
- held by the Bank		*37,460*	*18,136*
- pledged under repurchase agreements		*40,174*	*46,460*
Loans and deposits to banks	9	175,596	165,276
- loans issued to banks under trade financing		*102,072*	*74,423*
- term deposits with banks		*38,430*	*52,327*
- syndicated loans		*35,094*	*38,526*
Loans to corporate customers	10	203,981	199,043
Derivative financial assets	11	472	375
Property, plant and equipment, intangible assets and right-of-use assets	12	52,088	52,989
Other assets	13	27,806	27,836
Total assets		**776,434**	**815,129**
Liabilities			
Due to credit institutions	14	163,163	286,507
Due to customers	15	101,240	47,235
Derivative financial liabilities	11	23,513	26,020
Debt securities issued	16	178,994	133,694
Other liabilities	13	4,829	4,563
Total liabilities		**471,739**	**498,019**
Equity			
Share capital	1	200,000	200,000
Revaluation reserve for securities at fair value through other comprehensive income		(4,724)	5,294
Revaluation reserve for property, plant and equipment		21,528	21,528
Cash flow hedge reserve	11	(5,497)	621
Retained earnings less net profit for the year		89,667	82,865
Net profit for the year		3,721	6,802
Total equity		**304,695**	**317,110**
Total liabilities and equity		**776,434**	**815,129**
Off-balance sheet commitments			
Credit-related commitments	17	191,300	139,872

Denis Ivanov Chairman of the Board

Международный банк экономического сотрудничества МБЭС Москва

Inna Zheleznova Director of the Financial Department

18 February 2022

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 2021

(EUR thousand)

	Note	***2021***	***2020***
Interest income calculated using the EIR method		20,356	17,836
Other interest income		383	447
Interest expense		(5,691)	(6,528)
Net interest income	18	**15,048**	**11,755**
Allowance for expected credit losses from financial assets	22	(2,605)	(3,021)
Net interest income after allowance for expected credit losses		**12,443**	**8,734**
Fee and commission income		2,074	1,002
Fee and commission expense		(385)	(213)
Net fee and commission income	19	**1,689**	**789**
Net (losses) gains from operations with securities at fair value through profit or loss		(462)	2,069
Net gains from operations with securities at fair value through other comprehensive income	20	4,325	5,909
Net (losses) gains from operations with derivative financial instruments and foreign currency			
- dealing		(2,882)	481
- revaluation of currency items		1,807	(1,939)
Lease income		1,946	1,635
Other banking income	10	406	4,288
Administrative and management expenses	21	(15,208)	(14,689)
Net losses from disposal of property, plant and equipment		(5)	(9)
Other provisions	23	(151)	(93)
Other banking expenses		(187)	(373)
Profit for the year		**3,721**	**6,802**

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 2021 (continued)

(EUR thousand)

	Note	2021	2020
Other comprehensive income (loss)			
Items that are or may be subsequently reclassified to profit or loss			
Unrealized (losses) gains from operations with securities at fair value through other comprehensive income		(6,111)	6,591
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	20	(3,874)	(6,118)
Change in allowance for expected credit losses		(33)	506
Net losses from cash flow hedges	11	(6,118)	(272)
Total items that are or may be subsequently reclassified to profit or loss		**(16,136)**	**707**
Items that may not be subsequently reclassified to profit or loss			
Revaluation of property, plant and equipment		–	(3,579)
Total items that may not be subsequently reclassified to profit or loss		**–**	**(3,579)**
Total other comprehensive loss		**(16,136)**	**(2,872)**
Total comprehensive (loss) income for the year		**(12,415)**	**3,930**

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

Statement of changes in equity

for the year 2021

(EUR thousand)

	Share capital	Revaluation reserve for securities at fair value through other comprehensive income	Revaluation reserve for property, plant and equipment	Cash flow hedge reserve	Retained earnings	Total equity
1 January 2021	**200,000**	**5,294**	**21,528**	**621**	**89,667**	**317,110**
Net profit for the year	–	–	–	–	3,721	**3,721**
Other comprehensive loss						
Items that are or may be subsequently reclassified to profit or loss						
Unrealized losses from operations with securities at fair value through other comprehensive income	–	(6,111)	–	–	–	**(6,111)**
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	–	(3,874)	–	–	–	**(3,874)**
Change in allowance for expected credit losses	–	(33)	–	–	–	**(33)**
Net unrealized gains (losses) from cash flow hedges	–	–	–	10,348	–	**10,348**
Net gains (losses) from cash flow hedges, reclassified to profit or loss	–	–	–	(16,466)	–	**(16,466)**
Total items that are or may be subsequently reclassified to profit or loss	**–**	**(10,018)**	**–**	**(6,118)**	**–**	**(16,136)**
Total other comprehensive loss	**–**	**(10,018)**	**–**	**(6,118)**	**–**	**(16,136)**
Total comprehensive loss for the year	**–**	**(10,018)**	**–**	**(6,118)**	**3,721**	**(12,415)**
31 December 2021	**200,000**	**(4,724)**	**21,528**	**(5,497)**	**93,388**	**304,695**

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

Statement of changes in equity

for the year 2021 (continued)

(EUR thousand)

	Share capital	*Revaluation reserve for securities at fair value through other comprehensive income*	*Revaluation reserve for property, plant and equipment*	*Cash flow hedge reserve*	*Retained earnings*	*Total equity*
1 January 2020	**200,000**	**4,315**	**25,107**	**893**	**82,865**	**313,180**
Net profit for the year	–	–	–	–	6,802	**6,802**
Other comprehensive loss						
Items that are or may be subsequently reclassified to profit or loss						
Unrealized gains from operations with securities at fair value through other comprehensive income	–	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**
Total items that are or may be subsequently reclassified to profit or loss	**–**	**979**	**–**	**(272)**	**–**	**707**
Items that may not be subsequently reclassified to profit or loss						
Revaluation of property, plant and equipment	–	–	(3,579)	–	–	**(3,579)**
Total items that may not be subsequently reclassified to profit or loss	**–**	**–**	**(3,579)**	**–**	**–**	**(3,579)**
Total other comprehensive loss	**–**	**979**	**(3,579)**	**(272)**	**–**	**(2,872)**
Total comprehensive income for the year	**–**	**979**	**(3,579)**	**(272)**	**6,802**	**3,930**
31 December 2020	**200,000**	**5,294**	**21,528**	**621**	**89,667**	**317,110**

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

Statement of cash flows

for the year 2021

(EUR thousand)

	Note	2021	2020
Cash flows from operating activities			
Profit for the year		**3,721**	**6,802**
Adjustments for:			
Accrued interest receivable		(919)	(230)
Accrued interest payable		(7,216)	(6,295)
Other accrued income receivable		(48)	(129)
Other accrued expenses payable		302	640
Depreciation and amortization	21	1,276	1,244
Allowance for expected credit losses from financial assets	22	2,605	3,021
Other provisions	23	151	93
Remeasurement of securities at fair value through profit or loss		530	42
Revaluation of currency items		(2,432)	70
Fair value remeasurement of hedges		625	1,869
Net gains from operations with securities at fair value through other comprehensive income	20	(4,325)	(5,909)
Net gains from disposal of property, plant and equipment		5	9
Cash (used in) from operating activities before changes in operating assets and liabilities		**(5,725)**	**1,227**
(Increase) decrease in operating assets			
Securities at fair value through profit or loss		(9,480)	3,383
Loans and deposits to banks		(3,168)	(61,031)
Loans to corporate customers		(4,432)	(18,657)
Other assets		(1,792)	(26,435)
Increase (decrease) in operating liabilities			
Due to credit institutions		(142,603)	112,865
Due to customers		53,472	(38,693)
Other liabilities		8,771	3,855
Net cash used in operating activities		**(104,957)**	**(23,486)**
Cash flows from investing activities			
Purchases of securities at fair value through profit or loss		–	(1,145)
Purchases of securities at fair value through other comprehensive income		(162,658)	(395,053)
Sales of securities at fair value through other comprehensive income		245,893	313,257
Purchases of securities at amortized cost		(14,971)	(10,153)
Proceeds from redemption of securities at amortized cost		2,666	6,682
Purchases of property, plant and equipment		(382)	(828)
Net cash from (used in) investing activities		**70,548**	**(87,240)**

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

Statement of cash flows

for the year 2021 (continued)

(EUR thousand)

	Note	2021	2020
Cash flows from financing activities			
Proceeds from bonds issued	16, 28	34,768	63,557
Proceeds from long-term financing raised from banks	28	9,770	49,556
Long-term financing repaid to banks		(82)	(21)
Payments for lease liabilities	28	(5)	(5)
Net cash from financing activities		**44,451**	**113,087**
Net increase in cash and cash equivalents before translation differences		**10,042**	**2,361**
Effect of changes in exchange rates on cash and cash equivalents		224	(2,058)
Effect of changes in expected credit losses on cash and cash equivalents		–	–
Net increase in cash and cash equivalents		**10,266**	**303**
Cash and cash equivalents at 31 December of the year preceding the reporting year	5	17,589	17,286
Cash and cash equivalents at 31 December of the reporting year	5	**27,855**	**17,589**
Additional information			
Interest received		19,820	18,053
Interest paid		(12,907)	(12,823)

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 IBEC Council approved the IBEC's Development Strategy for 2021-2025, which defines that the main mission of IBEC is to support the economic prosperity of member countries by building linkages through 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, documentary and factoring 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.

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.

In accordance with the Agreement, the authorized share capital consists of equity contributions from IBEC member countries and amounts to EUR 400,000 thousand, which were allocated between the member countries as follows:

	Equity contributions allocated	***%***
Russian Federation	206,356	51.59
Czech Republic	53,368	13.34
Republic of Poland	48,032	12.01
Republic of Bulgaria	30,244	7.56
Romania	28,464	7.12
Slovak Republic	26,684	6.67
Mongolia	5,336	1.33
Socialist Republic of Vietnam	1,516	0.38
Total	**400,000**	**100**

The paid portion of the IBEC's share capital as at 31 December 2021 amounts to EUR 200,000 thousand (31 December 2020: EUR 200,000 thousand). The allocation of shares of IBEC member countries in the Bank's paid-in share capital is provided below:

	2021	***%***	***2020***	***%***
Russian Federation	103,179	51.59	103,179	51.59
Czech Republic	26,684	13.34	26,684	13.34
Republic of Poland	24,016	12.01	24,016	12.01
Republic of Bulgaria	15,121	7.56	15,121	7.56
Romania	14,232	7.12	14,232	7.12
Slovak Republic	13,342	6.67	13,342	6.67
Mongolia	2,668	1.33	2,668	1.33
Socialist Republic of Vietnam	758	0.38	758	0.38
Total	**200,000**	**100**	**200,000**	**100**

(EUR thousand)

1. Principal activities of the Bank (continued)

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.

The Bank operates in accordance with the IBEC's Development Strategy for 2021-2025 approved by the IBEC Council on 8 December 2020. In the reporting period, IBEC started to implement tasks set by the strategy.

