IBEC
INTERNATIONAL BANK
FOR ECONOMIC CO-OPERATION

International Bank for Economic Co-operation

Financial statements

for the year 2023

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ООО «ЦАТР – аудиторские услуги»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 495 705 9700
+7 495 755 9700
Факс: +7 495 755 9701
ОГРН: 1027739707203
ИНН: 7709383532
ОКПО: 59002827
КПП: 770501001

TSATR – Audit Services LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 495 705 9700
+7 495 755 9700
Fax: +7 495 755 9701
www.b1.ru

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 2023, and 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 2023 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 ethical requirements of the Code of professional ethics for auditors and the Independence rules of auditors and audit organizations that are relevant to our audit of the financial statements in the Russian Federation together with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). 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 the 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 this matter. 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 matter 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. 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.

Other information included in the 2023 Annual Report

Other information consists of the information included in the 2023 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

The Council of International Bank of Economic Co-operation is 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.

NEW CHALLENGES
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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 Shinin Gennady Aleksandrovich.

Shinin Gennady Aleksandrovich,
acting on behalf of TSATR – Audit Services Limited Liability Company
on the basis of power of attorney 26 July 2023,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 22006013387)

19 February 2024

Details of the auditor

Name: TSATR – Audit Services Limited Liability Company
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.
TSATR – Audit Services Limited Liability Company is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". TSATR – Audit Services Limited Liability Company 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, Mashi Poryvaevoy street, 11, GSP-6.

Statement of financial position

as at 31 December 2023

(EUR thousand)

	Note	2023	2022
Assets			
Cash and cash equivalents	5	21,559	88,461
Securities at fair value through profit or loss	6	4,555	6,775
- held by the Bank		*1,646*	*6,775*
- pledged under repurchase agreements		*2,909*	–
Securities at fair value through other comprehensive income	7	172,332	68,074
- held by the Bank		*109,971*	*57,634*
- pledged under repurchase agreements		*62,361*	*10,440*
Securities at amortized cost	8	36,981	45,104
- held by the Bank		*33,175*	*34,269*
- pledged under repurchase agreements		–	*10,835*
- digital financial assets		*3,806*	–
Loans and deposits to banks	9	94,439	63,262
- term deposits with banks		*62,096*	*49,164*
- loans issued to banks under trade financing		*32,343*	*14,098*
Loans to corporate customers	10	126,949	127,689
Derivative financial assets	11	–	1,135
Property, plant and equipment, intangible assets and right-of-use assets	12	52,249	52,860
Other assets	13	9,782	8,704
Total assets		**518,846**	**462,064**
Liabilities			
Due to financial institutions	14	99,105	65,121
Due to customers	15	22,581	18,041
Derivative financial liabilities	11	6,255	2,137
Debt securities issued	16	147,073	152,190
Other liabilities	13	10,694	9,821
Total liabilities		**285,708**	**247,310**
Equity			
Paid-in capital	1	200,000	200,000
Revaluation reserve for securities at fair value through other comprehensive income		(448)	(14,849)
Revaluation reserve for property, plant and equipment		23,115	23,115
Cash flow hedge reserve	11	312	(1,148)
Retained earnings less net profit for the year		7,636	93,388
Net profit (loss) for the year		2,523	(85,752)
Total equity		**233,138**	**214,754**
Total liabilities and equity		**518,846**	**462,064**
Off-balance sheet commitments			
Credit-related commitments	17	60,119	45,101

Denis Ivanov — Chairman of the Board

Inna Zheleznova — Director of the Financial Department

МБЭС

Международный банк экономического сотрудничества

Москва

19 February 2024

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 2023

(EUR thousand)

	Note	*2023*	*2022*
Interest income calculated using the EIR method		21,616	18,290
Other interest income		118	160
Interest expense		(10,507)	(13,668)
Net interest income	18	**11,227**	**4,782**
Allowance for expected credit losses from financial assets	22	(3,771)	(22,374)
Net interest income (expense) after allowance for expected credit losses		**7,456**	**(17,592)**
Fee and commission income		1,131	2,082
Fee and commission expense		(951)	(621)
Net fee and commission income	19	**180**	**1,461**
Net losses from operations with securities at fair value through profit or loss		(10)	(2,012)
Net losses from operations with securities at fair value through other comprehensive income	20	(2,050)	(14,741)
Net losses from operations with securities at amortized cost	8	(402)	(2,458)
Net losses from operations with loans at amortized cost	10	–	(3,852)
Net gains (losses) from operations with derivative financial instruments and foreign currency			
- dealing	11	*6,971*	*(5,116)*
- revaluation of currency items		*717*	*(31,007)*
Lease income		1,709	2,561
Other banking income		552	521
Administrative and management expenses	21	(12,275)	(12,840)
Net losses from disposal of property, plant and equipment		(13)	(13)
Other provisions	23	(47)	(134)
Other banking expenses		(265)	(530)
Profit (loss) for the year		**2,523**	**(85,752)**

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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 2023 (continued)

(EUR thousand)

	Note	2023	2022
Other comprehensive income (loss)			
Items that are or may be subsequently reclassified to profit or loss			
Unrealized gains (losses) from operations with securities at fair value through other comprehensive income	20	11,685	(32,514)
Realized losses from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	20	2,219	14,723
Change in allowance for expected credit losses		497	7,666
Net gains from cash flow hedges	11	1,460	4,349
Total items that are or may be subsequently reclassified to profit or loss		**15,861**	**(5,776)**
Items that may not be subsequently reclassified to profit or loss			
Revaluation of property, plant and equipment		–	1,587
Total items which may not be subsequently reclassified to profit or loss		**–**	**1,587**
Total other comprehensive income (loss)		**15,861**	**(4,189)**
Total comprehensive income (loss) for the year		**18,384**	**(89,941)**

Statement of changes in equity

for the year 2023

(EUR thousand)

	Paid-in 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 2023	**200,000**	**(14,849)**	**23,115**	**(1,148)**	**7,636**	**214,754**
Net profit for the year	**–**	**–**	**–**	**–**	**2,523**	**2,523**
Other comprehensive income						
Items that are or may be subsequently reclassified to profit or loss						
Unrealized gains from operations with securities at fair value through other comprehensive income	–	11,685	–	–	–	**11,685**
Realized losses from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	–	2,219	–	–	–	**2,219**
Change in allowance for expected credit losses	–	497	–	–	–	**497**
Net unrealized gains (losses) from cash flow hedges	–	–	–	(3,965)	–	**(3,965)**
Net (gains) losses from cash flow hedges, reclassified to profit or loss	–	–	–	5,425	–	**5,425**
Total items that are or may be subsequently reclassified to profit or loss	**–**	**14,401**	**–**	**1,460**	**–**	**15,861**
Items that may not be subsequently reclassified to profit or loss						
Revaluation of property, plant and equipment	–	–	–	–	–	**–**
Total items which may not be subsequently reclassified to profit or loss	**–**	**–**	**–**	**–**	**–**	**–**
Total other comprehensive income	**–**	**14,401**	**–**	**1,460**	**–**	**15,861**
Total comprehensive income for the year	**–**	**14,401**	**–**	**1,460**	**2,523**	**18,384**
31 December 2023	**200,000**	**(448)**	**23,115**	**312**	**10,159**	**233,138**

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Statement of changes in equity

for the year 2023 (continued)

(EUR thousand)

	Paid-in 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 2022	**200,000**	**(4,724)**	**21,528**	**(5,497)**	**93,388**	**304,695**
Net loss for the year	**–**	**–**	**–**	**–**	**(85,752)**	**(85,752)**
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	–	(32,514)	–	–	–	**(32,514)**
Realized losses from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	–	14,723	–	–	–	**14,723**
Change in allowance for expected credit losses	–	7,666	–	–	–	**7,666**
Net unrealized gains (losses) from cash flow hedges	–	–	–	59,702	–	**59,702**
Net (gains) losses from cash flow hedges, reclassified to profit or loss	–	–	–	(55,353)	–	**(55,353)**
Total items that are or may be subsequently reclassified to profit or loss	**–**	**(10,125)**	**–**	**4,349**	**–**	**(5,776)**
Items that may not be subsequently reclassified to profit or loss						
Revaluation of property, plant and equipment	**–**	**–**	1,587	**–**	**–**	**1,587**
Total items which may not be subsequently reclassified to profit or loss	**–**	**–**	**1,587**	**–**	**–**	**1,587**
Total other comprehensive loss	**–**	**(10,125)**	**1,587**	**4,349**	**–**	**(4,189)**
Total comprehensive loss for the year	**–**	**(10,125)**	**1,587**	**4,349**	**(85,752)**	**(89,941)**
31 December 2022	**200,000**	**(14,849)**	**23,115**	**(1,148)**	**7,636**	**214,754**

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

Statement of cash flows

for the year 2023

(EUR thousand)

	Note	2023	2022
Cash flows from operating activities			
Profit (loss) for the year		**2,523**	**(85,752)**
Adjustments for:			
Accrued interest receivable		(1,769)	2,272
Accrued interest payable		(1,191)	(7,171)
Other accrued income receivable		226	50
Other accrued expenses payable		(365)	4,217
Depreciation and amortization	21	1,390	1,291
Allowance for expected credit losses from financial assets		3,771	22,374
Other provisions		47	134
Remeasurement of securities at fair value through profit or loss		(757)	905
Revaluation of currency items		(1,233)	31,445
Fair value remeasurement of hedges		516	(438)
Net losses from operations with securities at fair value through other comprehensive income	20	2,050	14,741
Net gains from disposal of property, plant and equipment		13	13
Cash from (used in) operating activities before changes in operating assets and liabilities		**5,221**	**(15,919)**
(Increase) decrease in operating assets			
Securities at fair value through profit or loss		766	2,618
Loans and deposits to banks		(29,528)	108,875
Loans to corporate customers		2,541	76,349
Other assets		(2,044)	42,619
Increase (decrease) in operating liabilities			
Due to financial institutions		36,266	(37,738)
Due to customers		6,322	(105,127)
Other liabilities		7,659	(14,964)
Net cash from operating activities		**27,203**	**56,713**
Cash flows from investing activities			
Sales of securities at fair value through profit or loss		2,158	–
Purchases of securities at fair value through other comprehensive income		(134,877)	(61,115)
Sales of securities at fair value through other comprehensive income		36,224	129,760
Purchases of securities at amortized cost		(19,318)	(6,618)
Proceeds from redemption of securities at amortized cost		8,207	10,638
Purchases of property, plant and equipment		(808)	(492)
Net cash (used in) from investing activities		**(108,414)**	**72,173**

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Statement of cash flows

for the year 2023 (continued)

(EUR thousand)

	Note	*2023*	*2022*
Cash flows from financing activities			
Proceeds from bonds issued	16	95,040	16,097
Redemption of bonds	16	(69,260)	(70,100)
Long-term financing repaid to banks		(2,304)	(864)
Payments for lease liabilities		–	(5)
Net cash from (used in) financing activities		**23,476**	**(54,872)**
Net (decrease) increase in cash and cash equivalents before translation differences		**(57,735)**	**74,014**
Effect of changes in exchange rates on cash and cash equivalents		(9,173)	(13,368)
Effect of changes in expected credit losses on cash and cash equivalents		6	(40)
Net (decrease) increase in cash and cash equivalents		**(66,902)**	**60,606**
Cash and cash equivalents at 31 December of the year preceding the reporting period	5	88,461	27,855
Cash and cash equivalents at 31 December of the reporting year	5	**21,559**	**88,461**
Additional information:			
Interest received		19,965	20,722
Interest paid		(11,698)	(20,839)

(EUR thousand)

1. Principal activities of the Bank

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

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

The main mission of IBEC is to support the economic development 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, financial and other institutions;
- Other banking operations.

In accordance with the Agreement, the authorized share capital of IBEC consists of equity contributions from member countries and amounts to EUR 400,000 thousand. The paid portion of IBEC's share capital as at 31 December 2023 amounts to EUR 200,000 thousand (31 December 2022: EUR 200,000 thousand).

As at 31 December 2023, members of the Bank are three countries: the Socialist Republic of Vietnam, Mongolia and the Russian Federation (31 December 2022: eight countries: 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 2023, the Republic of Poland, the Slovak Republic, the Czech Republic, Romania and the Republic of Bulgaria withdrew from the Agreement on the Organization and Activities of IBEC in accordance with advance notifications.

On 24 January 2023, the IBEC Council comprising representatives of eight member countries approved the key parameters for the settlement of mutual claims and liabilities with these countries, which shall form the basis for bilateral agreements between IBEC and the governments of each country that withdrew in 2023 on the final settlement of mutual claims and liabilities and which provide for the gradual repayment of contributions made by these countries to the Bank's paid-in capital up to 2042. The shareholders identified maintaining the financial stability of the Bank as a key objective of the settlement scenario.

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(EUR thousand)

1. Principal activities of the Bank (continued)

As at 31 December 2023, no bilateral agreements were signed with the countries that withdrew from the Agreement on the Organization and Activities of IBEC in 2023 (drafts of such bilateral agreements were sent to all countries involved), and there was no reduction in IBEC's paid-in capital. The allocation of the countries' shares in the Bank's paid-in share capital as at 31 December 2023 is provided below:

	31 December 2023	*%*
Member countries of the Bank	**106,605**	**53.3**
Russian Federation	103,179	51.59
Mongolia	2,668	1.33
Socialist Republic of Vietnam	758	0.38
Withdrawing countries	**93,395**	**46.7**
Czech Republic	26,684	13.34
Republic of Poland	24,016	12.01
Republic of Bulgaria	15,121	7.56
Romania	14,232	7.12
Slovak Republic	13,342	6.67
Total	**200,000**	**100**

The allocation of the countries' shares in the Bank's paid-in share capital as at 31 December 2022 is provided below:

	31 December 2022	*%*
Russian Federation	103,179	51.59
Czech Republic	26,684	13.34
Republic of Poland	24,016	12.01
Republic of Bulgaria	15,121	7.56
Romania	14,232	7.12
Slovak Republic	13,342	6.67
Mongolia	2,668	1.33
Socialist Republic of Vietnam	758	0.38
Total	**200,000**	**100**

In accordance with Article 20 of the Statutes of IBEC, each member country has one vote regardless of the amount of its contribution to the Bank's share capital.

Owing to the supranational status of the Bank, the restrictive measures, imposed on the Russian Federation by the Council of the European Union, the USA, Australia, the United Kingdom of Great Britain and Northern Ireland, Canada, Japan, the Swiss Confederation and others, do not extend to IBEC's financial transactions in Russia and abroad.

Separate Decree No. 738 of the President of the Russian Federation of 15 October 2022 confirmed the international status of the Bank and its full exemption from any effects of restrictive counter-sanctions.

On 24 August 2023, Analytical Credit Rating Agency (ACRA) confirmed the credit rating of IBEC at BBB+, with a stable outlook, under the international scale and at AAA(RU), with a stable outlook, under the national scale for the Russian Federation, as well as the AAA(RU) rating for IBEC's Series 001P-02 bonds.

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(EUR thousand)

1. Principal activities of the Bank (continued)

In 2023, the Bank implemented a number of measures that were significant for the development of the Bank's operations, expansion of its partner network and maintenance of the Bank's stability and sustainability:

- As part of a Russian-Slovak project funded by IBEC, an incubator was launched in the Republic of Tatarstan on 10 January 2023. The EUR 3 million investment project was approved and supported by the Tatarstan Ministry of Agriculture and Food;
- In May 2023, an IBEC delegation led by the Chairman of the Bank's Board visited the Embassy of the Socialist Republic of Vietnam in the Russian Federation to meet His Excellency Ambassador Extraordinary and Plenipotentiary Mr. Dang Minh Khoi and representatives of the Embassy. The talks touched upon a range of technical issues relevant to the potential development of economic relations among IBEC member countries;
- In December 2023, the Chairman of IBEC's Board visited Mongolia to meet with the Minister of Finance of Mongolia. Certain strategic issues related to expansion of IBEC's business in Mongolia were discussed at the meeting. Also, the Chairman met with representatives of the financial sector of Mongolia and certain corporate customers;
- In June, a 10-year Series 002P-01 RUB 1.7 billion bond issue puttable in 3 years was launched on the Moscow Exchange. Besides, in December, a 3-year Series 002P-02 RUB 5.5 billion bond issue with a floating coupon rate tied to the CBR's key rate was launched on the Moscow Exchange;
- In 2023, IBEC selectively provided trade financing to the EAEU banking sector to support foreign economic activity of the Bank's member countries;
- In June 2023, IBEC issued a CNY 9.5 million (approx. EUR 1.2 million) special-purpose trade credit maturing in 1 year to a Mongolian bank to finance passenger car purchases. CNY-denominated trade finance operations to support the foreign economic activity of Mongolia in different industry sectors for the year amounted almost to CNY 41 million;
- In August 2023, IBEC, in cooperation with a Mongolian bank, financed a project on import of freight cars to Mongolia. IBEC provided a number of special-purpose trade-related loans totaling EUR 12.4 million for up to one year. This project supports the goal of the "New Recovery Policy" adopted by the Government of Mongolia to boost exports, enhance freight movement and establish the necessary framework for becoming a transit country in the future;
- In September 2023, IBEC, successfully and in due time, redeemed its bonds in the amount of BGN 68 million issued in the Bulgarian market;
- In October 2023, National Clearing Centre of the Moscow Exchange Group (NCC) upgraded IBEC's access level for clearing services to the B category, significantly improved risk-related parameters on IBEC bonds and set up market risk rates ranging from 8% to 40% depending on the issue;
- At the end of 2023, IBEC provided a number of special-purpose trade credits to a Mongolian bank for nearly EUR 2.8 million that simultaneously met several objectives of sustainable development, namely, ensuring support to small and medium enterprises, assistance to rational use of water resources and sustainable growth of the industry of Mongolia;
- In 2023, IBEC also continued to support the socially significant pharmaceutical sector through lending and providing guarantees to corporate customers to ensure supplies of pharmaceuticals to drug stores and health care centers (in the field of oncology, haematology, neurology, cardiology);
- In December 2023, IBEC, for the first time in its history, was involved as an anchor investor in purchasing digital financial assets (DFA), an innovative instrument, in the amount of RUB 400 million;
- In 2023, IBEC started to form a stable portfolio of corporate deposits of insurance companies. The amount of such deposits raised in 2023 was more than RUB 8.5 billion.

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(EUR thousand)

2. Operating environment of the Bank

In 2023, a decline in business activity, gradual slowdown of inflation that was still at a higher level, and tightened financial conditions due to restricting monetary policy featured the operating environment of the Bank.

Production growth during the year was restrained by high finance costs and lower global demand for goods. The rebound in the global economy was mainly a result of an upward trend in the services sector that continued to recover after a substantial decline during the pandemic.

According to the baseline forecast of IMF,[1] the world economy growth rates are expected to decrease from 3.5% in 2022 to 3.0% in 2023 that is below the historical pre-crisis 10-year average from 2010 to 2019, amounting to 3.7%.

Dynamics of real GDP, change in %	***2022***	***Average growth rate for the last 5 years (2018-2022)***	***2023 (forecast)***
Global GDP	3.5	2.7	3.0
IBEC member countries:			
Socialist Republic of Vietnam	8.0	5.7	4.7
Mongolia	5.0	3.1	5.5
Russian Federation	(2.1)	1.2	2.2

Source: IMF WEO Data: October 2023 Edition.

Global trade

Weak global demand and focus on internal services in its structure, production slowdown, declining investment activity and new bottlenecks in supply chains deteriorated the prospects for global trade development in 2023. Besides, higher trade barriers, fragmentation of retail chains and concerns related to reliability of supply chains put pressure on the global trade.

According to forecasts of the IMF,[2] in 2023, global trade growth will be 0.9% that is much below the five-year average (2018-2022) amounting to 2.7% (given the drop by 7.8% in 2020).

Financial conditions

The restricting policy of central banks, economic slowdown and decline in global energy and food prices slightly eased inflationary pressure. Core inflation, however, remained stubbornly high, causing global financial conditions to tighten further in 2023.

Higher key interest rates of central banks resulted in an increased cost of debt for the population and businesses, higher pressure on debt servicing and restructuring for borrowers, in particular, for the corporate sector.

Inflationary pressure eased at a slower pace than expected. The current forecast of the IMF[3] is that global inflation will slow down to 6.9% in 2023 (from 8.7% in 2022), though remaining higher than a five-year average (4.8% in 2018-2022).

Consumer price index, change, %	***2022***	***Average growth rate for the last 5 years (2018-2022)***	***2023 (forecast)***
Global inflation	8.7	4.8	6.9
IBEC member countries:			
Socialist Republic of Vietnam	3.2	2.9	3.4
Mongolia	15.2	8.1	12.3
Russian Federation	13.8	6.2	5.3

Source: IMF WEO Data: October 2023 Edition.

1 World Economic Outlook, October 2023.

2 World Economic Outlook, October 2023.

3 World Economic Outlook, October 2023.

(EUR thousand)

2. Operating environment of the Bank (continued)

Effect of the economic environment on IBEC's activities

Starting from February 2022, increased geopolitical tensions negatively affected the economy of the country where the Bank is located. The European Union, the United States, and several other countries have imposed new sanctions against certain Russian state-owned organizations and commercial entities, including banks, individuals and certain sectors of the economy, as well as restrictions on certain types of transactions. Some global companies announced that they either suspend their operations in Russia or stop deliveries to the country. This led to increased volatility in stock and currency markets. In March 2022, the Russian Federation introduced temporary restrictive economic measures in response to the sanctions.

The geopolitical events that started in 2022 continued to have an impact on the Bank's operations in 2023, including:

- Actual withdrawal of five European countries from the Bank;
- Absence of international ratings (IBEC's ratings assigned by Fitch Ratings and Moody's were withdrawn in 2022) following the prohibition of the European regulator on the work of the rating agencies with entities located in the Russian Federation;
- Difficulties related to receiving funds from borrowers to redeem their debts to IBEC due to tougher compliance procedures of partner banks and extended terms of payments.

However, in 2023, as its liquidity cushion stabilized, the Bank started to transform its operations, adapt to a new reality in the post-crisis environment on global financial markets, develop IBEC's business, including expansion to new selected markets in Asia, the EAEU and the Middle East to support foreign economic activity of IBEC's member countries.

IBEC also continued to provide all necessary clarifications on the Bank's supranational status required for the restrictions to be dropped.

- IBEC increased the number of correspondent accounts used for settlements with its counterparties, thus vastly improving its own settlement infrastructure to support trade finance operations of IBEC's member countries and their foreign economic activities; for its treasury operations in Asia and the EAEU, IBEC opened accounts denominated in several national currencies (TRY, CNY, UZS, AMD, and AED).

The Bank successfully entered into foreign exchange transactions in KZT, AMD, TRY and UZS on MICEX for the purpose of client and treasury operations.

Together with short-term raising of funds from credit institutions in 2023, IBEC continued to diversify its sources of funding through placing new issues of securities, attracting corporate deposits and entering into repurchase transactions with financial institutions.

Accumulation of liquid funds (including those from repayment of loans by counterparties that withdrew from the Agreement on the Organization and Activities of IBEC) on correspondent accounts allows IBEC not only to ensure servicing its current liabilities and obligations in the foreseeable future but also to form a new portfolio of performing assets.

In 2023, the Bank analyzed approaches and estimates it used. Based on the analysis and professional judgment, the Bank recognized that it is necessary to revise the risk limitation scenario for expected credit losses of Russian residents that has been used since the first half of 2022 and rely on the most recent rating assigned by international rating agencies before they withdrew it (CC). Results of the analysis accumulated for 2022–2023 indicated that the Russian economy demonstrates no catastrophic negative changes and is certainly able to adapt to the evolving environment.

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(EUR thousand)

2. Operating environment of the Bank (continued)

Effect of the economic environment on IBEC's activities (continued)

In December 2023, the Bank therefore considered it reasonable to make changes into approach to assess the risk of expected credit losses from transactions in the Russian Federation, i.e. to use ratings assigned by other international rating agencies (except S&P/Fitch/Moody's) if they have an effective rating of the Russian Federation and allow to statistically compare the rating scale of such international rating agencies and the PD statistics the Bank uses, broken down by Moody's rating scale. Therefore, each transaction continues to be assessed based on an external assessment and/or previously validated internal bank rating model, however the Bank is no longer takes into account made-up rating deteriorations caused by the most recent sovereign ratings of the Russian Federation assigned by S&P/Fitch/Moody's prior to their withdrawal and discontinuation of rating services in the Russian Federation (the event occurred more than 365 days ago). When a new approach to risk assessment for expected credit losses for transactions on the territory of the Russian Federation was applied, IBEC recovered previously created reserves for such financial assets in the amount of EUR 30,553 thousand (Notes 7, 8, 9, 10, 17).