In 2021, several events occurred that were significant for the development of the Bank's operations, expansion of its partner network and enhancement of the IBEC brand recognition across the business community:

- On 9 March, Fitch Ratings rating agency upgraded IBEC's long-term rating from BBB- to BBB with a stable outlook. Short-term rating was also increased from F3 to F2;
- On 3 September, Moody's Investors Service rating agency improved its outlook for IBEC from stable to positive and confirmed the issuer's long-term foreign currency rating at Baa3;
- On 15 October, the ACRA rating committee confirmed IBEC's rating at AAA(RU) on the national scale and A- on the international scale with a stable outlook;
- Declaration on the adherence of IBEC to the Code of Fair Trade on Financial Markets of Moscow Exchange Group;
- In June, the Bank successfully placed the first issue of its bonds on the European market in the Republic of Bulgaria. The issue is denominated in Bulgarian levs and amounts to BGN 68 million (EUR 34,768 thousand at the exchange rate effective at the issue date) maturing within 3 years;
- The chairman of the Board of Management of IBEC participated in St. Petersburg International Economic Forum (SPIEF) and presented at a specialized round table "Multilateral development banks in the post-COVID period: old challenges and new opportunities";
- IBEC won the 2021 Global Banking & Finance Review Awards in the Best Trade Finance Bank Eastern Europe and the Banking CEO of the Year Eastern Europe nominations;
- IBEC signed a memorandum of understanding with the New Development Bank (NDB) to form a basis for strategic, technical and operational cooperation and establish long-term relationship in areas of interest for both development institutions;
- At SPIEF, several strategic arrangements were made: a cooperation agreement with the Group of JSC Russian Export Center, a letter of intent with LLC MetPromStroy (Russia) and a loan agreement with PJSC LC Europlan (Russia);
- IBEC signed a memorandum of cooperation with the Council of Slovak Exporters to carry out joint activities aimed at developing trade and economic relations between IBEC member countries, supporting Slovak small and medium enterprises operating on foreign markets, and establishing bilateral and multilateral relations with business associations in IBEC member countries.

2. Operating environment of the Bank

Economic growth

In 2021, global economic activity started to recover from the 2020 crisis caused by the COVID-19 pandemic, which was mainly due to a gradual removal of restrictions on top of the progress of public vaccination campaigns, implementation of large-scale government support programs and gradual adaptation of economic activity to the pandemic. However, the global economic recovery somewhat slowed down in the second half of 2021 amid the spread of new waves of the pandemic and ongoing disruptions in global supply chains.

The economic recovery was extremely sporadic and depended on the level of public vaccination and availability of vaccines in certain countries. In addition, economic losses caused by the pandemic were mainly attributable to middle-income emerging markets rather than developed economies. At the national economy level, the pandemic had the greatest effect on sectors requiring face-to-face contact (e.g. tourism), where demand recovered most slowly. Nevertheless, global production is expected to reach the pre-crisis level in 2021, with the global GDP growth rate of 5.8%.

(EUR thousand)

2. Operating environment of the Bank (continued)

Economic growth (continued)

According to the current forecasts, a V-shape economic recovery is expected in IBEC member countries in 2021. However, further recovery and development of national economies in 2022 will be associated with significant uncertainty and risk factors, most importantly a relatively low level of public vaccination in certain countries and the respective threat of new waves of COVID-19. In this case, additional internal and cross-border mobility restrictions will have a negative effect on the labor market and production and contribute to higher prices. Further, a longer-than-expected rise in inflation can result in tighter financial conditions, the depreciation of national currencies (primarily, in emerging economies) and lower demand, which also poses a serious threat to economic growth in 2022.

Differences in the rates and nature of economic recovery in IBEC member countries are associated with the sectoral structure, situation in health care systems and the level of public vaccination in those countries. As such, these differences are expected to have an even greater impact on the Bank in 2022, since they will determine focal points of the monetary, fiscal and social policies implemented by each of the member countries.

Dynamics of real GDP, % change	***2020***	***Average growth rate in 2016-2020***	***2021****	***2022****
Republic of Bulgaria	(4.2)	2.0	4.1	4.0
Socialist Republic of Vietnam	2.9	6.2	3.8	6.8
Mongolia	(5.3)	2.7	4.8	6.1
Republic of Poland	(2.7)	3.1	5.0	4.9
Russian Federation	(3.0)	0.8	4.2	2.8
Romania	(3.9)	3.4	6.8	4.7
Slovak Republic	(4.8)	1.3	3.8	4.9
Czech Republic	(5.8)	1.6	3.3	4.3

* *IBEC's consensus forecast.*

Amid the economic instability, observable trends toward increasing energy price volatility and severe social consequences of the pandemic, "green" initiatives and projects, the UN Sustainable Development Goals and ESG principles are becoming increasingly important for the business community. The implementation of activities in these areas and promotion of sustainable trade financing principles are among IBEC's priorities in the current strategic period of 2021-2025.

Global trade

Global trade started to recover earlier and more rapidly than other global GDP components. Global trade in goods exceeded the pre-crisis level, however further growth slowed down due to disruptions in global supply chains. Global trade in services was restrained by the imposition of restrictive measures and remained below the 2019 level. In general, global trade is expected to increase by 9.4% in 2021 and by 5.9% in 2022 after a fall of 8.4% in 2020.

The threat of continued supply chain disruptions due to new mobility restrictions and port closures as a result of disease outbreaks remains the main risk factor for global trade growth in 2022.

Financial conditions

In 2021, overall financial conditions continued to be favorable. However, inflation rose steadily around the world in the second half of the year, which was due to the recovery of economic activity and consumer demand, an increase in prices for energy resources and some groups of food products, the growing cost of international logistics services, as well as continued disruptions in global supply chains.

Higher inflationary pressure gave rise to uncertainty and urged central banks of certain countries to accelerate the normalization of their monetary policies, primarily by raising rates. Stricter monetary policies and credit terms are expected to have a possible negative effect on the margins of producers and investment plans of companies. The severity of the effect will differ from country to country.

Inflation is expected to reach its peak in early 2022 and then gradually decline, causing financial conditions to return to normal. However, the realization of risks, such as continued supply disruptions, increased producer and household inflation expectations, further increases in electricity prices, ongoing labor market tensions, or significant increases in prices for a broader range of goods and services, may result in more severe tightening of financial conditions and increases in interest rates.

(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

The Bank continues to assess 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.

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.

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).

(EUR thousand)

3. Basis of preparation of financial statements (continued)

Significant accounting estimates and professional judgments (continued)

Sensitivity of the fair value of the building

As at 31 December 2021, the fair value of the building owned by the Bank was EUR 49,150 thousand (2020: EUR 50,078 thousand). The fair value of one square meter was EUR 1,941 (2020: EUR 1,978). If the value of one square meter increases by 10%, the fair value of the building will be EUR 54,065 thousand (2020: EUR 55,086 thousand); if the value of one square meter decreases by 10%, the fair value of the building will be EUR 44,235 thousand (2020: EUR 45,070 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 2021, 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 2021, as described below. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

In 2021, the Bank adopted certain amendments and interpretations which do not affect the financial statements of the Bank.

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

The amendments provide temporary exemptions that remove consequences for the financial statements of replacing the interbank offered rate (IBOR) with the alternative risk-free interest rate (RFR).

The amendments provide for the following:

- A practical expedient, whereby amendments to contracts or changes in cash flows as a result of the reform are required to be treated as changes in a floating interest rate equivalent to a movement in a market rate of interest;
- Amendments required by IBOR reform are allowed to define hedge relationships and hedge documentation without discontinuing hedge relationships;
- Companies are granted a temporary exemption from having to meet the separately identifiable component requirement when an RFR instrument is designated by the company as a hedge of a risk component.

Amendments to IFRS 16 – COVID-19-Related Rent Concessions beyond 30 June 2021

These amendments had no material impact on the financial statements of the Bank. The Bank intends to use a practical expedient in future periods, if necessary.

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(EUR thousand)

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

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments may have on the current classification of liabilities and whether the existing loan agreements require renegotiation.

Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018, without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

(EUR thousand)

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

Standards issued but not yet effective (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Bank.

Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments.

The amendments are not expected to have a material impact on the Bank.

Amendments to IAS 37 – Onerous Contracts: Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted.

IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted. The Bank will apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which it first applies the amendment.

The amendment is not expected to have a significant effect on the Bank’s financial statements.

Amendments to IAS 8 – Definition of accounting estimates

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of “accounting estimates”. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. In addition, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

(EUR thousand)

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

Standards issued but not yet effective (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgments*, in which it provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. Since the amendments to IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of materiality to accounting policy information, there is no mandatory effective date for the amendments.

The Bank is currently assessing the impact of the amendments on the Bank's accounting policy disclosures.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2021	***2020***
Cash on hand	1,124	1,099
Correspondent accounts with banks in IBEC member countries	9,804	3,452
Correspondent accounts with banks in other countries	16,927	13,038
Total cash and cash equivalents	**27,855**	**17,589**
Allowance for expected credit losses	–	–
Cash and cash equivalents after allowance for expected credit losses	**27,855**	**17,589**

As at 31 December 2021, balances with three major counterparties amounted to EUR 22,072 thousand, or 79.24% of total cash and cash equivalents (31 December 2020: EUR 14,817 thousand, or 84.24% 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):

Cash and cash equivalents (other than cash on hand)	***2021***	***2020***
Due from central banks	18,820	9,276
Correspondent accounts with banks		
Internationally rated		
from AAA to A-	*2,185*	*6,414*
from BBB+ to BB-	*5,531*	*781*
from B+ to B-	*121*	*5*
Internally rated only		
from BBB+ to BB-	*74*	*14*
Total	**26,731**	**16,490**
Allowance for expected credit losses	–	–
Carrying amount	**26,731**	**16,490**

As at 31 December 2021 and 31 December 2020, 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.