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.

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.

(EUR thousand)

3. Basis of preparation of financial statements (continued)

Significant accounting estimates and professional judgments (continued)

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

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

Judgments

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

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

Sensitivity of the fair value of the building

As at 31 December 2023, the fair value of the building owned by the Bank was EUR 49,103 thousand (2022: EUR 50,093 thousand). The fair value of one square meter was EUR 1,939 (2022: EUR 1,978). If the value of one square meter increases by 10%, the fair value of the building will be EUR 54,013 thousand (2022: EUR 55,102 thousand); if the value of one square meter decreases by 10%, the fair value of the building will be EUR 44,193 thousand (2022: EUR 45,084 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 2023, 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 2023, 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

The new standards, amendments and interpretations that became effective on 1 January 2023 are disclosed below.

IFRS 17, amendments to IAS 12, IAS 8, IAS 1 and IFRS Practice Statement 2 have no impact on the Bank’s financial statements.

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(EUR thousand)

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

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* (IFRS 17) is a comprehensive new financial reporting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 has replaced IFRS 4 *Insurance Contracts* and 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 financial instruments 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 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.

Amendments to IAS 12 Income Taxes

In May 2021, the IASB issued amendments, which narrow the scope of the initial recognition exception under IAS 12 *Income Taxes*, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The exemption applies only if the recognition of a lease asset and a lease liability (or a decommissioning liability and the corresponding amounts of the related asset) does not give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. At the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

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. Also, the document clarifies how entities use measurement techniques and inputs to develop accounting estimates.

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 should 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.

(EUR thousand)

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

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023, however, the amendments to IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of materiality to accounting policy information, and an effective date for these amendments is not necessary.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2023	***2022***
Cash on hand	2,620	2,557
Correspondent accounts with banks in IBEC member countries	16,998	73,727
Correspondent accounts with banks in other countries	1,948	9,339
Correspondent accounts with international financial institutions	–	2,866
Total cash and cash equivalents	**21,566**	**88,489**
Allowance for expected credit losses	(7)	(28)
Cash and cash equivalents less allowance for expected credit losses	**21,559**	**88,461**

As at 31 December 2023, balances with three major groups of counterparties amounted to EUR 17,003 thousand, or 89.78% of total cash and cash equivalents (other than cash on hand) (31 December 2022: balances with three major groups of counterparties amounted to EUR 76,047 thousand, or 88.53% of total cash and cash equivalents other than cash on hand).

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):

	2023	***2022***
Due from central banks	***5,783***	***11,612***
Correspondent accounts with banks		
Internationally rated		
from AAA to A-	*6*	*8*
from BBB+ to BB-	*1,932*	*38,018*
from B+ to B-	*4,683*	*382*
Internally rated only		
from BBB+ to BB-	*794*	*45*
from B+ to B-	*5,742*	*–*
from CCC+ to C	*2*	*35,863*
unrated	*4*	*4*
Total correspondent accounts with banks	***18,946***	***85,932***
Allowance for expected credit losses	(7)	(28)
Cash and cash equivalents (other than cash on hand) less allowance for expected credit losses	**18,939**	**85,904**

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

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(EUR thousand)

6. Securities at fair value through profit or loss

Securities at fair value through profit or loss comprise:

	2023	***2022***
Held by the Bank		
Internationally rated		
Corporate Eurobonds	–	2,078
from BBB+ to BB-	*–*	*2,078*
Internally rated only		
Eurobonds of IBEC member countries	831	3,958
from BBB+ to BB-	*831*	*–*
from CCC+ to C	*–*	*3,958*
Corporate bonds	815	739
from BBB+ to BB-	*815*	*–*
from CCC+ to C	*–*	*739*
	1,646	**6,775**
Pledged under repurchase agreements		
Internally rated only		
Eurobonds of IBEC member countries	2,909	–
from BBB+ to BB-	*2,909*	*–*
	2,909	**–**
Securities at fair value through profit or loss	**4,555**	**6,775**

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:

	2023	2022
Held by the Bank		
Internationally rated		
Corporate Eurobonds	12,555	13,688
from BBB+ to BB-	*5,666*	*8,410*
from B+ to B-	*6,889*	*5,278*
Eurobonds of other countries	7,132	–
from BBB+ to BB-	*7,132*	–
Eurobonds of international financial institutions	1,529	1,339
from BBB+ to BB-	*1,529*	*1,339*
Eurobonds of IBEC member countries	–	3,708
from BBB+ to BB-	–	*3,708*
Internally rated only		
Corporate bonds	58,029	5,304
from BBB+ to BB-	*43,037*	–
from B+ to B-	*14,992*	–
from CCC+ to C	–	*5,304*
Corporate Eurobonds	18,512	21,485
from BBB+ to BB-	*18,512*	–
from CCC+ to C	–	*21,485*
Bonds of banks	7,118	–
from B+ to B-	*7,118*	–
Eurobonds of banks	3,787	1,271
from BBB+ to BB-	*3,787*	–
Bonds of IBEC member countries	794	6,001
from BBB+ to BB-	*794*	–
from CCC+ to C	–	*6,001*
Eurobonds of IBEC member countries	515	4,838
from BBB+ to BB-	*515*	–
from CCC+ to C	–	*4,838*
	109,971	**57,634**
Pledged under repurchase agreements		
Internationally rated		
Corporate Eurobonds	–	4,208
from BBB+ to BB-	–	*4,208*
Eurobonds of IBEC member countries	–	3,189
from BBB+ to BB-	–	*3,189*
Bonds of banks	–	1,447
from AAA to A-	–	*1,447*
Eurobonds of international financial institutions	–	1,318
from AAA to A-	–	*1,318*
Eurobonds of banks	–	278
from AAA to A-	–	*278*
Internally rated only		
Eurobonds of IBEC member countries	46,509	–
from BBB+ to BB-	*46,509*	–
Corporate bonds	11,575	–
from BBB+ to BB-	*11,575*	–
Bonds of IBEC member countries	4,277	–
from BBB+ to BB-	*4,277*	–
	62,361	**10,440**
Securities at fair value through other comprehensive income	**172,332**	**68,074**

(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 2023	**32,538**	**35,536**	**68,074**
New originated or purchased assets	140,139	446	**140,585**
Transfer to Stage 2	(5,024)	5,024	**–**
Transfer from Stage 2	10,695	(10,695)	**–**
Change in fair value	5,302	6,098	**11,400**
Assets derecognized or redeemed (excluding write-offs)	(38,370)	(4,489)	**(42,859)**
Changes in currency exchange rates	(1,669)	(3,199)	**(4,868)**
Gross carrying amount at 31 December 2023	**143,611**	**28,721**	**172,332**
Allowance for expected credit losses at 1 January 2023	**1,956**	**6,977**	**8,933**
New originated or purchased assets	15,286	–	**15,286**
Transfer to Stage 2	(1,267)	1,267	**–**
Transfer from Stage 2	65	(65)	**–**
Assets derecognized or redeemed (excluding write-offs)	(4,391)	(472)	**(4,863)**
Changes in models and inputs used for ECL calculations	(10,410)	1,532	**(8,878)**
Changes in currency exchange rates	(373)	(675)	**(1,048)**
Allowance for expected credit losses at 31 December 2023	**866**	**8,564**	**9,430**
Gross carrying amount at 1 January 2022	**193,875**	**6,820**	**200,695**
New originated or purchased assets	57,063	466	**57,529**
Transfer to Stage 2	(30,258)	30,258	**–**
Change in fair value	(29,904)	(1,542)	**(31,446)**
Assets derecognized or redeemed (excluding write-offs)	(160,246)	(466)	**(160,712)**
Changes in currency exchange rates	2,008	–	**2,008**
Gross carrying amount at 31 December 2022	**32,538**	**35,536**	**68,074**
Allowance for expected credit losses at 1 January 2022	**788**	**478**	**1,266**
New originated or purchased assets	3,709	–	**3,709**
Transfer to Stage 2	(6,760)	6,760	**–**
Assets derecognized or redeemed (excluding write-offs)	(3,517)	–	**(3,517)**
Changes in models and inputs used for ECL calculations	6,876	(261)	**6,615**
Changes in currency exchange rates	860	–	**860**
Allowance for expected credit losses at 31 December 2022	**1,956**	**6,977**	**8,933**

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(EUR thousand)

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

Corporate bonds denominated in Russian rubles, US dollars, euros and Chinese yuans (31 December 2022: in US dollars and euros) were issued by financial and industrial entities of IBEC member countries for circulation on internal markets of the issuing countries and for trade on exchange markets. Corporate bonds mature from August 2024 to May 2033 (31 December 2022: from October 2028 to November 2028), and coupon rates range from 0% to 16.0% p.a. (31 December 2022: from 1.85% to 3.375% 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 November 2027 to May 2036 (31 December 2022: from November 2027 to September 2050), and coupon rates range from 1.125% to 2.65% p.a. (31 December 2022: from 1.125% to 2.625% p.a.).

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 July 2024 to January 2030 (31 December 2022: from June 2023 to February 2030), and coupon rates range from 1.5% to 6.75% p.a. (31 December 2022: from 0.45% to 6.75% p.a.).

As at 31 December 2023, Eurobonds of other countries are issued in euros, traded on exchange markets external to the issuing country, mature from December 2040 to September 2050 and coupon rates range from 1.375% to 2.625% p.a. The Bank does not have Eurobonds of other countries as at 31 December 2022.

Bonds of banks are debt securities denominated in Russian rubles (31 December 2022: euros) for circulation on internal markets of the issuer. Bonds of banks mature in December 2026 (31 December 2022: April 2028), and the coupon rate is 18.5% p.a. (31 December 2022: 0.5% p.a.).

Bonds of IBEC member countries are denominated in Russian rubles for circulation on internal and exchange markets of the issuing countries and for trade on over-the-counter markets, mature from September 2031 through March 2039 (31 December 2022: from September 2031 through March 2039) and coupon rates range from 7.7% to 11.25% p.a. (31 December 2022: from 7.7% to 8.5% 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 September 2026 (31 December 2022: from January 2026 to October 2028), and coupon rates range from 3.1% to 3.875% p.a. (31 December 2022: from 0.375% to 3.875% p.a.).

Eurobonds of international financial institutions are denominated in euros and are traded on exchange markets external to the issuing country. Eurobonds mature in March 2026 (31 December 2022: from November 2023 to March 2026), and the coupon rate is 1% p.a. (31 December 2022: from 0% to 1% p.a.).

Securities at fair value through other comprehensive income comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 62,361 thousand as at 31 December 2023 (31 December 2022: EUR 10,440 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

Securities at fair value through other comprehensive income of EUR 28,721 thousand (31 December 2022: none) were restricted due to sanctions imposed on depositories that hold IBEC's securities. The Bank is fulfilling all necessary actions for removing restrictions in use of the asset taking into account all necessary scenarios of development of situation individually on each security. Based on this the Bank made a provision for these securities amounting to EUR 8,564 thousand as at 31 December 2023.

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:

	2023	***2022***
Held by the Bank		
Internationally rated		
Corporate Eurobonds	8,799	6,717
from BBB+ to BB-	*5,054*	*2,837*
from B+ to B-	*3,745*	*3,880*
Eurobonds of banks	–	4,782
from B+ to B-	–	*4,782*
Internally rated only		
Corporate bonds	18,375	3,010
from BBB+ to BB-	*18,375*	–
from CCC+ to C	–	*3,010*
Corporate Eurobonds	9,713	9,877
from BBB+ to BB-	*9,713*	–
from CCC+ to C	–	*9,877*
Eurobonds of banks	–	12,419
from CCC+ to C	–	*12,419*
	36,887	**36,805**
Pledged under repurchase agreements		
Internationally rated		
Corporate Eurobonds	–	10,907
from BBB+ to BB-	–	*10,907*
	–	**10,907**
Digital financial assets		
Internally rated only		
Digital financial assets of banks	4,069	–
from BBB+ to BB-	*4,069*	–
	4,069	**–**
Total securities at amortized cost	**40,956**	**47,712**
Allowance for expected credit losses	(3,975)	(2,608)
Securities at amortized cost	**36,981**	**45,104**

Corporate Eurobonds and bonds are debt securities issued in euros, US dollars and Russian rubles by financial and industrial entities in IBEC member countries and other countries for circulation on markets internal and external to the issuer and for trade on over-the-counter and exchange markets. Corporate Eurobonds mature from June 2024 to July 2028 (31 December 2022: from June 2024 to July 2028), and coupon rates range from 2.2% to 8.5% p.a. (31 December 2022: from 2.2% to 8.5% p.a.). Corporate bonds mature from November 2024 to October 2026 (31 December 2022: November 2024), and coupon rates range from 2.25% to 16.25% p.a. (31 December 2022: 2.25% p.a.).

As at 31 December 2022, 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, and coupon rates range from 4.032% to 7.25% p.a. As at 31 December 2023, the Bank did not have Eurobonds of banks.

As at 31 December 2023, digital financial assets of banks are rights to collect an amount equal to the nominal value and interest from the issuer at their maturity issued in Russian rubles with a maturity in September 2024 and a coupon rate of 17.5% p.a.

As at 31 December 2022, securities at amortized cost comprise securities pledged as collateral under repurchase agreements with an amortized cost of EUR 10,835 thousand (31 December 2023: none). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

(EUR thousand)

8. Securities at amortized cost (continued)

Securities with an amortized cost of EUR 13,348 thousand (31 December 2022: none) were restricted due to sanctions imposed on depositories that hold IBEC's securities. The Bank is fulfilling all necessary actions for removing restrictions in use of the asset taking into account all necessary scenarios of development of situation individually on each security. Based on this the Bank made a provision for these securities amounting to EUR 3,470 thousand as at 31 December 2023.

In 2023, the Bank sold securities at amortized cost with a nominal value of EUR 8,537 thousand. The negative result of EUR 398 thousand was recognized in the statement of profit or loss and other comprehensive income within net losses from operations with securities at amortized cost (31 December 2022: negative result of EUR 2,458 thousand).

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***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2023	**25,416**	**22,296**	**–**	**47,712**
New originated or purchased assets	20,710	532	–	**21,242**
Transfer to Stage 2	(3,745)	3,745	–	**–**
Transfer to Stage 3	–	(110)	110	**–**
Assets derecognized or redeemed (excluding write-offs)	(14,655)	(12,948)	–	**(27,603)**
Changes in currency exchange rates	(228)	(167)	–	**(395)**
Gross carrying amount at 31 December 2023	**27,498**	**13,348**	**110**	**40,956**
Allowance for expected credit losses at 1 January 2023	**1,117**	**1,491**	**–**	**2,608**
New originated or purchased assets	2,277	–	–	**2,277**
Transfer to Stage 2	(999)	999	–	**–**
Transfer to Stage 3	–	(110)	110	**–**
Assets derecognized or redeemed (excluding write-offs)	(56)	(16)	–	**(72)**
Changes in models and inputs used for ECL calculations	(1,947)	1,112	–	**(835)**
Changes in currency exchange rates	3	(6)	–	**(3)**
Allowance for expected credit losses at 31 December 2023	**395**	**3,470**	**110**	**3,975**
Gross carrying amount at 1 January 2022	**78,425**	**–**	**–**	**78,425**
New originated or purchased assets	5,929	–	–	**5,929**
Transfer to Stage 2	(22,296)	22,296	–	**–**
Assets derecognized or redeemed (excluding write-offs)	(37,478)	–	–	**(37,478)**
Changes in currency exchange rates	836	–	–	**836**
Gross carrying amount at 31 December 2022	**25,416**	**22,296**	**–**	**47,712**
Allowance for expected credit losses at 1 January 2022	**791**	**–**	**–**	**791**
New originated or purchased assets	26	–	–	**26**
Transfer to Stage 2	(1,491)	1,491	–	**–**
Assets derecognized or redeemed (excluding write-offs)	(452)	–	–	**(452)**
Changes in models and inputs used for ECL calculations	2,207	–	–	**2,207**
Changes in currency exchange rates	36	–	–	**36**
Allowance for expected credit losses at 31 December 2022	**1,117**	**1,491**	**–**	**2,608**

(EUR thousand)

8. Securities at amortized cost (continued)

The Bank makes investments in the debt securities of companies from the countries that are members of the Bank at the moment of the investment 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 countries that are members of the Bank at the moment of the investment, as well as support to small and medium business. In the table below, such securities are presented within the credit investment portfolio of securities.

	2023	***2022***
Credit investment portfolio of securities	33,979	22,297
Securities purchased on capital markets	3,002	22,807
Securities at amortized cost	**36,981**	**45,104**

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:

	2023	***2022***
Term deposits with banks in IBEC member countries	45,980	48,227
Loans issued to banks under trade financing	32,532	14,225
to banks in IBEC member countries	*29,505*	*12,651*
to banks in other countries	*3,027*	*1,574*
Term deposits with banks in other countries	16,150	–
Restricted cash	2,918	1,732
Syndicated loans	–	9,531
Total loans and deposits to banks	**97,580**	**73,715**
Allowance for expected credit losses	(3,141)	(10,453)
Loans and deposits to banks	**94,439**	**63,262**

Restricted cash represents cash balances with the Bank's depository partner, which are restricted for use by foreign depositories. The Bank made a provision for this cash amounting to EUR 2,918 thousand as at 31 December 2023.

As at 31 December 2023, balances with three major counterparties amounted to EUR 61,706 thousand, or 65.34% of total loans and deposits to banks (31 December 2022: EUR 28,694 thousand, or 45.36% of total loans and deposits to banks).

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

Loans and deposits to banks	***2023***	***2022***
Internationally rated		
from AAA to A-	*1,690*	*1,731*
from BBB+ to BB-	*19,177*	*9,531*
from B+ to B-	*44,545*	*33,376*
Internally rated only		
from BBB+ to BB-	*1,228*	*–*
from B+ to B-	*23,877*	*384*
from CCC+ to C	*7,063*	*28,693*
Total	**97,580**	**73,715**
Allowance for expected credit losses	(3,141)	(10,453)
Carrying amount	**94,439**	**63,262**

(EUR thousand)

9. Loans and deposits to banks (continued)

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

Loans and deposits to banks	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2023	**62,178**	**2,006**	**9,531**	**73,715**
New originated or purchased assets	537,284	32,309	–	**569,593**
Transfer from Stage 2 to Stage 1	1,354	(1,354)	–	**–**
Transfer to Stage 3	–	(2,918)	2,918	**–**
Assets derecognized or redeemed (excluding write-offs)	(501,777)	(28,789)	(9,294)	**(539,860)**
Changes in currency exchange rates	(4,377)	(1,254)	(237)	**(5,868)**
Gross carrying amount at 31 December 2023	**94,662**	**–**	**2,918**	**97,580**
Allowance for expected credit losses at 1 January 2023	**344**	**578**	**9,531**	**10,453**
New originated or purchased assets	4,130	2	–	**4,132**
Transfer from Stage 2 to Stage 1	–	–	–	**–**
Transfer to Stage 3	–	(2,918)	2,918	**–**
Assets derecognized or redeemed (excluding write-offs)	(4,069)	–	(9,294)	**(13,363)**
Changes in models and inputs used for ECL calculations	(138)	2,368	–	**2,230**
Changes in currency exchange rates	(44)	(30)	(237)	**(311)**
Allowance for expected credit losses at 31 December 2023	**223**	**–**	**2,918**	**3,141**
Gross carrying amount at 1 January 2022	**176,472**	**–**	**–**	**176,472**
New originated or purchased assets	56,398	–	–	**56,398**
Transfer to Stage 2	(2,006)	2,006	–	**–**
Transfer to Stage 3	(9,531)	–	9,531	**–**
Assets derecognized or redeemed (excluding write-offs)	(165,482)	–	–	**(165,482)**
Changes in currency exchange rates	6,327	–	–	**6,327**
Gross carrying amount at 31 December 2022	**62,178**	**2,006**	**9,531**	**73,715**
Allowance for expected credit losses at 1 January 2022	**876**	**–**	**–**	**876**
New originated or purchased assets	616	–	–	**616**
Transfer to Stage 2	(578)	578	–	**–**
Transfer to Stage 3	(9,531)	–	9,531	**–**
Assets derecognized or redeemed (excluding write-offs)	(7,965)	–	–	**(7,965)**
Changes in models and inputs used for ECL calculations	16,537	–	–	**16,537**
Changes in currency exchange rates	389	–	–	**389**
Allowance for expected credit losses at 31 December 2022	**344**	**578**	**9,531**	**10,453**

In 2023, a Stage 3 loan totaling EUR 9,976 thousand was repaid.

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:

	2023	2022
Loans issued to legal entities from IBEC member countries	62,260	68,556
Loans for foreign trade purposes issued to legal entities from IBEC member countries	37,405	40,083
Loans issued to legal entities from other countries	13,260	–
Syndicated loans issued to legal entities from other countries	12,463	19
Loans for foreign trade purposes issued to legal entities from other countries	5,562	–
Syndicated loans issued to legal entities from IBEC member countries	–	29,839
Total loans to corporate customers	**130,950**	**138,497**
Allowance for expected credit losses	(4,001)	(10,808)
Loans to corporate customers less allowance for expected credit losses	**126,949**	**127,689**

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

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

	2023		2022	
	Amount	*%*	*Amount*	*%*
Transport	44,474	35.03	46,965	36.78
Chemical industry	22,335	17.59	10,088	7.90
Pharmaceuticals	21,653	17.06	–	–
Logistics	13,865	10.92	14,748	11.55
Gas industry	12,433	9.80	15,575	12.20
Wholesale trade	5,029	3.96	–	–
Finance	4,518	3.56	32,624	25.55
Investment activities (leases)	2,513	1.98	7,038	5.51
Construction	129	0.10	586	0.46
Other	–	–	65	0.05
Total loans to corporate customers	**126,949**	**100**	**127,689**	**100**

As at 31 December 2023, balances with three major counterparties of the Bank amounted to EUR 81,121 thousand, or 63.90% of the Bank's total loan portfolio less allowance for expected credit losses (31 December 2022: EUR 68,377 thousand, or 53.55% of the Bank's total loan portfolio less allowance for expected credit losses).

Loans are issued to customers operating in the following countries:

	2023	2022
Russian Federation	46,501	17,126
Mongolia	37,133	38,054
Republic of Bulgaria	16,951	32,347
Socialist Republic of Vietnam	13,865	28,982
Republic of Poland	7,341	8,911
UAE	5,029	–
Slovak Republic	129	587
Romania	–	1,617
Czech Republic	–	65
Total	**126,949**	**127,689**

(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	***2023***	***2022***
Internationally rated		
from BBB+ to BB-	*–*	*19*
from B+ to B-	*–*	*12,132*
Internally rated only		
from BBB+ to BB-	*39,907*	*46,374*
from B+ to B-	*48,013*	*39,562*
from CCC+ to C	*43,030*	*40,410*
Total	**130,950**	**138,497**
Allowance for expected credit losses	(4,001)	(10,808)
Carrying amount	**126,949**	**127,689**

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 2023	**116,340**	**21,618**	**539**	**138,497**
New originated or purchased assets	81,370	1,064	–	**82,434**
Transfer to Stage 2	(5,075)	5,075	–	**–**
Transfer from Stage 2 to Stage 1	2,550	(2,550)	–	**–**
Assets derecognized or redeemed (excluding write-offs)	(73,974)	(10,761)	(19)	**(84,754)**
Changes in currency exchange rates	(4,043)	(1,185)	1	**(5,227)**
Gross carrying amount at 31 December 2023	**117,168**	**13,261**	**521**	**130,950**
Allowance for expected credit losses at 1 January 2023	**5,251**	**5,018**	**539**	**10,808**
New originated or purchased assets	13,125	166	–	**13,291**
Transfer to Stage 2	(556)	556	–	**–**
Transfer from Stage 2 to Stage 1	37	(37)	–	**–**
Assets derecognized or redeemed (excluding write-offs)	(8,600)	(1,666)	(19)	**(10,285)**
Changes in models and inputs used for ECL calculations	(6,505)	(2,283)	–	**(8,788)**
Changes in currency exchange rates	(545)	(481)	1	**(1,025)**
Allowance for expected credit losses at 31 December 2023	**2,207**	**1,273**	**521**	**4,001**

(continued on the next page)

(EUR thousand)

10. Loans to corporate customers (continued)

Loans to corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2022	**190,428**	**10,256**	**8,301**	**208,985**
New originated or purchased assets	55,424	98	302	**55,824**
Transfer to Stage 2	(21,618)	21,618	–	**–**
Transfer to Stage 3	(539)	–	539	**–**
Assets derecognized or redeemed (excluding write-offs)	(113,694)	(5,531)	(9,376)	**(128,601)**
Assets sold	–	(4,759)	–	**(4,759)**
Changes in currency exchange rates	6,339	(64)	773	**7,048**
Gross carrying amount at 31 December 2022	**116,340**	**21,618**	**539**	**138,497**
Allowance for expected credit losses at 1 January 2022	**1,643**	**863**	**2,498**	**5,004**
New originated or purchased assets	4,367	–	393	**4,760**
Transfer to Stage 2	(5,018)	5,018	–	**–**
Transfer to Stage 3	(539)	–	539	**–**
Assets derecognized or redeemed (excluding write-offs)	(13,478)	(798)	(6,435)	**(20,711)**
Changes in models and inputs used for ECL calculations	15,148	–	3,109	**18,257**
Assets sold	–	(55)	–	**(55)**
Changes in currency exchange rates	3,128	(10)	435	**3,553**
Allowance for expected credit losses at 31 December 2022	**5,251**	**5,018**	**539**	**10,808**

In 2023, the Bank sold to an unrelated party its loan receivable, which was previously recognized by the Council of the Bank as bad debt and written off. The Bank previously wrote off the outstanding loan receivable of EUR 14,338 thousand as expenses against the allowance. The selling price was EUR 180 thousand. It was recorded in the statement of profit or loss and other comprehensive income within other banking income.