(EUR thousand)

6. Securities at fair value through profit or loss

Securities at fair value through profit or loss comprise:

	2021	*2020*
Held by the Bank		
Eurobonds of IBEC member countries	5,344	–
from BBB+ to BB-	*5,344*	–
Corporate Eurobonds	4,963	–
from BBB+ to BB-	*4,963*	–
Corporate bonds	–	1,119
from BBB+ to BB-	–	*1,119*
	10,307	**1,119**
Securities at fair value through profit or loss	**10,307**	**1,119**

As at 31 December 2021 and 31 December 2020, 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:

	2021	*2020*
Held by the Bank		
Internationally rated		
Corporate Eurobonds	55,668	68,876
from AAA to A-	–	*11,256*
from BBB+ to BB-	*35,637*	*35,186*
from B+ to B-	*20,031*	*22,434*
Eurobonds of IBEC member countries	33,166	51,882
from AAA to A-	*1,395*	*13,373*
from BBB+ to BB-	*15,664*	*35,899*
from B+ to B-	*16,107*	*2,610*
Eurobonds of international financial institutions	26,164	26,681
from AAA to A-	*24,159*	*26,681*
from BBB+ to BB-	*2,005*	–
Eurobonds of funds	12,645	14,350
from AAA to A-	*12,645*	*14,350*
Eurobonds of banks	11,708	2,088
from AAA to A-	*5,201*	–
from BBB+ to BB-	*6,507*	*2,088*
Bonds of banks	3,705	327
from AAA to A-	*3,705*	–
from BBB+ to BB-	–	*327*
Bonds of IBEC member countries	2,045	7,151
from AAA to A-	*2,045*	*7,151*
Corporate bonds	967	19,649
from BBB+ to BB-	*967*	*19,649*
Eurobonds of other countries	168	–
from BBB+ to BB-	*168*	–
Bonds of other countries	–	838
from B+ to B-	–	*838*
Internally rated only		
Corporate bonds	2,302	2,602
from B+ to B-	*2,302*	*2,602*
	148,538	**194,444**
Pledged under repurchase agreements		
Internationally rated		
Eurobonds of IBEC member countries	25,194	47,692
from AAA to A-	*8,632*	*4,767*
from BBB+ to BB-	*16,562*	*42,925*
Corporate Eurobonds	16,491	36,805
from BBB+ to BB-	*16,491*	*36,805*
Eurobonds of other countries	6,639	4,961
from BBB+ to BB-	*6,639*	*4,961*
Eurobonds of banks	2,176	–
from AAA to A-	*196*	–
from BBB+ to BB-	*1,980*	–
Bonds of banks	1,657	–
from AAA to A-	*1,657*	–
Eurobonds of international financial institutions	–	1,267
from AAA to A-	–	*1,267*
Bonds of IBEC member countries	–	1,137
from AAA to A-	–	*1,137*
	52,157	**91,862**
Securities at fair value through other comprehensive income	**200,695**	**286,306**

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(EUR thousand)

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

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

Securities at fair value through other comprehensive income	***Stage 1***	***Stage 2***	***Total***
Gross carrying amount at 1 January 2021	**280,196**	**6,110**	**286,306**
New originated or purchased assets	166,656	466	**167,122**
Changes in fair value	(6,670)	710	**(5,960)**
Assets derecognized or redeemed (excluding write-offs)	(249,386)	(466)	**(249,852)**
Changes in currency exchange rates	3,079	–	**3,079**
Gross carrying amount at 31 December 2021	**193,875**	**6,820**	**200,695**
Allowance for expected credit losses at 1 January 2021	**738**	**562**	**1,300**
New originated or purchased assets	375	–	**375**
Assets derecognized or redeemed (excluding write-offs)	(498)	–	**(498)**
Changes to models and inputs used for ECL calculations	160	(84)	**76**
Changes in currency exchange rates	13	–	**13**
Allowance for expected credit losses at 31 December 2021	**788**	**478**	**1,266**
Gross carrying amount at 1 January 2020	**203,303**	**–**	**203,303**
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)**
Gross carrying amount at 31 December 2020	**280,196**	**6,110**	**286,306**
Allowance for expected credit losses at 1 January 2020	**794**	**–**	**794**
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)**
Allowance for expected credit losses at 31 December 2020	**738**	**562**	**1,300**

Securities at fair value through other comprehensive income comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 52,157 thousand as at 31 December 2021 (31 December 2020: EUR 91,862 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 and Russian rubles and issued by financial and industrial entities of IBEC member countries and other countries for circulation on markets external to the issuer and for trade on exchange markets. Corporate Eurobonds mature from December 2022 to September 2029 (31 December 2020: from December 2022 to October 2028), and coupon rates range from 0.45% to 6.75% p.a. (31 December 2020: from 0.875% to 6.75% 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 July 2023 to September 2050 (31 December 2020: from December 2022 to September 2050), and coupon rates range from 0% to 4.45% p.a. (31 December 2020: from 0% to 5.125% p.a.).

(EUR thousand)

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

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 March 2026 (31 December 2020: from January 2022 to July 2035), and coupon rates range from 0% to 1% p.a. (31 December 2020: from 0% to 0.5% p.a.).

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

Eurobonds of banks are debt securities denominated in euros and US dollars for circulation on markets external to the issuer. Eurobonds of banks mature from January 2026 to October 2028 (31 December 2020: June 2025), and the coupon rates range from 0.375% to 3.875% p.a. (31 December 2020: 1.375% p.a.).

Bonds of banks are debt securities denominated in Russian rubles and euros for circulation on the domestic markets of the country where the issuer is located. Bonds of banks mature in April 2028 (31 December 2020: December 2021), and the coupon rate is 0.5% p.a. (31 December 2020: 5.75% 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. Bonds of IBEC member countries mature in May 2025 (31 December 2020: May 2025) and the coupon rate is 0.25% p.a. (31 December 2020: 0.25% 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 issuer and trade on exchange markets. Corporate bonds mature from December 2024 to May 2033 (31 December 2020: from December 2024 to November 2033), and coupon rates range from 1.75% p.a. to 5.83% p.a. (31 December 2020: from 1.75% to 6.95% p.a.).

Eurobonds of other countries are denominated in euros for circulation on exchange markets external to the issuing country. Eurobonds of other countries mature in September 2028 (31 December 2020: November 2030) and the coupon rate is 0.125% p.a. (31 December 2020: 0.5% p.a.).

As at 31 December 2020, bonds of other countries were issued in Russian rubles for circulation on internal and exchange markets of the issuing countries and for trade on over-the-counter markets. As at 31 December 2020, bonds of other countries mature in May 2025 and the coupon rate was 8.5% p.a. The Bank does not have bonds of other countries as at 31 December 2021.

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

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(EUR thousand)

8. Securities at amortized cost

Securities at amortized cost comprise:

	2021	2020
Held by the Bank		
Internationally rated		
Eurobonds of banks	16,989	4,214
from BBB+ to BB-	*12,451*	–
from B+ to B-	*4,538*	*4,214*
Corporate Eurobonds	12,191	10,661
from BBB+ to BB-	*12,191*	–
from B+ to B-	–	*10,661*
Corporate bonds	5,740	668
from BBB+ to BB-	*719*	*668*
from B+ to B-	*5,021*	–
Internally rated only		
Corporate bonds	3,003	3,003
from B+ to B-	*3,003*	*3,003*
	37,923	**18,546**
Pledged under repurchase agreements		
Internationally rated		
Corporate Eurobonds	35,369	29,041
from BBB+ to BB-	*24,364*	*29,041*
from B+ to B-	*11,005*	–
Eurobonds of IBEC member countries	5,133	5,148
from BBB+ to BB-	*5,133*	*5,148*
Eurobonds of banks	–	12,483
from BBB+ to BB-	–	*12,483*
	40,502	**46,672**
Total securities at amortized cost	**78,425**	**65,218**
Allowance for expected credit losses	(791)	(622)
Securities at amortized cost	**77,634**	**64,596**

Securities at amortized cost comprise securities pledged as collateral under repurchase agreements with an amortized cost of EUR 40,174 thousand as at 31 December 2021 (31 December 2020: EUR 46,460 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

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 2020: from February 2023 to October 2023) and a coupon rates range from 4.032% to 7.25% p.a. (31 December 2020: from 4.032% to 7.25% p.a.).

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 June 2024 to July 2028 (31 December 2020: from May 2021 to February 2028), and coupon rates range from 1.5% to 7.75% p.a. (31 December 2020: from 1.5% to 7.75% p.a.). Corporate bonds mature from December 2024 to November 2026 (31 December 2020: from December 2024 to December 2025), and coupon rates range from 1.75% to 6.89% p.a. (31 December 2020: from 1.75% to 6.89% 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 2020: from December 2026 to April 2027), and coupon rates range from 2% to 2.375% p.a. (31 December 2020: 2% to 2.375% p.a.).

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(EUR thousand)

8. Securities at amortized cost (continued)

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

Securities at amortized cost	***Stage 1***	***Total***
Gross carrying amount at 1 January 2021	**65,218**	**65,218**
New originated or purchased assets	17,432	**17,432**
Assets derecognized or redeemed (excluding write-offs)	(4,982)	**(4,982)**
Changes in currency exchange rates	757	**757**
Gross carrying amount at 31 December 2021	**78,425**	**78,425**
Allowance for expected credit losses at 1 January 2021	**622**	**622**
New originated or purchased assets	112	**112**
Assets derecognized or redeemed (excluding write-offs)	(3)	**(3)**
Changes to models and inputs used for ECL calculations	41	**41**
Changes in currency exchange rates	19	**19**
Allowance for expected credit losses at 31 December 2021	**791**	**791**
Gross carrying amount at 1 January 2020	**62,999**	**62,999**
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)**
Gross carrying amount at 31 December 2020	**65,218**	**65,218**
Allowance for expected credit losses at 1 January 2020	**467**	**467**
New originated or purchased assets	42	**42**
Assets derecognized or redeemed (excluding write-offs)	(41)	**(41)**
Changes to models and inputs used for ECL calculations	175	**175**
Changes in currency exchange rates	(21)	**(21)**
Allowance for expected credit losses at 31 December 2020	**622**	**622**

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.

	2021	***2020***
Credit investment portfolio of securities	47,557	32,230
Securities purchased on capital markets	30,077	32,366
Securities at amortized cost	**77,634**	**64,596**

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

9. Loans and deposits to banks

Loans and deposits to banks comprise:

	2021	***2020***
Loans issued to banks under trade financing	102,602	74,782
Term deposits with banks in IBEC member countries	38,617	52,497
Syndicated loans	35,253	38,792
Total loans and deposits to banks	**176,472**	**166,071**
Allowance for expected credit losses	(876)	(795)
Loans and deposits to banks	**175,596**	**165,276**

As at 31 December 2021, balances with three major counterparties amounted to EUR 59,108 thousand, or 33.66% of total loans and deposits to banks (31 December 2020: EUR 61,991 thousand, or 37.51% of total loans and deposits to banks).