In 2022, the Bank sold to an unrelated party its loan receivable in the amount of EUR 4,759 thousand. The selling price was EUR 4,477 thousand. The loss of EUR 227 thousand from the sale, including the write-off of the previously charged allowance for expected credit losses, is recorded in the statement of profit or loss and other comprehensive income within other banking expenses.

In 2022, the Bank early repaid two loans, one of which was allocated to Stage 3, with a discount of EUR 3,852 thousand, which was recognized in the statement of profit or loss and other comprehensive income within net losses from operations with loans at amortized cost (2023: none).

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.

(EUR thousand)

10. Loans to corporate customers (continued)

Collateral and other credit enhancements (continued)

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:

- Pledge of real estate;
- Third-party guarantees;
- Property rights.

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:

	2023	***2022***
Loans secured by guarantees and sureties of third parties	87,146	68,362
Loans secured by pledge of (movable) property and property rights	39,803	45,092
Unsecured loans	–	14,235
Total loans to corporate customers	**126,949**	**127,689**

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

In 2023, the Bank modified the terms and conditions of loans to four borrowers (2022: three borrowers) due to the geopolitical crisis in February 2022. The effect of these modifications is 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*
2023			
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	35,167	–	501
Cross-currency interest rate contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	3,528	–	24
Cross-currency interest rate contracts used as hedging instruments			
Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments	25,665	–	5,730
Total derivative assets/liabilities		**–**	**6,255**
2022			
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	82,581	1,110	1,733
Interest rate contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	6,609	25	–
Cross-currency interest rate contracts used as hedging instruments			
Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments	25,664	–	404
Total derivative assets/liabilities		**1,135**	**2,137**

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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.

	2023		*2022*	
	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 (-)	–	28,271	39,344	11,801
- RUB payable on settlement (-)	–	6,797	24,413	6,411
- EUR receivable on settlement (+)	–	–	64,867	16,479
- RUB receivable on settlement (+)	–	28,209	–	–
- Receivable in other currencies on settlement (+)	–	6,358	–	–
Interest rate swaps: fair value at the end of the reporting period				
- RUB payable on settlement (-)	–	–	6,609	–
- RUB receivable on settlement (+)	–	–	6,634	–
Cross-currency interest rate swaps: fair value at the end of the reporting period				
- RUB payable on settlement (-)	–	3,528	–	–
- RUB receivable on settlement (+)	–	3,504	–	–
Cross-currency interest rate swaps used as hedging instruments: fair value at the end of the reporting period				
- EUR payable on settlement (-)	–	25,195	–	24,968
- RUB receivable on settlement (+)	–	19,465	–	24,564
Net fair value of interest rate, foreign exchange and cross-currency interest rate swaps	**–**	**(6,255)**	**1,135**	**(2,137)**

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

Cash flow hedges

Cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments. The Bank's cash flow 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)

As at 31 December 2023 and 31 December 2022, 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***
31 December 2023		
RUB-denominated bonds with a fixed interest rate	312	–
31 December 2022		
RUB-denominated bonds with a fixed interest rate	(1,148)	–

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 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.

In 2023, no swaps related to hedges were terminated early. In 2022, swaps with two counterparties were terminated prior to maturity, and some deals were closed on maturity. The total financial result of EUR (12,171) thousand (including the disposed instruments) was recognized in the statement of profit or loss and other comprehensive income within net gains (losses) from operations with derivative financial instruments and foreign currency. Net gains (losses) from operations with derivative financial instruments and foreign currency recognized in the statement of profit or loss and other comprehensive income include trading operations with derivative financial instruments totaling EUR 6,451 thousand (2022: EUR 6,953 thousand) and trading operations with currency totaling EUR 517 thousand (2022: EUR 102 thousand).

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(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

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

					Changes in the fair values of hedging instruments used for measuring hedge ineffectiveness					
		Carrying amount			Effective portion		Hedge ineffectiveness	Reclassified to profit or loss		
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 gains (losses) from operations with derivative financial instruments and foreign currency***	***Interest income (expense) calculated using the EIR method***	***Net gains (losses) from operations with derivative financial instruments and foreign currency***	***Net gains (losses) from operations with derivative financial instruments and foreign currency***
2023										
Cross-currency interest rate swaps	25,665	–	5,730	**(4,364)**	(5,335)	1,371	(400)	**987**	**(6,295)**	**(116)**
2022										
Cross-currency interest rate swaps	25,664	–	404	**60,027**	59,847	(146)	326	**6,023**	**48,283**	**1,046**

The cumulative amount of the change in the fair value of the hedged item amounted to EUR 48,137 thousand as at 31 December 2023 (31 December 2022: EUR 53,474 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 (4,983) thousand as at 31 December 2023 (31 December 2022: EUR (1,313) thousand). In 2023 and 2022, the effective portion of hedging relationships recognized in other comprehensive income (cash flow hedge reserve, excluding basis currency spread) was adjusted to the smaller 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	***1 to 6 months***	***12 months to 5 years***	***Total***
2023			
Cross-currency interest rate swaps			
Notional principal	25,665	–	**25,665**
Average fixed interest rate, EUR	1.41%	–	**1.41%**
Average fixed interest rate, RUB	6.2%	–	**6.2%**
Average EUR/RUB exchange rate	0.0101	–	**0.0101**
2022			
Cross-currency interest rate swaps			
Notional principal	–	25,664	**25,664**
Average fixed interest rate, EUR	–	1.41%	**1.41%**
Average fixed interest rate, RUB	–	6.2%	**6.2%**
Average EUR/RUB exchange rate	–	0.0132	**0.0132**

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 2023	**194**	**(1,342)**
Effective portion of changes in the fair value of cross-currency interest rate swaps	(5,335)	1,371
Net amounts reclassified to profit or loss:		
- interest expense	*(987)*	–
- net gains (losses) from operations with derivative financial instruments and foreign currency	*6,295*	*116*
Balance at 31 December 2023	**167**	**145**
Balance at 1 January 2022	**(5,347)**	**(150)**
Effective portion of changes in the fair value of cross-currency interest rate swaps	59,847	(146)
Net amounts reclassified to profit or loss:		
- interest expense	*(6,023)*	–
- net gains (losses) from operations with derivative financial instruments and foreign currency	*(48,283)*	*(1,046)*
Balance at 31 December 2022	**194**	**(1,342)**

Fair value hedges

In 2022, 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 534 thousand (including the disposed instruments) was recognized in the statement of profit or loss and other comprehensive income within net gains (losses) from operations with derivative financial instruments and foreign currency (2023: none).

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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 2023 were as follows:

2023	***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 2023		**76,000**	**1,640**	**453**	**545**	**2,187**	**26**	**80,851**
Additions		50	61	–	–	697	–	**808**
Disposals		–	(19)	(48)	(35)	–	(26)	**(128)**
Balance at 31 December 2023		**76,050**	**1,682**	**405**	**510**	**2,884**	**–**	**81,531**
Accumulated depreciation								
Balance at 1 January 2023		**25,907**	**1,204**	**312**	**498**	**52**	**18**	**27,991**
Depreciation charges for the year	21	1,040	205	8	47	89	1	**1,390**
Disposals		–	(19)	(26)	(35)	–	(19)	**(99)**
Balance at 31 December 2023		**26,947**	**1,390**	**294**	**510**	**141**	**–**	**29,282**
Net book value								
Net book value at 1 January 2023		**50,093**	**436**	**141**	**47**	**2,135**	**8**	**52,860**
Net book value at 31 December 2023		**49,103**	**292**	**111**	**–**	**2,743**	**–**	**52,249**

Movements in property, plant and equipment for 2022 were as follows:

2022	***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 2022		**73,254**	**1,620**	**474**	**568**	**2,073**	**26**	**78,015**
Additions		341	34	3	–	114	–	**492**
Disposals		–	(14)	(24)	(23)	–	–	**(61)**
Revaluation		2,405	–	–	–	–	–	**2,405**
Balance at 31 December 2022		**76,000**	**1,640**	**453**	**545**	**2,187**	**26**	**80,851**
Accumulated depreciation								
Balance at 1 January 2022		**24,104**	**1,034**	**305**	**453**	**18**	**13**	**25,927**
Depreciation charges for the year	21	985	184	15	68	34	5	**1,291**
Disposals		–	(14)	(8)	(23)	–	–	**(45)**
Revaluation		818	–	–	–	–	–	**818**
Balance at 31 December 2022		**25,907**	**1,204**	**312**	**498**	**52**	**18**	**27,991**
Net book value								
Net book value at 1 January 2022		**49,150**	**586**	**169**	**115**	**2,055**	**13**	**52,088**
Net book value at 31 December 2022		**50,093**	**436**	**141**	**47**	**2,135**	**8**	**52,860**

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(EUR thousand)

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

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

	2023	*2022*
Cost	48,725	48,675
Accumulated depreciation	(17,298)	(16,589)
Net book value	**31,427**	**32,086**

Revaluation of assets

In December 2023, Management of the Bank performed an analysis of the fair value of the building and concluded that there were no significant changes in the real estate market and in the condition of the building in 2023, thus there is no necessity in revaluation of the fair value of the building with engagement an independent appraiser.

As at 31 December 2022, an independent assessment of the fair value of 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.

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 2023: within 30 days: EUR 84 thousand; 31 days to 180 days: EUR 234 thousand; 181 days to one year: EUR 34 thousand; 1 year to 5 years: EUR 40 thousand.

13. Other assets and liabilities

Other assets comprise:

	Note	*2023*	*2022*
Financial assets			
Settlements on securities		20,576	182
Margin call		7,094	7,419
Accounts receivable under financial and business operations		661	908
Consumer lending		113	90
Bank fees receivable from customers		2	114
Allowance for expected credit losses from financial assets	22	(18,723)	(82)
Total financial assets less allowance for expected credit losses		**9,723**	**8,631**
Non-financial assets			
Inventories		59	73
Total non-financial assets		**59**	**73**
Total other assets		**9,782**	**8,704**

In 2023, IBEC did not receive any cash from redemption of a number of securities and paid coupon income totaling EUR 18,596 thousand due to, among other reasons, the sanctions imposed on depositories that hold IBEC's securities (31 December 2022: none). The Bank made a provision for these securities amounting to EUR 18,596 thousand as at 31 December 2023.

(EUR thousand)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	Note	*2023*	*2022*
Financial liabilities			
Settlements under financial and business operations		6,458	1,880
Advances received		2,887	3
Contributions to social security funds		204	430
Lease liabilities		–	9
Total financial liabilities		**9,549**	**2,322**
Non-financial liabilities			
Allowance for expected credit losses from credit-related commitments	17, 22	766	7,083
Provision for unused vacations	23	379	416
Total non-financial liabilities		**1,145**	**7,499**
Total other liabilities		**10,694**	**9,821**

14. Due to financial institutions

Amounts due to financial institutions comprise:

	2023	*2022*
Repurchase agreements	61,613	20,397
Long-term related financing from banks in IBEC member countries	36,262	39,106
Correspondent accounts of banks in IBEC member countries	628	370
Correspondent accounts of international financial institutions	590	–
Correspondent accounts of banks in other countries	12	4
Loans from banks in IBEC member countries	–	5,244
Due to financial institutions	**99,105**	**65,121**

As at 31 December 2023, balances due to three major counterparties amounted to EUR 97,875 thousand, or 98.76% of total amounts due to financial institutions (31 December 2022: EUR 60,646 thousand due to three major counterparties, or 93.13% of total amounts due to financial institutions).