(EUR thousand)

9. Loans and deposits to banks (continued)

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

Loans and deposits to banks	***2021***	***2020***
Internationally rated		
from BBB+ to BB-	*54,215*	*43,404*
from B+ to B-	*121,407*	*121,922*
Internally rated only		
from B+ to B-	*850*	*745*
Total	**176,472**	**166,071**
Allowance for expected credit losses	(876)	(795)
Carrying amount	**175,596**	**165,276**

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

Loans and deposits to banks	***Stage 1***	***Stage 2***	***Total***
Gross carrying amount at 1 January 2021	**163,631**	**2,440**	**166,071**
New originated or purchased assets	308,957	102	**309,059**
Assets derecognized or redeemed (excluding write-offs)	(303,349)	(2,649)	**(305,998)**
Changes in currency exchange rates	7,233	107	**7,340**
Gross carrying amount at 31 December 2021	**176,472**	**–**	**176,472**
Allowance for expected credit losses at 1 January 2021	**772**	**23**	**795**
New originated or purchased assets	1,064	–	**1,064**
Assets derecognized or redeemed (excluding write-offs)	(500)	(11)	**(511)**
Changes to models and inputs used for ECL calculations	(508)	(13)	**(521)**
Changes in currency exchange rates	48	1	**49**
Allowance for expected credit losses at 31 December 2021	**876**	**–**	**876**

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

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

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

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(EUR thousand)

10. Loans to corporate customers

Loans to corporate customers comprise:

	2021	*2020*
Loans issued to legal entities from IBEC member countries	101,236	102,330
Loans for foreign trade purposes issued to legal entities from IBEC member countries	41,605	40,323
Syndicated loans issued to legal entities from other countries	39,799	45,028
Syndicated loans issued to legal entities from IBEC member countries	26,345	13,794
Total loans to corporate customers	**208,985**	**201,475**
Allowance for expected credit losses	(5,004)	(2,432)
Loans to corporate customers less allowance for expected credit losses	**203,981**	**199,043**

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

	2021		*2020*	
	Amount	*%*	*Amount*	*%*
Transport	71,243	34.93	59,558	29.92
Investment activities (leases)	47,408	23.24	28,282	14.21
Food industry	31,490	15.44	37,776	18.98
Finance	19,991	9.80	14,983	7.53
Gas industry	16,072	7.88	39,972	20.08
Trade	5,929	2.91	4,722	2.37
Investing activities	5,004	2.45	4,998	2.51
Aluminum industry	4,654	2.28	6,324	3.18
Machine building	1,295	0.63	–	–
Construction	895	0.44	–	–
Telecommunications	–	–	2,428	1.22
Total loans to corporate customers	**203,981**	**100**	**199,043**	**100**

As at 31 December 2021, balances with three major counterparties of the Bank amounted to EUR 93,194 thousand, or 45.69% of the Bank's total loan portfolio less allowance for expected credit losses (31 December 2020: EUR 115,309 thousand, or 57.93% of the Bank's total loan portfolio less allowance for expected credit losses).

Loans are issued to customers operating in the following countries:

	2021	*2020*
Russian Federation	42,794	27,942
Republic of Bulgaria	41,066	59,953
Mongolia	39,598	39,649
Socialist Republic of Vietnam	19,338	–
Republic of Poland	12,308	14,212
Romania	9,393	13,474
Slovak Republic	2,190	–
Other countries	37,294	43,813
Total	**203,981**	**199,043**

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

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(EUR thousand)

10. Loans to corporate customers (continued)

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

Loans to corporate customers	***2021***	***2020***
Internationally rated		
from BBB+ to BB-	*73,188*	*62,503*
from B+ to B-	*15,147*	–
Internally rated only		
from BBB+ to BB-	*52,778*	*83,560*
from B+ to B-	*42,507*	*55,412*
from CCC+ to C	*25,365*	–
Total	**208,985**	**201,475**
Allowance for expected credit losses	(5,004)	(2,432)
Carrying amount	**203,981**	**199,043**

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

Loans to corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2021	**182,873**	**11,362**	**7,240**	**201,475**
New originated or purchased assets	166,849	562	433	**167,844**
Assets derecognized or redeemed (excluding write-offs)	(160,759)	(2,071)	–	**(162,830)**
Changes in currency exchange rates	1,465	403	628	**2,496**
Gross carrying amount at 31 December 2021	**190,428**	**10,256**	**8,301**	**208,985**
Allowance for expected credit losses at 1 January 2021	**914**	**315**	**1,203**	**2,432**
New originated or purchased assets	2,276	3	428	**2,707**
Assets derecognized or redeemed (excluding write-offs)	(589)	(336)	–	**(925)**
Changes to models and inputs used for ECL calculations	(959)	861	706	**608**
Changes in currency exchange rates	1	20	161	**182**
Allowance for expected credit losses at 31 December 2021	**1,643**	**863**	**2,498**	**5,004**

Loans to corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2020	**179,611**	**7,834**	**–**	**187,445**
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)**
Gross carrying amount at 31 December 2020	**182,873**	**11,362**	**7,240**	**201,475**
Allowance for expected credit losses at 1 January 2020	**260**	**117**	**–**	**377**
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)**
Allowance for expected credit losses at 31 December 2020	**914**	**315**	**1,203**	**2,432**

(EUR thousand)

10. Loans to corporate customers (continued)

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.

Collateral obtained for loans to corporate customers comprises:

	2021	*2020*
Loans guaranteed by other parties, including credit insurance	81,315	39,626
Loans secured by pledge of (movable) property	75,095	60,437
Loans secured by real estate	9,393	16,742
Loans secured by deposits	–	8,098
Unsecured loans	38,178	74,140
Total loans to corporate customers	**203,981**	**199,043**

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 2021, the Bank has modified the terms and conditions of loans to four borrowers (31 December 2020: two borrowers), including introduction of payment holidays, as part of the measures related to consequences of the COVID-19 pandemic. 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.

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(EUR thousand)

11. Derivative financial instruments

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

	Notional principal	Fair value	
		Asset	Liability
2021			
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	84,262	210	1,139
Derivative financial instruments (contracts with residents of other countries)	6,578	–	18
Interest rate contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	17,948	213	–
Interest rate contracts used as hedging instruments			
Derivative financial instruments (contracts with residents of IBEC member countries)	14,000	49	1
Cross-currency interest rate contracts used as hedging instruments			
Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments	111,952	–	16,509
Derivative financial instruments (contracts with residents of other countries) used as hedging instruments	38,500	–	5,846
Total derivative assets/liabilities		**472**	**23,513**
2020			
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	44,173	341	605
Derivative financial instruments (contracts with residents of other countries)	3,291	34	–
Cross-currency interest rate contracts used as hedging instruments			
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
Total derivative assets/liabilities		**375**	**26,020**

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(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.

	2021		*2020*	
	Contracts with positive fair value	***Contracts with negative fair value***	***Contracts with positive fair value***	***Contracts with negative fair value***
Foreign exchange swaps: fair value at the end of the reporting period				
- USD payable on settlement (-)	36,980	33,924	–	12,150
- EUR receivable on settlement (+)	47,348	41,928	28,656	18,500
- RUB payable on settlement (-)	6,039	6,034	–	–
- Payable in other currencies on settlement (-)	4,119	3,127	28,281	6,955
Interest rate swaps: fair value at the end of the reporting period				
- RUB payable on settlement (-)	5,948	–	–	–
- EUR receivable on settlement (+)	12,124	–	–	–
- RUB receivable on settlement (+)	6,037	–	–	–
- EUR payable on settlement (-)	12,000	–	–	–
Interest rate swaps used as hedging instruments: fair value at the end of the reporting period				
- EUR payable on settlement (-)	4,000	10,001	–	–
- EUR receivable on settlement (+)	4,049	10,000	–	–
Cross-currency interest rate swaps used as hedging instruments: fair value at the end of the reporting period				
- EUR payable on settlement (-)	–	154,343	–	157,285
- RUB receivable on settlement (+)	–	131,988	–	131,870
Net fair value of interest rate, foreign exchange and cross-currency interest rate swaps	**472**	**(23,513)**	**375**	**(26,020)**

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.

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(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

In 2021 and 2020, the Bank designated the following financial liabilities as hedged items in cash flow hedge relationships:

	Cash flow hedge reserve	
Cash flow hedges	***Continuing hedges***	***Discontinued hedges***
2021		
RUB-denominated bonds with a fixed interest rate	(5,497)	−
2020		
RUB-denominated bonds with a fixed interest rate	621	−

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.

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(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

The table below sets out the outcome of the Bank's hedging strategy, in particular, the notional and 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:

					Changes in the fair values of hedging instruments used for measuring hedge ineffectiveness					
		Carrying amount			*Effective portion*	*Effective portion*	*Hedge ineffectiveness*	*Reclassified to profit or loss in*		
Cash flow hedges	*Notional principal*	*Assets*	*Liabilities*	*Total*	*Recognized in other comprehensive income (cash flow hedge reserve net of basis currency spread)*	*Recognized in other comprehensive income (basis currency spread)*	*Recognized in the statement of profit or loss within net (losses) gains from operations with derivative financial instruments and foreign currency*	*Interest income (expense) calculated using the EIR method*	*Net (losses) gains from operations with derivative financial instruments and foreign currency*	*Net (losses) gains from operations with derivative financial instruments and foreign currency*
2021										
Cross-currency interest rate swaps	150,452	–	22,355	**10,411**	10,741	(393)	63	**7,296**	**9,860**	**(690)**
2020										
Cross-currency interest rate swaps	150,446	–	25,415	**(22,300)**	(21,650)	(750)	100	**6,114**	**(27,674)**	**(568)**

The cumulative amount of the change in the fair value of the hedged item amounted to EUR (6,372) thousand as at 31 December 2021 (31 December 2020: EUR (17,114) thousand). The cumulative amount of the change in the fair value of the hedging instrument, excluding basis currency spread, from the moment the hedge began, amounted to EUR (19,152) thousand as at 31 December 2021 (31 December 2020: EUR (22,543) thousand). In 2021 and 2020, the effective portion of hedging relationships recognized in other comprehensive income (cash flow hedge reserve, excluding basis currency spread) was adjusted to the smallest of the two amounts.

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(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

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

Cash flow hedges	*12 months to 5 years*	*Total*
2021		
Cross-currency interest rate swaps		
Notional principal	150,452	**150,452**
Average fixed interest rate, EUR	1.24%	**1.24%**
Average fixed interest rate, RUB	7.14%	**7.14%**
Average EUR/RUB exchange rate	0.0119	**0.0119**
2020		
Cross-currency interest rate swaps		
Notional principal	150,446	**150,446**
Average fixed interest rate, EUR	1.24%	**1.24%**
Average fixed interest rate, RUB	7.14%	**7.14%**
Average EUR/RUB exchange rate	0.0123	**0.0123**

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

Cash flow hedges	*Cash flow hedge reserve net of basis currency spread*	*Basis currency spread*
Balance at 1 January 2021	**1,068**	**(447)**
Effective portion of changes in the fair value of cross-currency interest rate swaps	10,741	(393)
Net amounts reclassified to profit or loss:		
- interest expense	(7,296)	–
- net gains (losses) from operations with derivative financial instruments and foreign currency	(9,860)	690
Balance at 31 December 2021	**(5,347)**	**(150)**
Balance at 1 January 2020	**1,158**	**(265)**
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
Balance at 31 December 2020	**1,068**	**(447)**

Fair value hedges

As at 31 December 2021, for the purposes of managing changes in fair value of securities recognized in the statement of financial position within securities at fair value through other comprehensive income, an interconnection was established qualifying for fair value hedges. The result of EUR (182) thousand was recognized in the statement of profit or loss and other comprehensive income within net (losses) gains from operations with derivative financial instruments and foreign currency. In 2020, there were no fair value hedges.