The Bank entered into repurchase agreements with financial institutions in IBEC member countries and in other countries with encumbrances on securities with a fair value of EUR 65,270 thousand as at 31 December 2023 (31 December 2022: EUR 21,275 thousand) (Notes 6-8).

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	*2023*	*2022*
Carrying amount of transferred assets – securities at fair value through profit or loss	6	2,909	–
Carrying amount of transferred assets – securities at fair value through other comprehensive income	7	62,361	10,440
Carrying amount of transferred assets– securities at amortized cost	8	–	10,835
Carrying amount of associated liabilities – due to financial institutions		(61,613)	(20,397)

(EUR thousand)

14. Due to financial institutions (continued)

Transferred financial assets not derecognized (continued)

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:

	2023	***2022***
Deposits of organizations in IBEC member countries	9,074	133
Amounts due to the Fund	7,238	7,100
Current accounts of organizations in IBEC member countries	3,929	8,152
Current accounts of organizations in other countries	333	29
Deposits of organizations in other countries	23	–
Other current accounts	1,984	2,627
Due to customers	**22,581**	**18,041**

As at 31 December 2023, balances due to three major customers of the Bank amounted to EUR 19,167 thousand, or 84.88% of total amounts due to customers (31 December 2022: EUR 13,095 thousand, or 72.58% 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.

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

	2023		***2022***	
	Amount	***%***	***Amount***	***%***
Construction	6,890	51.6	4,904	58.9
Insurance	5,040	37.7	–	–
Transport	225	1.7	988	11.9
Manufacturing	225	1.7	14	0.2
Trade	194	1.5	70	0.8
Investment activities (leases)	166	1.3	107	1.3
Pharmaceuticals	134	1.0	62	0.8
Energy	103	0.8	107	1.3
Metallurgy	73	0.5	–	–
Research	41	0.3	120	1.4
Finance	6	0.0	625	7.5
Chemical industry	4	0.0	14	0.2
Advertising and PR	4	0.0	–	–
Mining	2	0.0	1	0.0
Other	252	1.9	1,302	15.7
Total due to customers	**13,359**	**100**	**8,314**	**100**

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(EUR thousand)

16. Debt securities issued

Debt securities issued comprise:

	2023	*2022*
RUB-denominated bonds	147,073	117,474
BGN-denominated bonds	–	34,716
Debt securities issued	**147,073**	**152,190**

On 18 December 2023, IBEC placed bonds on the Moscow Exchange in the amount of RUB 5.5 billion (EUR 55,886 thousand at the currency exchange rate as at the date of issue) maturing on 14 December 2026. The coupon rate is the total income earned per each day of the coupon period based on the Bank of Russia's key rate plus spread of 2.5% p.a., payable on a semi-annual basis. As at 31 December 2023, the average coupon rate on the bonds of this issue was 18.025% p.a. No hedging transactions were entered into for this issue considering the Bank's OCP structure and planned pipeline of a new asset portfolio (Note 11).

On 15 June 2023, IBEC placed bonds on the Moscow Exchange in the amount of RUB 1.7 billion (EUR 18,668 thousand at the currency exchange rate as at the date of issue) with maturity on 2 June 2033 and offer date in June 2026. The coupon rate on the bonds was set at 10.75% p.a. for three years payable on a quarterly basis. No hedging transactions were entered into for this issue considering the Bank's OCP structure and planned pipeline of a new asset portfolio (Note 11).

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% p.a. payable on a semi-annual basis. In September 2023, IBEC fully redeemed this issue before its maturity in accordance with the bond issuance documents, because the Republic of Bulgaria withdrew from the Agreement on the Organization and Activities of IBEC on 17 August 2023.

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% p.a. 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% p.a. payable on a semi-annual basis. In October 2022, the Bank bought back its bonds and re-issued them in November 2022, which resulted in the partial secondary placement of bonds. The coupon rate on the bonds was set at 10.25% p.a. with the offer date in October 2023. In October 2023, the Bank bought back and re-issued its bonds, which resulted in the partial secondary placement of bonds. The coupon rate on the bonds was set at 13.25% p.a. with the offer date in October 2025. As at 31 December 2023, the volume of publicly traded bonds of this issue amounted to RUB 2.340 billion (31 December 2022: RUB 3.796 billion).

When placing bonds in currencies other than euros and without natural hedge, with no planned pipeline of a new asset portfolio, 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:

	2023	*2022*
Guarantees issued	60,885	41,642
Letters of credit	–	10,542
Total credit-related commitments	**60,885**	**52,184**
Allowance for expected credit losses (Notes 13 and 22)	(766)	(7,083)
Credit-related commitments	**60,119**	**45,101**

(EUR thousand)

17. Credit-related commitments (continued)

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

	2023	*2022*
Russian Federation	58,790	31,726
Czech Republic	1,000	1,324
Slovak Republic	197	198
Republic of Poland	132	513
Mongolia	–	10,541
Romania	–	799
Total	**60,119**	**45,101**

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***	***Stage 2***	***Total***
Amount of commitments at 1 January 2023	**33,751**	**18,433**	**52,184**
New exposures	41,828	924	**42,752**
Transfer from Stage 2 to Stage 1	4,536	(4,536)	**–**
Exposures expired or amounts paid	(12,691)	(13,186)	**(25,877)**
Changes in currency exchange rates	(6,539)	(1,635)	**(8,174)**
Amount of commitments at 31 December 2023	**60,885**	**–**	**60,885**
Allowance for expected credit losses at 1 January 2023	**4,896**	**2,187**	**7,083**
New exposures	9,780	1,319	**11,099**
Transfer from Stage 2 to Stage 1	56	(56)	**–**
Exposures expired or amounts paid	(1,385)	(1,042)	**(2,427)**
Changes in models and inputs used for ECL calculations	(11,520)	(2,229)	**(13,749)**
Changes in currency exchange rates	(1,061)	(179)	**(1,240)**
Allowance for expected credit losses at 31 December 2023	**766**	**–**	**766**
Amount of commitments at 1 January 2022	**191,793**	**–**	**191,793**
New exposures	130,124	–	**130,124**
Transfer to Stage 2	(18,433)	18,433	**–**
Exposures expired or amounts paid	(288,925)	–	**(288,925)**
Changes in currency exchange rates	19,192	–	**19,192**
Amount of commitments at 31 December 2022	**33,751**	**18,433**	**52,184**
Allowance for expected credit losses at 1 January 2022	**493**	**–**	**493**
New exposures	8,995	–	**8,995**
Transfer to Stage 2	(2,187)	2,187	**–**
Exposures expired or amounts paid	(8,575)	–	**(8,575)**
Changes in models and inputs used for ECL calculations	1,687	–	**1,687**
Changes in currency exchange rates	4,483	–	**4,483**
Allowance for expected credit losses at 31 December 2022	**4,896**	**2,187**	**7,083**

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

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

(EUR thousand)

17. Credit-related commitments (continued)

When issuing guarantees and letters of credit, 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

	2023	***2022***
Interest income		
Interest income calculated using the EIR method		
Loans to corporate customers	9,241	8,897
Loans and deposits to banks	5,155	3,775
- term deposits with banks	*3,832*	*1,262*
- loans issued to banks under trade financing	*1,303*	*1,668*
- repurchase agreements	*20*	–
- syndicated loans	–	*845*
Securities at fair value through other comprehensive income	4,839	3,339
Securities at amortized cost	1,934	2,273
Digital financial assets at amortized cost	36	–
Other	411	6
Other interest income		
Securities at fair value through profit or loss	118	160
Total interest income	**21,734**	**18,450**
Interest expense		
Interest expense calculated using the EIR method		
Debt securities issued	(8,094)	(6,258)
Due to financial institutions	(1,470)	(3,457)
Due to customers	(942)	(2,381)
Lease liabilities	–	(1)
Other	(1)	(1,571)
Total interest expense	**(10,507)**	**(13,668)**
Net interest income	**11,227**	**4,782**

19. Net fee and commission income

	2023	***2022***
Documentary operations	670	1,795
Fee for servicing a loan/credit facility	348	188
Accounts maintenance	43	41
Currency control	43	27
Cash and settlement operations	27	31
Fee and commission income	**1,131**	**2,082**
Fee and commission expense	(951)	(621)
Net fee and commission income	**180**	**1,461**

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(EUR thousand)

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

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

	2023	*2022*
Result from disposal of debt securities		
Gains (losses) from operations with securities	169	(18)
Losses from revaluation of securities due to their disposal	(2,219)	(14,723)
Total net losses from operations with securities at fair value through other comprehensive income	**(2,050)**	**(14,741)**

The loss from the revaluation of securities at fair value through other comprehensive income due to their disposal in 2023 is reclassified from other comprehensive income to net losses from operations with securities at fair value through other comprehensive income.

Unrealized gains (losses) from operations with securities at fair value through other comprehensive income in 2023 amounted to EUR 11,685 thousand (2022: EUR (32,514) thousand).

21. Administrative and management expenses

	2023	*2022*
Staff costs	7,534	7,936
Repair and maintenance of the building, equipment and apartments	1,618	1,744
Depreciation of property, plant and equipment	1,390	1,291
Information and advisory expenses	416	296
Building security expenses	287	393
Other administrative and management expenses	1,030	1,180
Total administrative and management expenses	**12,275**	**12,840**

Staff costs comprise contributions to:

	2023	*2022*
Social Fund of the Russian Federation (until 2023: the Pension Fund and the Compulsory Medical Insurance Fund of the Russian Federation)	1,046	978
Pension funds of other IBEC member countries	33	71
Total	**1,079**	**1,049**

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(EUR thousand)

22. Allowances for expected credit losses

The tables below show losses (gains) associated with allowances for expected credit losses from financial assets recognized in profit or loss for 2023 and 2022:

2023	***Note***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents	5	13	(19)	–	**(6)**
Securities at fair value through other comprehensive income	7	485	1,060	–	**1,545**
Securities at amortized cost	8	274	1,096	–	**1,370**
Loans and deposits to banks	9	(77)	2,370	(9,294)	**(7,001)**
Loans to corporate customers	10	(1,980)	(3,783)	(19)	**(5,782)**
Credit-related commitments	17	(3,125)	(1,952)	–	**(5,077)**
Other financial assets	13	18,657	65	–	**18,722**
		14,247	**(1,163)**	**(9,313)**	**3,771**

2022	***Note***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents	5	40	–	–	**40**
Securities at fair value through other comprehensive income	7	7,068	(261)	–	**6,807**
Securities at amortized cost	8	1,781	–	–	**1,781**
Loans and deposits to banks	9	9,188	–	–	**9,188**
Loans to corporate customers	10	6,037	(798)	(2,933)	**2,306**
Credit-related commitments	17	2,107	–	–	**2,107**
Other financial assets	13	145	–	–	**145**
		26,366	**(1,059)**	**(2,933)**	**22,374**

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(EUR thousand)

22. Allowances for expected credit losses (continued)

The reconciliation of balances of the allowance for expected credit losses from financial assets as at 31 December 2023 and 31 December 2022 is presented below:

	Cash and cash equivalents	*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 2023	**28**	**8,933**	**2,608**	**10,453**	**10,808**	**7,083**	**82**	**39,995**
New originated or purchased assets	3,072	15,286	2,277	4,132	13,291	11,099	9,037	**58,194**
Assets derecognized or redeemed (excluding write-offs)	(3,135)	(4,863)	(72)	(13,363)	(10,285)	(2,427)	(4,509)	**(38,654)**
Changes to models and inputs used for ECL calculations	57	(8,878)	(835)	2,230	(8,788)	(13,749)	14,194	**(15,769)**
Write-offs	–	–	–	–	–	–	(1)	**(1)**
Changes in currency exchange rates	(15)	(1,048)	(3)	(311)	(1,025)	(1,240)	(80)	**(3,722)**
Balance at 31 December 2023	**7**	**9,430**	**3,975**	**3,141**	**4,001**	**766**	**18,723**	**40,043**
Balance at 1 January 2022	**–**	**1,266**	**791**	**876**	**5,004**	**493**	**1**	**8,431**
New originated or purchased assets	1,405	3,709	26	616	4,760	8,995	5	**19,516**
Assets derecognized or redeemed (excluding write-offs)	(1,467)	(3,517)	(452)	(7,965)	(20,711)	(8,575)	(326)	**(43,013)**
Changes to models and inputs used for ECL calculations	102	6,615	2,207	16,537	18,257	1,687	466	**45,871**
Write-offs	–	–	–	–	–	–	(1)	**(1)**
Assets sold	–	–	–	–	(55)	–	–	**(55)**
Changes in currency exchange rates	(12)	860	36	389	3,553	4,483	(63)	**9,246**
Balance at 31 December 2022	**28**	**8,933**	**2,608**	**10,453**	**10,808**	**7,083**	**82**	**39,995**

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(EUR thousand)

23. Other provisions

Movements in other provisions are presented below:

	Provision for unused vacations	***Total***
1 January 2023	**416**	**416**
Charge	47	**47**
Write-offs	(84)	**(84)**
31 December 2023	**379**	**379**
1 January 2022	**321**	**321**
Charge	134	**134**
Write-offs	(39)	**(39)**
31 December 2022	**416**	**416**

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.

(EUR thousand)

24. Risk management (continued)

Risk management structure (continued)

Risk Control Department (RCD)

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

Internal Audit Department (IAD)

The IAD 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 of Management of the Bank 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 and aversion. 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.

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

The Bank considers credit ratings assigned by international rating 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, if necessary.

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.

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.

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

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.

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 expected credit loss (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).

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

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.

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 international and local 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).

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

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 received from publicly available and specialized databases and information aggregators.

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships among the 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.

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

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 2023:

	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	5,783	–	–	**5,783**
Correspondent accounts with internationally rated banks	6,621	–	–	**6,621**
Correspondent accounts with banks having internal credit ratings only	6,535	–	7	**6,542**
Total	**18,939**	**–**	**7**	**18,946**
Allowance for expected credit losses	–	–	(7)	**(7)**
Carrying amount	**18,939**	**–**	**–**	**18,939**
Securities at fair value through other comprehensive income				
Held by the Bank				
Internationally rated	12,798	8,418	–	**21,216**
Internally rated only	68,452	20,303	–	**88,755**
Carrying amount	**81,250**	**28,721**	**–**	**109,971**
Allowance for expected credit losses	**(763)**	**(8,564)**	**–**	**(9,327)**
Pledged under repurchase agreements				
Internally rated only	62,361	–	–	**62,361**
Carrying amount	**62,361**	**–**	**–**	**62,361**
Allowance for expected credit losses	**(103)**	**–**	**–**	**(103)**

(continued on the next page)

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

	Stage 1	***Stage 2***	***Stage 3***	
	12-month ECL	***Lifetime ECL***	***Lifetime ECL***	***Total***
Securities at amortized cost				
Held by the Bank				
Internationally rated	5,054	3,745	–	**8,799**
Internally rated only	18,375	9,603	110	**28,088**
Total	**23,429**	**13,348**	**110**	**36,887**
Allowance for expected credit losses	(132)	(3,470)	(110)	**(3,712)**
Carrying amount	**23,297**	**9,878**	**–**	**33,175**
Digital financial assets				
Internally rated only	**4,069**	–	–	**4,069**
Total	**4,069**	**–**	**–**	**4,069**
Allowance for expected credit losses	(263)	–	–	**(263)**
Carrying amount	**3,806**	**–**	**–**	**3,806**
Loans and deposits to banks				
Internationally rated	63,722	–	1,690	**65,412**
Internally rated only	30,940	–	1,228	**32,168**
Total	**94,662**	**–**	**2,918**	**97,580**
Allowance for expected credit losses	(223)	–	(2,918)	**(3,141)**
Carrying amount	**94,439**	**–**	**–**	**94,439**
Loans to corporate customers				
Internally rated only	117,168	13,261	521	**130,950**
Total	**117,168**	**13,261**	**521**	**130,950**
Allowance for expected credit losses	(2,207)	(1,273)	(521)	**(4,001)**
Carrying amount	**114,961**	**11,988**	**–**	**126,949**
Other financials assets				
Internationally rated	–	–	12,484	**12,484**
Internally rated only	9,725	–	6,237	**15,962**
Total	**9,725**	**–**	**18,721**	**28,446**
Allowance for expected credit losses	(2)	–	(18,721)	**(18,723)**
Carrying amount	**9,723**	**–**	**–**	**9,723**

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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 2022:

	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	32	11,580	–	**11,612**
Correspondent accounts with internationally rated banks	38,408	–	–	**38,408**
Correspondent accounts with banks having internal credit ratings only	45	35,863	4	**35,912**
Total	**38,485**	**47,443**	**4**	**85,932**
Allowance for expected credit losses	–	(24)	(4)	**(28)**
Carrying amount	**38,485**	**47,419**	**–**	**85,904**
Securities at fair value through other comprehensive income				
Held by the Bank				
Internationally rated	12,118	6,617	–	**18,735**
Internally rated only	10,702	28,197	–	**38,899**
Carrying amount	**22,820**	**34,814**	**–**	**57,634**
Allowance for expected credit losses	**(1,933)**	**(6,967)**	**–**	**(8,900)**
Pledged under repurchase agreements				
Internationally rated	9,718	722	–	**10,440**
Carrying amount	**9,718**	**722**	**–**	**10,440**
Allowance for expected credit losses	**(23)**	**(10)**	**–**	**(33)**

(continued on the next page)

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

	Stage 1	*Stage 2*	*Stage 3*	
	12-month ECL	*Lifetime ECL*	*Lifetime ECL*	*Total*
Securities at amortized cost				
Held by the Bank				
Internationally rated	11,499	–	–	**11,499**
Internally rated only	3,010	22,296	–	**25,306**
Total	**14,509**	**22,296**	**–**	**36,805**
Allowance for expected credit losses	(1,045)	(1,491)	–	**(2,536)**
Carrying amount	**13,464**	**20,805**	**–**	**34,269**
Pledged under repurchase agreements				
Internationally rated	10,907	–	–	**10,907**
Total	**10,907**	**–**	**–**	**10,907**
Allowance for expected credit losses	(72)	–	–	**(72)**
Carrying amount	**10,835**	**–**	**–**	**10,835**
Loans and deposits to banks				
Internationally rated	33,376	1,731	9,531	**44,638**
Internally rated only	28,802	275	–	**29,077**
Total	**62,178**	**2,006**	**9,531**	**73,715**
Allowance for expected credit losses	(344)	(578)	(9,531)	**(10,453)**
Carrying amount	**61,834**	**1,428**	**–**	**63,262**
Loans to corporate customers				
Internationally rated	12,132	–	19	**12,151**
Internally rated only	104,208	21,618	520	**126,346**
Total	**116,340**	**21,618**	**539**	**138,497**
Allowance for expected credit losses	(5,251)	(5,018)	(539)	**(10,808)**
Carrying amount	**111,089**	**16,600**	**–**	**127,689**
Other financials assets				
Internationally rated	6,800	–	–	**6,800**
Internally rated only	1,748	165	–	**1,913**
Total	**8,548**	**165**	–	**8,713**
Allowance for expected credit losses	(2)	(80)	–	**(82)**
Carrying amount	**8,546**	**85**	**–**	**8,631**

As at 31 December 2023, all credit-related commitments less allowances for expected credit losses in the amount of EUR 60,885 thousand relate to Stage 1. As at 31 December 2022, credit-related commitments less allowances for expected credit losses in the amount of EUR 33,751 thousand and EUR 18,433 thousand relate to Stage 1 and Stage 2, respectively. During 2023, credit-related commitments in the amount of EUR 4,536 thousand were transferred from Stage 2 to Stage 1 (2022: credit-related commitments in the amount of EUR 18,433 thousand were transferred from Stage 1 to Stage 2).

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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 2023:

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*	*Digital financial assets at amortized cost*	*Loans and deposits to banks*	*Loans to corporate customers*	*Derivative financial assets*	*Other financial assets*	*Total*	*Share, %*
Russian Federation	12,146	1,646	2,909	88,755	62,361	25,420	–	3,806	30,930	46,501	–	9,720	284,194	**61.26**
Mongolia	4,683	–	–	–	–	–	–	–	44,336	37,133	–	–	86,152	**18.57**
Republic of Bulgaria	–	–	–	3,099	–	5,010	–	–	–	16,951	–	2	25,062	**5.40**
Socialist Republic of Vietnam	167	–	–	–	–	–	–	–	–	13,865	–	–	14,032	**3.02**
Republic of Poland	6	–	–	3,716	–	–	–	–	–	7,341	–	–	11,063	**2.39**
Czech Republic	–	–	–	1,949	–	2,745	–	–	–	–	–	–	4,694	**1.01**
Romania	–	–	–	4,034	–	–	–	–	–	–	–	–	4,034	**0.87**
IFI[4]	–	–	–	1,529	–	–	–	–	–	–	–	–	1,529	**0.33**
Slovak Republic	–	–	–	–	–	–	–	–	–	129	–	–	129	**0.03**
Other countries	1,937	–	–	6,889	–	–	–	–	19,173	5,029	–	1	33,029	**7.12**
Total	**18,939**	**1,646**	**2,909**	**109,971**	**62,361**	**33,175**	**–**	**3,806**	**94,439**	**126,949**	**–**	**9,723**	**463,918**	**100**

Other countries are represented by the Republic of Uzbekistan, Latvia, the UAE, Armenia, China, Germany, Kazakhstan and the Philippines, i.e. countries that carry out their operations in transactions with the Bank's member countries.

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[4] IFI – international financial funds and institutions.

(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 2022:

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	47,419	4,697	–	38,900	–	22,959	–	28,503	17,126	1,135	1,604	**162,343**	**39.93**
Mongolia	382	–	–	–	–	4,675	–	32,033	38,054	–	–	**75,144**	**18.48**
Socialist Republic of Vietnam	25,613	–	–	–	–	–	–	–	28,982	–	–	**54,595**	**13.43**
Republic of Bulgaria	45	–	–	1,274	2,824	2,818	10,835	–	32,347	–	204	**50,347**	**12.38**
Republic of Poland	8	342	–	1,399	3,228	–	–	–	8,911	–	1	**13,889**	**3.42**
Romania	236	1,736	–	5,277	668	–	–	–	1,617	–	–	**9,534**	**2.34**
Czech Republic	–	–	–	3,621	162	3,817	–	–	65	–	22	**7,687**	**1.89**
IFI[5]	2,866	–	–	1,339	1,318	–	–	–	–	–	–	**5,523**	**1.36**
Slovak Republic	–	–	–	–	1,447	–	–	–	587	–	–	**2,034**	**0.50**
Other countries	9,335	–	–	5,824	793	–	–	2,726	–	–	6,800	**25,478**	**6.27**
Total	**85,904**	**6,775**	**–**	**57,634**	**10,440**	**34,269**	**10,835**	**63,262**	**127,689**	**1,135**	**8,631**	**406,574**	**100**

Other countries are represented by the Netherlands, Kazakhstan, Latvia, Germany, Hungary, the Republic of Uzbekistan, Luxembourg, and Armenia, i.e. countries that carry out their operations in transactions with the Bank's member countries.

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[5] IFI – international financial funds and institutions.

(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 2023 and 31 December 2022 based on contractual undiscounted cash flows. Repayments which are subject to notice are treated as if notice were to be given immediately.

2023	***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 financial institutions	60,292	5,115	2,560	41,309	109,276	**99,105**
Due to customers	15,362	24	7,197	–	22,583	**22,581**
Debt securities issued	–	59,546	2,477	108,710	170,733	**147,073**
Other liabilities	10,694	–	–	–	10,694	**10,694**
Gross settled derivative financial instruments						
- inflow	*(34,685)*	*(21,064)*	*(204)*	*(396)*	*(56,349)*	***(57,536)***
- outflow	*32,212*	*26,063*	*235*	*471*	*58,981*	***63,791***
Total	**83,875**	**69,684**	**12,265**	**150,094**	**315,918**	**285,708**

2022	***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 financial institutions	6,237	20,876	1,599	38,579	67,291	**65,121**
Due to customers	10,941	–	7,100	–	18,041	**18,041**
Debt securities issued	–	4,807	54,978	103,101	162,886	**152,190**
Other liabilities	9,812	2	3	4	9,821	**9,821**
Gross settled derivative financial instruments						
- inflow	*(6,400)*	*(1,091)*	*(11,440)*	*(27,253)*	*(46,184)*	***(41,043)***
- outflow	*6,465*	*426*	*12,474*	*25,824*	*45,189*	***43,180***
Total	**27,055**	**25,020**	**64,714**	**140,255**	**257,044**	**247,310**

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***
31 December 2023	60,119	–	–	–	–	**60,119**
31 December 2022	43,935	1,166	–	–	–	**45,101**

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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 2023 and 31 December 2022 by contractual maturity.