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(EUR thousand)

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

Movements in property, plant and equipment for 2021 were as follows:

2021	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Intangible assets and investments in intangible assets*	*Right-of-use assets*	*Total*
Cost								
Balance at 1 January 2021		**73,209**	**1,561**	**518**	**568**	**1,873**	**26**	**77,755**
Additions		45	136	1	–	200	–	**382**
Disposals		–	(77)	(45)	–	–	–	**(122)**
Balance at 31 December 2021		**73,254**	**1,620**	**474**	**568**	**2,073**	**26**	**78,015**
Accumulated depreciation								
Balance at 1 January 2021		**23,131**	**925**	**326**	**375**	**2**	**7**	**24,766**
Depreciation charges for the year	21	973	186	17	78	16	6	**1,276**
Disposals		–	(77)	(38)	–	–	–	**(115)**
Balance at 31 December 2021		**24,104**	**1,034**	**305**	**453**	**18**	**13**	**25,927**
Net book value								
Net book value at 1 January 2021		**50,078**	**636**	**192**	**193**	**1,871**	**19**	**52,989**
Net book value at 31 December 2021		**49,150**	**586**	**169**	**115**	**2,055**	**13**	**52,088**

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*
Cost								
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)**
Balance at 31 December 2020		**73,209**	**1,561**	**518**	**568**	**1,873**	**26**	**77,755**
Accumulated depreciation								
Balance at 1 January 2020		**23,750**	**1,371**	**340**	**296**	**1**	**2**	**25,760**
Depreciation charges for the year	21	1,033	110	16	79	1	5	**1,244**
Disposals		–	(556)	(30)	–	–	–	**(586)**
Revaluation		(1,652)	–	–	–	–	–	**(1,652)**
Balance at 31 December 2020		**23,131**	**925**	**326**	**375**	**2**	**7**	**24,766**
Net book value								
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**

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

	2021	*2020*
Cost	48,334	48,290
Accumulated depreciation	(15,907)	(15,238)
Net book value	**32,427**	**33,052**

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(EUR thousand)

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

Revaluation of assets

In 2021, the Bank did not engage an independent appraiser for an 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 2021.

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.

To revaluate 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 it cannot physically separate the leased floor space, and also takes into account the insignificance of the leased floor space.

The Bank expects to receive the following operating lease payments after 31 December 2021: within 30 days: EUR 205 thousand; 31 days to 180 days: EUR 969 thousand; 181 days to one year: EUR 632 thousand; over one year to 3 years: EUR 1,231 thousand.

13. Other assets and liabilities

Other assets comprise:

	Note	*2021*	*2020*
Financial assets			
Margin call		26,439	26,750
Accounts receivable under financial and business operations		912	478
Bank fees receivable from customers		220	139
Consumer lending		160	313
Allowance for expected credit losses from financial assets	22	(1)	(3)
Total financial assets less allowance for expected credit losses		**27,730**	**27,677**
Non-financial assets			
Inventories		76	56
Property transferred to the Bank in repayment of the loan		–	103
Total non-financial assets		**76**	**159**
Total other assets		**27,806**	**27,836**

As at 31 December 2021 and 31 December 2020, other financial assets are classified in Stage 1.

Other liabilities comprise:

	Note	*2021*	*2020*
Financial liabilities			
Contributions to social security funds		2,174	1,786
Settlements under financial and business operations		1,730	1,941
Advances received		45	241
Lease liabilities		14	19
Other accrued liabilities		52	–
Total financial liabilities		**4,015**	**3,987**
Non-financial liabilities			
Allowance for expected credit losses from credit-related commitments	17, 22	493	384
Provision for unused vacations	23	321	181
Allowance for litigation charges	23	–	11
Total non-financial liabilities		**814**	**576**
Total other liabilities		**4,829**	**4,563**

(EUR thousand)

14. Due to credit institutions

Amounts due to credit institutions comprise:

	2021	2020
Repurchase agreements	84,727	121,413
Long-term related financing from banks in IBEC member countries	49,428	39,740
Loans from banks in IBEC member countries	24,344	74,382
Loans from banks in other countries	4,430	26,919
Correspondent accounts of banks in IBEC member countries	228	577
Correspondent accounts of banks in other countries	6	1
Loans from international financial institutions	−	13,546
Long-term financing from banks in other countries	−	9,929
Due to credit institutions	**163,163**	**286,507**

As at 31 December 2021, balances due to three major counterparties amounted to EUR 111,910 thousand, or 68.59% of total amounts due to credit institutions (31 December 2020: EUR 133,366 thousand due to three major counterparties, or 46.55% 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 92,331 thousand as at 31 December 2021 (31 December 2020: EUR 138,322 thousand) (Notes 7, 8).

Transferred financial assets not derecognized

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

	Note	2021	2020
Carrying amount of transferred assets – securities at fair value through other comprehensive income	7	52,157	91,862
Carrying amount of transferred assets − securities at amortized cost	8	40,174	46,460
Carrying amount of associated liabilities – due to credit institutions		(84,727)	(121,413)

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:

	2021	2020
Deposits of organizations in IBEC member countries	60,002	31,321
Current accounts of organizations in IBEC member countries	24,662	3,090
Amounts due to the Fund	12,001	7,809
Current accounts of organizations in other countries	262	475
Other current accounts	4,313	4,540
Due to customers	**101,240**	**47,235**

As at 31 December 2021, balances due to three major customers of the Bank amounted to EUR 91,693 thousand, or 90.57% of total amounts due to customers (31 December 2020: EUR 38,506 thousand, or 81.52% 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 the reporting period.

(EUR thousand)

15. Due to customers (continued)

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

	2021		2020	
	Amount	**%**	**Amount**	**%**
Gas industry	60,002	70.6	8,100	23.2
Construction	19,720	23.2	920	2.6
Finance	1,495	1.8	825	2.4
Transport	1,324	1.6	49	0.1
Manufacturing	679	0.8	702	2.0
Pharmaceuticals	514	0.6	1,027	2.9
Research	368	0.4	159	0.5
Trade	49	0.1	107	0.3
Mining	2	0.0	–	–
Power industry	–	–	22,597	64.8
Other	773	0.9	400	1.2
Total due to customers	**84,926**	**100**	**34,886**	**100**

16. Debt securities issued

Debt securities issued comprise:

	2021	2020
RUB-denominated bonds	144,338	133,694
BGN-denominated bonds	34,656	–
Debt securities issued	**178,994**	**133,694**

On 1 June 2021, IBEC placed bonds in Bulgaria in the amount of BGN 68 million (EUR 34,768 thousand at the currency exchange rate as at the date of issue) maturing within 3 years. The coupon rate on the bonds was set at 1.150% 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.

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.

When placing bonds in currencies other than euros and without natural hedge, 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:

	2021	2020
Guarantees issued	70,313	36,954
Loan commitments	63,395	69,978
Letters of credit	53,137	7,434
Reimbursement obligations	4,948	25,890
Total credit-related commitments	**191,793**	**140,256**
Allowance for expected credit losses (Notes 13, 22)	(493)	(384)
Credit-related commitments	**191,300**	**139,872**

(EUR thousand)

17. Credit-related commitments (continued)

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

	2021	*2020*
Russian Federation	114,189	85,139
Mongolia	29,425	9,663
Republic of Bulgaria	4,227	5,000
Czech Republic	1,195	2,052
Romania	775	5,796
Republic of Poland	297	981
Slovak Republic	199	–
Other countries	40,993	31,241
Total	**191,300**	**139,872**

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 provision for expected credit losses from credit-related commitments is presented below:

Credit-related commitments	***Stage 1***	***Total***
Amount of commitments at 1 January 2021	**140,256**	**140,256**
New exposures	321,390	**321,390**
Exposures expired or amounts paid	(276,749)	**(276,749)**
Changes in currency exchange rates	6,896	**6,896**
Amount of commitments at 31 December 2021	**191,793**	**191,793**
Allowance for expected credit losses at 1 January 2021	**384**	**384**
New exposures	739	**739**
Exposures expired or amounts paid	(389)	**(389)**
Changes to models and inputs used for ECL calculations	(270)	**(270)**
Changes in currency exchange rates	29	**29**
Allowance for expected credit losses at 31 December 2021	**493**	**493**
Amount of commitments at 1 January 2020	**62,103**	**62,103**
New exposures	320,547	**320,547**
Exposures expired or amounts paid	(236,041)	**(236,041)**
Changes in currency exchange rates	(6,353)	**(6,353)**
Amount of commitments at 31 December 2020	**140,256**	**140,256**
Allowance for expected credit losses at 1 January 2020	**154**	**154**
New exposures	1,171	**1,171**
Exposures expired or amounts paid	(812)	**(812)**
Changes to models and inputs used for ECL calculations	(116)	**(116)**
Changes in currency exchange rates	(13)	**(13)**
Allowance for expected credit losses at 31 December 2020	**384**	**384**

The Bank has outstanding commitments 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.

(EUR thousand)

17. Credit-related commitments (continued)

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 and credit-related commitments, the Bank uses the same risk management policy and procedures as for granting loans to customers.

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

18. Interest income and interest expense

	2021	*2020*
Interest income		
Interest income calculated using the EIR method		
Loans to corporate customers	8,434	5,764
Loans and deposits to banks	5,060	4,814
- loans issued to banks under trade financing	*2,691*	*2,295*
- syndicated loans	*1,507*	*1,307*
- term deposits with banks	*862*	*1,212*
Securities at fair value through other comprehensive income	4,556	4,993
Securities at amortized cost	2,293	2,253
Other	13	12
Other interest income		
Securities at fair value through profit or loss	383	447
Total interest income	**20,739**	**18,283**
Interest expense		
Interest expense calculated using the EIR method		
Debt securities issued	(2,870)	(2,452)
Due to credit institutions	(2,288)	(1,494)
Due to customers	(480)	(2,556)
Lease liabilities	(1)	(2)
Other	(52)	(24)
Total interest expense	**(5,691)**	**(6,528)**
Net interest income	**15,048**	**11,755**

19. Net fee and commission income

	2021	*2020*
Documentary operations	1,658	587
Fee for servicing a loan/credit facility	181	110
Fiduciary operations	101	120
Cash and settlement operations	62	80
Accounts maintenance	45	47
Currency control	27	45
Other	–	13
Fee and commission income	**2,074**	**1,002**
Fee and commission expense	(385)	(213)
Net fee and commission income	**1,689**	**789**

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(EUR thousand)

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:

	2021	*2020*
Result from disposal of debt securities	4,325	5,909
Total net gains from operations with securities at fair value through other comprehensive income	**4,325**	**5,909**

The gain from the revaluation of securities at fair value through other comprehensive income due to their disposal during 2021 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 3,874 thousand (2020: EUR 6,118 thousand).

21. Administrative and management expenses

	2021	*2020*
Staff costs	10,167	9,942
Repair and maintenance of the building, equipment and apartments	1,750	1,796
Depreciation of property, plant and equipment	1,276	1,244
Information and advisory expenses	444	373
Building security expenses	282	290
Other administrative and management expenses	1,289	1,044
Total administrative and management expenses	**15,208**	**14,689**

Staff costs comprise contributions to:

	2021	*2020*
Pension Fund of the Russian Federation	744	765
Compulsory Medical Insurance Fund of the Russian Federation	267	281
Pension funds of other IBEC member countries	69	60
Total	**1,080**	**1,106**

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 2021 and 2020:

2021	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Securities at fair value through other comprehensive income	7	37	(84)	–	**(47)**
Securities at amortized cost	8	150	–	–	**150**
Loans and deposits to banks	9	56	(24)	–	**32**
Loans to corporate customers	10	728	528	1,134	**2,390**
Credit-related commitments	17	80	–	–	**80**
Other financial assets	13	–	–	–	**–**
		1,051	**420**	**1,134**	**2,605**

2020	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
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**
		1,692	**196**	**1,133**	**3,021**

(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 2021 and 31 December 2020 is presented below:

	Securities at fair value through other comprehensive income	*Securities at amortized cost*	*Loans and deposits to banks*	*Loans to corporate customers*	*Credit-related commitments*	*Other financial assets*	*Total*
Balance at 1 January 2021	**1,300**	**622**	**795**	**2,432**	**384**	**3**	**5,536**
New originated or purchased assets	375	112	1,064	2,707	739	6	**5,003**
Assets derecognized or redeemed (excluding write-offs)	(498)	(3)	(511)	(925)	(389)	(6)	**(2,332)**
Changes to models and inputs used for ECL calculations	76	41	(521)	608	(270)	–	**(66)**
Write-offs	–	–	–	–	–	(2)	**(2)**
Changes in currency exchange rates	13	19	49	182	29	–	**292**
Balance at 31 December 2021	**1,266**	**791**	**876**	**5,004**	**493**	**1**	**8,431**
Balance at 1 January 2020	**794**	**467**	889	**377**	**154**	**7**	**2,688**
New originated or purchased assets	354	42	1,918	1,191	1,171	5	**4,681**
Assets derecognized or redeemed (excluding write-offs)	(576)	(41)	(454)	(210)	(812)	(2)	**(2,095)**
Changes to models and inputs used for ECL calculations	745	175	(1,504)	1,135	(116)	–	**435**
Write-offs	–	–	–	–	–	(7)	**(7)**
Changes in currency exchange rates	(17)	(21)	(54)	(61)	(13)	–	**(166)**
Balance at 31 December 2020	**1,300**	**622**	**795**	**2,432**	**384**	**3**	**5,536**

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(EUR thousand)

23. Other provisions

Movements in other provisions are presented below:

	Provisions for legal claims	*Provision for unused vacations*	*Total*
1 January 2021	**11**	**181**	**192**
Charge (reversal)	(11)	162	**151**
Write-offs	–	(22)	**(22)**
31 December 2021	**–**	**321**	**321**
1 January 2020	**11**	**99**	**110**
Charge	–	93	**93**
Write-offs	–	(11)	**(11)**
31 December 2020	**11**	**181**	**192**

Provisions for unused vacations and legal claims are recognized as other liabilities. As at 31 December 2020, provisions for legal claims include the amount of expected litigation charges and possible litigation payments where the Bank acts as a defendant (31 December 2021: no provisions for legal claims).

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 very 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 has 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.

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(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 or in its business;
- 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 2021:

	Stage 1	*Stage 2*	*Stage 3*	
	12-month ECL	*Lifetime ECL*	*Lifetime ECL*	*Total*
Cash and cash equivalents (other than cash on hand)				
Due from central banks	*18,820*	–	–	***18,820***
Correspondent accounts with internationally rated banks	*7,837*	–	–	***7,837***
Correspondent accounts with banks having internal credit ratings only	*74*	–	–	***74***
Total	**26,731**	**–**	**–**	**26,731**
Allowance for expected credit losses	–	–	–	**–**
Carrying amount	**26,731**	**–**	**–**	**26,731**
Securities at fair value through other comprehensive income				
- held by the Bank				
Internationally rated	*139,416*	*6,820*	–	***146,236***
Internally rated only	*2,302*	–	–	***2,302***
Carrying amount	**141,718**	**6,820**	**–**	**148,538**
Allowance for expected credit losses	**(690)**	**(478)**	**–**	**(1,168)**
- pledged under repurchase agreements				
Internationally rated	*52,157*	–	–	***52,157***
Carrying amount	**52,157**	**–**	**–**	**52,157**
Allowance for expected credit losses	**(98)**	**–**	**–**	**(98)**

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(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

	Stage 1	Stage 2	Stage 3	
	12-month ECL	***Lifetime ECL***	***Lifetime ECL***	***Total***
Securities at amortized cost				
- held by the Bank				
Internationally rated	*34,920*	–	–	***34,920***
Internally rated only	*3,003*	–	–	***3,003***
Total	**37,923**	**–**	**–**	**37,923**
Allowance for expected credit losses	(463)	–	–	**(463)**
Carrying amount	**37,460**	**–**	**–**	**37,460**
- pledged under repurchase agreements				
Internationally rated	*40,502*	–	–	***40,502***
Total	**40,502**	**–**	**–**	**40,502**
Allowance for expected credit losses	(328)	–	–	**(328)**
Carrying amount	**40,174**	**–**	**–**	**40,174**
Loans and deposits to banks				
Internationally rated	*175,622*	–	–	***175,622***
Internally rated only	*850*	–	–	***850***
Total	**176,472**	**–**	**–**	**176,472**
Allowance for expected credit losses	(876)	–	–	**(876)**
Carrying amount	**175,596**	**–**	**–**	**175,596**
Loans to corporate customers				
Internationally rated	*88,335*	–	–	***88,335***
Internally rated only	*102,093*	*10,256*	*8,301*	***120,650***
Total	**190,428**	**10,256**	**8,301**	**208,985**
Allowance for expected credit losses	(1,643)	(863)	(2,498)	**(5,004)**
Carrying amount	**188,785**	**9,393**	**5,803**	**203,981**

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(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

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

	Stage 1	*Stage 2*	*Stage 3*	
	12-month ECL	*Lifetime ECL*	*Lifetime ECL*	*Total*
Cash and cash equivalents (other than cash on hand)				
Due from central banks	*9,276*	–	–	***9,276***
Correspondent accounts with internationally rated banks	*7,200*	–	–	***7,200***
Correspondent accounts with banks having internal credit ratings only	*14*	–	–	***14***
Total	**16,490**	**–**	**–**	**16,490**
Allowance for expected credit losses	–	–	–	**–**
Carrying amount	**16,490**	**–**	**–**	**16,490**
Securities at fair value through other comprehensive income				
- held by the Bank				
Internationally rated	*185,732*	*6,110*	–	***191,842***
Internally rated only	*2,602*	–	–	***2,602***
Carrying amount	**188,334**	**6,110**	**–**	**194,444**
Allowance for expected credit losses	**(560)**	**(562)**	**–**	**(1,122)**
- pledged under repurchase agreements				
Internationally rated	*91,862*	–	–	***91,862***
Carrying amount	**91,862**	**–**	**–**	**91,862**
Allowance for expected credit losses	**(178)**	**–**	**–**	**(178)**

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(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

	Stage 1	Stage 2	Stage 3	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Securities at amortized cost				
- held by the Bank				
Internationally rated	*15,543*	–	–	***15,543***
Internally rated only	*3,003*	–	–	***3,003***
Total	**18,546**	**–**	**–**	**18,546**
Allowance for expected credit losses	(410)	–	–	**(410)**
Carrying amount	**18,136**	**–**	**–**	**18,136**
- pledged under repurchase agreements				
Internationally rated	*46,672*	–	–	***46,672***
Total	**46,672**	**–**	**–**	**46,672**
Allowance for expected credit losses	(212)	–	–	**(212)**
Carrying amount	**46,460**	**–**	**–**	**46,460**
Loans and deposits to banks				
Internationally rated	*162,886*	*2,440*	–	***165,326***
Internally rated only	*745*	–	–	***745***
Total	**163,631**	**2,440**	**–**	**166,071**
Allowance for expected credit losses	(772)	(23)	–	**(795)**
Carrying amount	**162,859**	**2,417**	**–**	**165,276**
Loans to corporate customers				
Internationally rated	62,503	–	–	**62,503**
Internally rated only	120,370	11,362	7,240	**138,972**
Total	**182,873**	**11,362**	**7,240**	**201,475**
Allowance for expected credit losses	(914)	(315)	(1,203)	**(2,432)**
Carrying amount	**181,959**	**11,047**	**6,037**	**199,043**

Credit-related commitments relate to Stage 1 as at 31 December 2021 and 2020.

There were no transfers of other financial assets between stages during 2021 and 2020.

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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 2021:

Country	*Cash and cash equivalents (other than cash on hand)*	*Securities at fair value through profit or loss held by the Bank*	*Securities at fair value through profit or loss pledged under repurchase agreements*	*Securities at fair value through other comprehensive income held by the Bank*	*Securities at fair value through other comprehensive income pledged under repurchase agreements*	*Securities at amortized cost held by the Bank*	*Securities at amortized cost pledged under repurchase agreements*	*Loans and deposits to banks*	*Loans to corporate customers*	*Derivative financial assets*	*Other financial assets*	*Total*	*Share, %*
Russian Federation	8,829	−	−	18,293	10,951	18,369	7,157	56,423	42,794	472	17,077	**180,365**	**24.94**
Mongolia	5	−	−	16,107	−	4,391	−	50,098	39,598	−	12	**110,211**	**15.24**
Republic of Bulgaria	69	2,976	−	9,921	4,792	6,096	9,132	−	41,066	−	10	**74,062**	**10.24**
Romania	722	5,344	−	14,601	16,520	7,803	11,585	−	9,393	−	−	**65,968**	**9.13**
Socialist Republic of Vietnam	−	−	−	−	−	−	−	22,243	19,338	−	−	**41,581**	**5.75**
IFI[1]	−	−	−	38,809	−	−	−	−	−	−	−	**38,809**	**5.37**
Republic of Poland	179	1,987	−	9,324	8,632	801	4,213	−	12,308	−	−	**37,444**	**5.18**
Czech Republic	−	−	−	19,844	2,966	−	5,076	−	−	−	1	**27,887**	**3.85**
Slovak Republic	−	−	−	5,750	1,657	−	3,011	−	2,190	−	−	**12,608**	**1.74**
Other countries	16,927	−	−	15,889	6,639	−	−	46,832	37,294	−	10,630	**134,211**	**18.56**
Total	**26,731**	**10,307**	**−**	**148,538**	**52,157**	**37,460**	**40,174**	**175,596**	**203,981**	**472**	**27,730**	**723,146**	**100**

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

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[1] IFI − international financial funds and institutions. As at 31 December 2021, IFI are represented by the European Investment Bank, the European Stability Mechanism, the European Union and the Eurasian Development Bank.

(EUR thousand)

24. Risk management (continued)

Geographical risk (continued)

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

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

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, the Republic of Armenia, i.e. countries that carry out their operations in transactions with the Bank's member countries.

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[2] IFI − international financial funds and institutions. As at 31 December 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)

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 2021 and 31 December 2020 based on contractual undiscounted cash flows. Repayments which are subject to notice are treated as if notice were to be given immediately.

2021	*On demand and less than 30 days*	*31 to 180 days*	*181 to 365 days*	*Over 365 days*	*Total gross amount of cash (inflow) outflow*	*Carrying amount*
Due to credit institutions	24,137	98,716	3,226	50,105	176,184	163,163
Due to customers	29,238	60,006	12,014	–	101,258	101,240
Debt securities issued	–	5,318	88,584	100,359	194,261	178,994
Other liabilities	4,815	2	2	10	4,829	4,829
Gross settled derivative financial instruments						
- inflow	(5,024)	(27,156)	(78,736)	(81,174)	(192,090)	(183,916)
- outflow	5,077	23,471	87,319	82,400	198,267	207,429
Total	**58,243**	**160,357**	**112,409**	**151,700**	**482,709**	**471,739**

2020	*On demand and less than 30 days*	*31 to 180 days*	*181 to 365 days*	*Over 365 days*	*Total gross amount of cash (inflow) outflow*	*Carrying amount*
Due to credit institutions	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
Total	**112,406**	**151,693**	**18,932**	**203,308**	**486,339**	**498,019**

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

	On demand and less than 1 month	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Total*
2021	75,270	18,458	25,402	21,189	50,981	**191,300**
2020	37,736	905	36,887	12,766	51,578	**139,872**

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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 2021 and 31 December 2020 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.

2021	*On demand and less than 1 month*	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Overdue*	*Total*
Cash and cash equivalents	27,855	–	–	–	–	–	**27,855**
Securities at fair value through profit or loss							
- held by the Bank	10,307	–	–	–	–	–	**10,307**
- pledged under repurchase agreements	–	–	–	–	–	–	**–**
Securities at fair value through other comprehensive income							
- held by the Bank	148,538	–	–	–	–	–	**148,538**
- pledged under repurchase agreements	9,513	42,644	–	–	–	–	**52,157**
Securities at amortized cost							
- held by the Bank	–	–	–	30,188	7,272	–	**37,460**
- pledged under repurchase agreements	–	40,174	–	–	–	–	**40,174**
Loans and deposits to banks	29,296	55,036	60,247	31,017	–	–	**175,596**
Loans to corporate customers	7,956	36,024	27,550	92,688	39,389	374	**203,981**
Derivative financial assets	8	201	–	121	142	–	**472**
Other financial assets	27,570	32	–	128	–	–	**27,730**
Total financial assets	**261,043**	**174,111**	**87,797**	**154,142**	**46,803**	**374**	**724,270**
Due to credit institutions	23,975	89,760	–	9,673	39,755	–	**163,163**
Due to customers	29,237	60,002	12,001	–	–	–	**101,240**
Derivative financial liabilities	10	64	12,622	10,816	1	–	**23,513**
Debt securities issued	–	1,764	83,198	94,032	–	–	**178,994**
Other financial liabilities	4,001	2	2	10	–	–	**4,015**
Total financial liabilities	**57,223**	**151,592**	**107,823**	**114,531**	**39,756**	**–**	**470,925**
Net position	**203,820**	**22,519**	**(20,026)**	**39,611**	**7,047**	**374**	**253,345**
Cumulative liquidity gap for financial instruments	**203,820**	**226,339**	**206,313**	**245,924**	**252,971**	**253,345**	**–**

(EUR thousand)

24. Risk management (continued)

Classification of assets and liabilities by maturity (continued)

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

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.

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(EUR thousand)

24. Risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis

	2021		*2020*	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
1 bp parallel fall	**(22)**	**(97)**	**945**	**945**
EUR	(303)	(378)	285	285
USD	290	290	573	573
RUB	(5)	(5)	279	279
Other currencies	(4)	(4)	(192)	(192)
1 bp parallel rise	**22**	**97**	**(945)**	**(945)**
EUR	303	378	(285)	(285)
USD	(290)	(290)	(573)	(573)
RUB	5	5	(279)	(279)
Other currencies	4	4	192	192

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(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 2021 and 31 December 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2021				***2020***			
	Average interest rate, %				***Average interest rate, %***			
	EUR	***USD***	***RUB***	***Other currencies***	***EUR***	***USD***	***RUB***	***Other currencies***
Interest-bearing assets								
Correspondent accounts with banks in IBEC member countries and other banks	(0.52)	–	–	0.06	(0.61)	–	–	(0.31)
Securities at fair value through profit or loss								
- held by the Bank	2.51	–	–	–	–	–	7.25	–
- pledged under repurchase agreements	–	–	–	–	–	–	–	–
Securities at fair value through other comprehensive income								
- held by the Bank	1.63	3.60	5.83	–	1.59	2.75	6.22	–
- pledged under repurchase agreements	1.50	3.38	6.60	–	1.57	–	6.60	–
Securities at amortized cost								
- held by the Bank	3.23	7.25	6.89	–	2.54	7.50	6.89	–
- pledged under repurchase agreements	2.66	7.75	–	–	3.03	–	–	–
Loans and deposits to banks	1.83	3.19	10.33	–	1.99	3.68	8.61	–
Loans to corporate customers	4.57	4.89	10.55	2.67	4.13	5.38	7.13	1.40
Consumer lending	3.00	–	–	–	3.00	–	–	–
Interest-bearing liabilities								
Due to credit institutions	0.43	0.98	8.67	2.11	0.21	0.71	4.32	1.41
Correspondent accounts with banks in IBEC member countries and other credit institutions	(0.50)	–	3.55	–	(0.50)	–	–	–
Due to customers	0.06	0.76	2.33	–	–	1.15	5.05	–
Debt securities issued	–	–	7.19	1.15	–	–	7.19	–

(EUR thousand)

24. Risk management (continued)

Currency risk

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

The table below shows the general analysis of the currency risk of the Bank for its financial assets and liabilities as at 31 December 2021:

	Note	*USD*	*RUB*	*EUR*	*Other*	*Total*
Cash and cash equivalents		2,233	4,290	19,931	1,401	**27,855**
Securities at fair value through profit or loss						
- held by the Bank		–	–	10,307	–	**10,307**
- pledged under repurchase agreements		–	–	–	–	**–**
Securities at fair value through other comprehensive income						
- held by the Bank		23,149	967	124,422	–	**148,538**
- pledged under repurchase agreements		4,081	4,792	43,284	–	**52,157**
Securities at amortized cost						
- held by the Bank		4,391	716	32,353	–	**37,460**
- pledged under repurchase agreements		4,339	–	35,835	–	**40,174**
Loans and deposits to banks		94,201	11,432	69,963	–	**175,596**
Loans to corporate customers		22,049	31,202	114,500	36,230	**203,981**
Other financial assets	13	90	817	26,817	6	**27,730**
Total financial assets		**154,533**	**54,216**	**477,412**	**37,637**	**723,798**
Due to credit institutions		83,296	10,986	39,825	29,056	**163,163**
Due to customers		534	21,011	79,301	394	**101,240**
Debt securities issued		–	144,338	–	34,656	**178,994**
Other financial liabilities	13	2	975	2,984	54	**4,015**
Total financial liabilities		**83,832**	**177,310**	**122,110**	**64,160**	**447,412**
Net balance sheet position		**70,701**	**(123,094)**	**355,302**	**(26,523)**	**276,386**
Net off-balance sheet position		**(70,904)**	**120,004**	**(64,895)**	**(7,246)**	**(23,041)**
Net balance sheet and off-balance sheet position		**(203)**	**(3,090)**	**290,407**	**(33,769)**	**253,345**

Raising funds in the Republic of Bulgaria in the form of debt securities issued in the amount of BGN 68 million (EUR 34,768 thousand at the currency exchange rate as at the date of issue) is recognized in other currencies. The official exchange rate of BGN to EUR is fixed and does not affect the Bank's gains (losses) on foreign currency translation and is set at 1.95583 for the purposes of these financial statements.

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(EUR thousand)

24. Risk management (continued)

Currency risk (continued)

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

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

As at 31 December 2021 and 31 December 2020, a weakening of the euro against the US dollar and the Russian ruble would have caused an increase (decrease) in equity and profit (or loss) as shown in the table below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The effect on the equity does not differ from the effect on the statement of profit or loss.

	2021	*2020*
20% appreciation of USD against EUR	(41)	(41)
20% appreciation of RUB against EUR	(618)	1,387

A strengthening of the euro against the above currencies as at 31 December 2021 and 31 December 2020 would have had the opposite effect provided that all other variables are held constant.

Operational risk

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

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

(EUR thousand)

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 building. 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 the building with relevant external sources to determine whether the change is reasonable. The results are submitted to the Board of Management of the Bank 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 measuring and disclosing fair values of financial instruments:

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

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

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(EUR thousand)

25. Fair value measurement (continued)

Fair value hierarchy (continued)

The following tables show the analysis of financial instruments presented in the financial statements at fair value by level of the fair value hierarchy as at 31 December 2021 and 31 December 2020:

	Fair value measurement using			
2021	***Level 1 inputs***	***Level 2 inputs***	***Level 3 inputs***	***Total***
Assets measured at fair value				
Securities at fair value through profit or loss held by the Bank				
- Eurobonds of IBEC member countries	5,344	–	–	**5,344**
- corporate Eurobonds	4,963	–	–	**4,963**
Securities at fair value through other comprehensive income held by the Bank				
- corporate Eurobonds	55,668	–	–	**55,668**
- Eurobonds of IBEC member countries	33,166	–	–	**33,166**
- Eurobonds of international financial institutions	26,164	–	–	**26,164**
- Eurobonds of funds	12,645	–	–	**12,645**
- Eurobonds of banks	11,708	–	–	**11,708**
- bonds of banks	3,705	–	–	**3,705**
- corporate bonds	967	2,302	–	**3,269**
- bonds of IBEC member countries	2,045	–	–	**2,045**
- Eurobonds of other countries	168	–	–	**168**
Securities at fair value through other comprehensive income pledged under repurchase agreements				
- Eurobonds of IBEC member countries	25,194	–	–	**25,194**
- corporate Eurobonds	16,491	–	–	**16,491**
- Eurobonds of other countries	6,639	–	–	**6,639**
- Eurobonds of banks	2,176	–	–	**2,176**
- bonds of banks	1,657	–	–	**1,657**
Derivative financial assets	–	472	–	**472**
Property, plant and equipment – buildings	–	–	49,150	**49,150**
	208,700	**2,774**	**49,150**	**260,624**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	27,855	**27,855**
Securities at amortized cost	–	–	77,634	**77,634**
Loans and deposits to banks	–	–	175,596	**175,596**
Loans to corporate customers	–	–	203,981	**203,981**
	–	**–**	**485,066**	**485,066**
Liabilities measured at fair value				
Derivative financial liabilities	**–**	**23,513**	**–**	**23,513**
Liabilities for which fair values are disclosed				
Due to credit institutions	–	–	163,163	**163,163**
Due to customers	–	–	101,240	**101,240**
Debt securities issued	–	–	178,994	**178,994**
	–	**–**	**443,397**	**443,397**

(EUR thousand)

25. Fair value measurement (continued)

Fair value hierarchy (continued)

	Fair value measurement using			
2020	***Level 1 inputs***	***Level 2 inputs***	***Level 3 inputs***	***Total***
Assets measured at fair value				
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**
	280,171	**7,629**	**50,078**	**337,878**
Assets for which fair values are disclosed				
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**
	–	**–**	**446,504**	**446,504**
Liabilities measured at fair value				
Derivative financial liabilities	**–**	**26,020**	**–**	**26,020**
Liabilities for which fair values are disclosed				
Due to credit institutions	–	–	286,507	**286,507**
Due to customers	–	–	47,235	**47,235**
Debt securities issued	–	–	133,694	**133,694**
	–	**–**	**467,436**	**467,436**

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 techniques which incorporate either only observable data or both observable and unobservable data. The unobservable 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

During 2021, there were no transfers from Level 1 to 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:

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

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.

The following table shows transfers between Level 2 and Level 1 of the fair value hierarchy for financial assets measured at fair value for 2021:

	Transfers from Level 2 to Level 1
Financial assets	
Securities at fair value through other comprehensive income held by the Bank	
- corporate Eurobonds	991
Total	**991**

During 2020, there were no transfers from Level 2 to Level 1.

Movements in Level 3 financial instruments measured at fair value

During 2021 and 2020, there were no transfers from Level 2 to Level 3.

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

As at 31 December 2021 and 31 December 2020, 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.

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(EUR thousand)

26. Segment reporting

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

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

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 2021 and 2020, respectively:

2021	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income calculated using the EIR method	16,514	3,829	13	**20,356**
Other interest income	209	174	–	**383**
Interest expense	(4,522)	(1,127)	(42)	**(5,691)**
Net interest income (expense)	**12,201**	**2,876**	**(29)**	**15,048**
Allowance for expected credit losses from financial assets	(1,695)	(910)	–	**(2,605)**
Net interest income (expense) after allowance for expected credit losses	**10,506**	**1,966**	**(29)**	**12,443**
Net fee and commission income (expense)	1,685	4	–	**1,689**
Net gains from operations with securities at fair value through profit or loss	(50)	(412)	–	**(462)**
Net gains from operations with securities at fair value through other comprehensive income	3,368	957	–	**4,325**
Net (losses) gains from operations with derivative financial instruments and foreign currency	6,388	(7,369)	(94)	**(1,075)**
Lease income	–	–	1,946	**1,946**
Other banking income	–	170	236	**406**
Net losses from disposal of property, plant and equipment	–	–	(5)	**(5)**
Other provisions	–	11	(162)	**(151)**
Other banking expenses	(167)	(20)	–	**(187)**
Segment profit	**21,730**	**(4,693)**	**1,892**	**18,929**

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(EUR thousand)

26. Segment reporting (continued)

2020	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income calculated using the EIR method	12,630	5,194	12	**17,836**
Other interest income	311	136	–	**447**
Interest expense	(5,896)	(593)	(39)	**(6,528)**
Net interest income (expense)	**7,045**	**4,737**	**(27)**	**11,755**
Allowance for expected credit losses from financial assets	(1,455)	(1,566)	–	**(3,021)**
Net interest income (expense) after allowance for expected credit losses	**5,590**	**3,171**	**(27)**	**8,734**
Net fee and commission income (expense)	742	48	(1)	**789**
Net gains from operations with securities at fair value through profit or loss	1,424	645	–	**2,069**
Net gains from operations with securities at fair value through other comprehensive income	3,332	2,577	–	**5,909**
Net (losses) gains from operations with derivative financial instruments and foreign currency	(46)	(1,502)	90	**(1,458)**
Lease income	–	–	1,635	**1,635**
Other banking income	2	4,094	192	**4,288**
Net losses from disposal of property, plant and equipment	–	–	(9)	**(9)**
Other provisions	–	–	(93)	**(93)**
Other banking expenses	(314)	(24)	(35)	**(373)**
Segment profit	**10,730**	**9,009**	**1,752**	**21,491**

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

	2021	***2020***
Total segment profit	**18,929**	**21,491**
Other unallocated expenses	(15,208)	(14,689)
Profit for the year	**3,721**	**6,802**

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

	Development portfolio	***Other banking activities***	***Other activities***	***Total***
Segment assets				
31 December 2021	497,074	226,154	53,206	**776,434**
31 December 2020	513,329	247,869	53,931	**815,129**

	Development portfolio	***Other banking activities***	***Other activities***	***Total***
Segment liabilities				
31 December 2021	360,278	102,881	8,580	**471,739**
31 December 2020	320,712	168,945	8,362	**498,019**

	Development portfolio	***Other banking activities***	***Other activities***	***Total***
Credit-related commitments				
31 December 2021	127,905	63,395	–	**191,300**
31 December 2020	69,898	69,974	–	**139,872**

In 2021, the Bank's revenue from lease transactions with three external counterparties (31 December 2020: two external counterparties) exceeded 20% of the Bank's income for 2021 and amounted to EUR 1,771 thousand (2020: EUR 1,382 thousand).

(EUR thousand)

26. Segment reporting (continued)

The tables below show segment revenue from contracts with external customers that are within the scope of IFRS 15 for 2021 and 2020, respectively:

2021	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income	16,723	4,003	13	**20,739**
Fee and commission income	1,961	113	–	**2,074**
- Documentary operations	*1,658*	–	–	***1,658***
- Fee for servicing a loan/credit facility	*181*	–	–	***181***
- Fiduciary operations	–	*101*	–	***101***
- Cash and settlement operations	*58*	*4*	–	***62***
- Accounts maintenance	*37*	*8*	–	***45***
- Currency control	*27*	–	–	***27***
Lease income	–	–	1,946	**1,946**
Total revenue from contracts with customers	**18,684**	**4,116**	**1,959**	**24,759**

2020	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income	12,941	5,330	12	**18,283**
Fee and commission income	853	149	–	**1,002**
- Documentary operations	*587*	–	–	***587***
- Fiduciary operations	–	*120*	–	***120***
- Fee for servicing a loan/credit facility	*110*	–	–	***110***
- Cash and settlement operations	*64*	*16*	–	***80***
- Accounts maintenance	*36*	*11*	–	***47***
- Currency control	*43*	*2*	–	***45***
- Other	*13*	–	–	***13***
Lease income	–	–	1,635	**1,635**
Total revenue from contracts with customers	**13,794**	**5,479**	**1,647**	**20,920**

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 2021, remuneration to the key management personnel of the Bank amounted to EUR 1,921 thousand (2020: EUR 1,822 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 44 thousand (2020: EUR 37 thousand), the pension funds of IBEC member countries in the amount of EUR 15 thousand (2020: EUR 12 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 22 thousand (2020: EUR 18 thousand).

As at 31 December 2021 and 31 December 2020, balances on the accounts of the Bank's key management personnel were as follows:

	2021	***2020***
Current accounts	910	1,166

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.

(EUR thousand)

27. Related party transactions (continued)

Transactions with government-related companies (continued)

The table below discloses transactions with government-related companies:

Statement of financial position	***2021***	***2020***
Assets		
Cash and cash equivalents	4,537	3,434
Securities at fair value through profit or loss	8,320	1,119
Securities at fair value through other comprehensive income	93,796	168,605
Securities at amortized cost	47,951	45,135
Loans and deposits to banks	34,708	50,893
Loans to corporate customers	57,484	107,563
Derivative financial assets	353	19
Other assets	6,059	7,072
Liabilities		
Due to credit institutions	59,145	101,433
Due to customers	72,405	38,603
Derivative financial liabilities	7,760	8,318
Other liabilities	148	378
Off-balance sheet commitments		
Credit-related commitments	10,722	18,741

Amounts included in the statement of profit or loss and other comprehensive income for transactions with government-related companies for 2021 and 2020 are as follows:

Statement of profit or loss	***2021***	***2020***
Interest income calculated using the EIR method	9,816	8,668
Other interest income	357	164
Interest expense	(1,187)	(2,925)
Allowance for expected credit losses from financial assets	136	(399)
Fee and commission income	69	52
Fee and commission expense	(19)	(10)
Net (losses) gains from operations with securities at fair value through profit or loss	(504)	1,362
Net gains from operations with securities at fair value through other comprehensive income	1,307	3,130
Net (losses) gains from operations with derivative financial instruments and foreign currency	2,192	(1,736)
Lease income	1,864	1,581
Other banking income	47	116
Administrative and management expenses	(338)	(335)
Other banking expenses	(1)	(17)

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(EUR thousand)

28. Changes in liabilities arising from financing activities

	Note	Long-term financing from banks	Debt securities issued	Lease liabilities	Total liabilities arising from financing activities
Carrying amount at 1 January 2021	13, 14, 16	**49,669**	**133,694**	**19**	**183,382**
Proceeds		9,770	34,768	–	**44,538**
Transfer of a liability to another item based on maturity		(9,954)	–	–	**(9,954)**
Redemption		(82)	–	(5)	**(87)**
Interest paid		(301)	(10,383)	(1)	**(10,685)**
Currency revaluation		(58)	10,618	–	**10,560**
Interest accrued		384	10,297	1	**10,682**
Carrying amount at 31 December 2021	13, 14, 16	**49,428**	**178,994**	**14**	**228,436**
Carrying amount at 1 January 2020	13, 14, 16	**9,920**	**102,526**	**23**	**112,469**
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**
Carrying amount at 31 December 2020	13, 14, 16	**49,669**	**133,694**	**19**	**183,382**

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%. At the same time, the capital adequacy limit was approved by the IBEC Council at 35% with a trigger at 40% within the IBEC risk appetite for 2021 and the next strategic cycle.

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 2021 and 31 December 2020 comprised 41.1% and 43.7%, 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 2021 and 31 December 2020:

	2021	2020
Capital	304,695	317,110
Total capital	**304,695**	**317,110**
Risk-weighted assets		
Credit risk	661,245	617,878
Market risk	70,048	99,893
Operational risk	10,635	8,577
Total risk-weighted assets	**741,928**	**726,348**

(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.

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

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).

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

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.

(EUR thousand)

30. Summary of accounting policies (continued)

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.

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 of 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.

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(EUR thousand)

30. Summary of accounting policies (continued)

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.

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Intangible assets (continued)

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.

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).

(EUR thousand)

30. Summary of accounting policies (continued)

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.

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 form 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.

(EUR thousand)

30. Summary of accounting policies (continued)

Currency translation (continued)

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.

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 Regulation does not apply to the payments of salaries to individuals who are citizens of the Bank’s country residence as well as payments for utility charges.