Quoted debt securities that are highly liquid securities, which can be sold by the Bank in the short-term on the arm-length basis, 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". 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.

2023	*On demand and less than 1 month*	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Overdue*	*Excluded from analysis[6]*	*Total*
Cash and cash equivalents	21,559	–	–	–	–	–	–	**21,559**
Securities at fair value through profit or loss								
- held by the Bank	*1,646*	–	–	–	–	–	–	***1,646***
- pledged under repurchase agreements	*2,909*	–	–	–	–	–	–	***2,909***
Securities at fair value through other comprehensive income								
- held by the Bank	*81,250*	–	–	–	–	–	*28,721*	***109,971***
- pledged under repurchase agreements	*57,092*	*5,269*	–	–	–	–	–	***62,361***
Securities at amortized cost								
- held by the Bank	–	–	*5,021*	*18,276*	–	–	*9,878*	***33,175***
- digital financial assets	–	–	*3,806*	–	–	–	–	***3,806***
Loans and deposits to banks	55,039	25,118	14,023	259	–	–	–	**94,439**
Loans to corporate customers	3,575	12,365	49,502	39,801	17,944	3,762	–	**126,949**
Derivative financial assets	–	–	–	–	–	–	–	**–**
Other financial assets	9,610	6	15	92	–	–	–	**9,723**
Total financial assets	**232,680**	**42,758**	**72,367**	**58,428**	**17,944**	**3,762**	**38,599**	**466,538**
Due to financial institutions	57,797	5,047	–	–	36,261	–	–	**99,105**
Due to customers	15,320	23	7,238	–	–	–	–	**22,581**
Derivative financial liabilities	501	5,730	–	24	–	–	–	**6,255**
Debt securities issued	–	51,760	–	95,313	–	–	–	**147,073**
Other financial liabilities	9,549	–	–	–	–	–	–	**9,549**
Total financial liabilities	**83,167**	**62,560**	**7,238**	**95,337**	**36,261**	**–**	**–**	**284,563**
Net position	**149,513**	**(19,802)**	**65,129**	**(36,909)**	**(18,317)**	**3,762**	**38,599**	**181,975**
Cumulative liquidity gap for financial instruments	**149,513**	**129,711**	**194,840**	**157,931**	**139,614**	**143,376**	**181,975**	**–**

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[6] Assets excluded from the liquidity risk analysis are as follows: restricted cash and securities of the Bank, including those restricted due to sanctions imposed on depositories that store IBEC's securities, as the date of their return is difficult to forecast.

(EUR thousand)

24. Risk management (continued)

Classification of assets and liabilities by maturity (continued)

2022	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	88,461	–	–	–	–	–	**88,461**
Securities at fair value through profit or loss							
- held by the Bank	*6,775*	–	–	–	–	–	***6,775***
Securities at fair value through other comprehensive income							
- held by the Bank	*57,634*	–	–	–	–	–	***57,634***
- pledged under repurchase agreements	–	*10,440*	–	–	–	–	***10,440***
Securities at amortized cost							
- held by the Bank	–	*12,403*	*4,675*	*15,320*	*1,761*	*110*	***34,269***
- pledged under repurchase agreements	*5,055*	*5,780*	–	–	–	–	***10,835***
Loans and deposits to banks	31,655	22,467	–	9,140	–	–	**63,262**
Loans to corporate customers	29,814	4,803	19,325	49,898	23,785	64	**127,689**
Derivative financial assets	1,110	–	25	–	–	–	**1,135**
Other financial assets	8,195	–	–	90	–	346	**8,631**
Total financial assets	**228,699**	**55,893**	**24,025**	**74,448**	**25,546**	**520**	**409,131**
Due to financial institutions	5,193	20,823	–	–	39,105	–	**65,121**
Due to customers	10,941	–	7,100	–	–	–	**18,041**
Derivative financial liabilities	15	–	1,718	404	–	–	**2,137**
Debt securities issued	–	1,472	49,990	100,728	–	–	**152,190**
Other financial liabilities	2,313	2	3	4	–	–	**2,322**
Total financial liabilities	**18,462**	**22,297**	**58,811**	**101,136**	**39,105**	**–**	**239,811**
Net position	**210,237**	**33,596**	**(34,786)**	**(26,688)**	**(13,559)**	**520**	**169,320**
Cumulative liquidity gap for financial instruments	**210,237**	**243,833**	**209,047**	**182,359**	**168,800**	**169,320**	**–**

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.

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(EUR thousand)

24. Risk management (continued)

Interest rate risk (continued)

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

Interest rate sensitivity analysis

	2023		***2022***	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
1 bp parallel fall	**47**	**13**	**(847)**	**(859)**
EUR	(227)	(257)	(331)	(343)
USD	(87)	(87)	(306)	(306)
RUB	427	423	(192)	(192)
Other currencies	(66)	(66)	(18)	(18)
1 bp parallel rise	**(47)**	**(13)**	**847**	**859**
EUR	227	257	331	343
USD	87	87	306	306
RUB	(427)	(423)	192	192
Other currencies	66	66	18	18

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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 2023 and 31 December 2022. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2023				***2022***			
	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	0.16	0.67	–	0.02	–	0.05	–	–
Securities at fair value through profit or loss								
- held by the Bank	*1.49*	–	–	–	*1.53*	–	–	–
- pledged under repurchase agreements	*1.13*	–	–	–	–	–	–	–
Securities at fair value through other comprehensive income								
- held by the Bank	*2.5*	*3.33*	*11.56*	*3.80*	*2.63*	*3.32*	*7.35*	–
- pledged under repurchase agreements	*2.25*	–	*8.30*	–	*1.49*	–	–	–
Securities at amortized cost								
- held by the Bank	*0.52*	*3.78*	*14.75*	–	*3.25*	*7.79*	–	–
- pledged under repurchase agreements	–	–	–	–	*3.18*	–	–	–
- digital financial assets	–	–	*17.50*	–	–	–	–	–
Loans and deposits to banks	8.83	3.13	15.99	8.10	5.97	3.70	6.99	–
Loans to corporate customers	8.23	–	16.14	–	5.87	5.36	10.86	12.77
Consumer lending	6.36	–	–	–	3.00	–	–	–
Interest-bearing liabilities								
Due to financial institutions	4.37	–	15.64	–	0.88	2.55	–	–
Correspondent accounts with banks in IBEC member countries and other credit institutions	(0.50)	–	10.57	–	(0.50)	–	2.52	–
Due to customers	2.17	2.83	11.94	–	0.67	2.82	2.02	–
Debt securities issued	–	–	12.34	–	–	–	7.95	1.15

(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 2023:

	Note	*EUR*	*USD*	*RUB*	*CNY*	*Other*	*Total*
Cash and cash equivalents		7,964	1,249	6,598	5,711	37	**21,559**
Securities at fair value through profit or loss							
- *held by the Bank*		1,646	–	–	–	–	**1,646**
- *pledged under repurchase agreements*		2,909	–	–	–	–	**2,909**
Securities at fair value through other comprehensive income							
- *held by the Bank*		57,314	10,320	39,899	2,438	–	**109,971**
- *pledged under repurchase agreements*		58,083	–	4,278	–	–	**62,361**
Securities at amortized cost							
- *held by the Bank*		11,746	6,144	15,285	–	–	**33,175**
- *digital financial assets*		–	–	3,806	–	–	**3,806**
Loans and deposits to banks		30,130	9,015	46,257	9,037	–	**94,439**
Loans to corporate customers		75,420	–	51,529	–	–	**126,949**
Other financial assets	13	2,154	–	7,569	–	–	**9,723**
Total financial assets		**247,366**	**26,728**	**175,221**	**17,186**	**37**	**466,538**
Due to financial institutions		36,519	10	62,576	–	–	**99,105**
Due to customers		9,302	72	12,876	316	15	**22,581**
Debt securities issued		–	–	147,073	–	–	**147,073**
Other financial liabilities	13	4,042	–	5,498	–	9	**9,549**
Total financial liabilities		**49,863**	**82**	**228,023**	**316**	**24**	**278,308**
Net balance sheet position		**197,503**	**26,646**	**(52,802)**	**16,870**	**13**	**188,230**
Net off-balance sheet position		**(25,195)**	**(28,271)**	**40,853**	**6,358**	**–**	**(6,255)**
Net balance sheet and off-balance sheet position		**172,308**	**(1,625)**	**(11,949)**	**23,228**	**13**	**181,975**

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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 2022:

	Note	*EUR*	*USD*	*RUB*	*Other*	*Total*
Cash and cash equivalents		14,185	33,645	11,909	28,722	**88,461**
Securities at fair value through profit or loss						
- held by the Bank		*6,775*	–	–	–	***6,775***
Securities at fair value through other comprehensive income						
- held by the Bank		*34,884*	*10,176*	*12,574*	–	***57,634***
- pledged under repurchase agreements		*10,440*	–	–	–	***10,440***
Securities at amortized cost						
- held by the Bank		*21,547*	*12,722*	–	–	***34,269***
- pledged under repurchase agreements		*10,835*	–	–	–	***10,835***
Loans and deposits to banks		13,859	21,667	27,731	5	**63,262**
Loans to corporate customers		94,711	18,208	13,153	1,617	**127,689**
Other financial assets	13	6,926	800	706	199	**8,631**
Total financial assets		**214,162**	**97,218**	**66,073**	**30,543**	**407,996**
Due to financial institutions		39,332	25,653	136	–	**65,121**
Due to customers		10,613	268	6,064	1,096	**18,041**
Debt securities issued		–	–	117,474	34,716	**152,190**
Other financial liabilities	13	1,160	8	1,154	–	**2,322**
Total financial liabilities		**51,105**	**25,929**	**124,828**	**35,812**	**237,674**
Net balance sheet position		**163,057**	**71,289**	**(58,755)**	**(5,269)**	**170,322**
Net off-balance sheet position		**56,378**	**(51,145)**	**(6,235)**	**–**	**(1,002)**
Net balance sheet and off-balance sheet position		**219,435**	**20,144**	**(64,990)**	**(5,269)**	**169,320**

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.

As at 31 December 2023 and 31 December 2022, 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 and other comprehensive income.

	2023	***2022***
20% appreciation of USD against EUR	(325)	4,029
20% appreciation of RUB against EUR	(2,390)	(12,998)
20% depreciation of USD against EUR	325	(4,029)
20% depreciation of RUB against EUR	2,390	12,998

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(EUR thousand)

24. Risk management (continued)

Operational risk

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

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

25. Fair value measurement

Fair value measurements

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

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

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 2023 and 31 December 2022:

	Fair value measurement using			
2023	***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*	*831*	–	–	***831***
- *corporate bonds*	*815*	–	–	***815***
Securities at fair value through profit or loss pledged under repurchase agreements				
- *Eurobonds of IBEC member countries*	*2,909*	–	–	***2,909***
Securities at fair value through other comprehensive income held by the Bank				
- *corporate bonds*	*58,029*	–	–	***58,029***
- *corporate Eurobonds*	*5,666*	–	*25,401*	***31,067***
- *Eurobonds of other countries*	*7,132*	–	–	***7,132***
- *bonds of banks*	*7,118*	–	–	***7,118***
- *Eurobonds of banks*	–	–	*3,787*	***3,787***
- *Eurobonds of international financial institutions*	–	–	*1,529*	***1,529***
- *bonds of IBEC member countries*	*794*	–	–	***794***
- *Eurobonds of IBEC member countries*	*515*	–	–	***515***
Securities at fair value through other comprehensive income pledged under repurchase agreements				
- *Eurobonds of IBEC member countries*	*46,509*	–	–	***46,509***
- *corporate bonds*	*11,575*	–	–	***11,575***
- *bonds of IBEC member countries*	*4,277*	–	–	***4,277***
Property, plant and equipment – buildings	–	–	49,103	**49,103**
	146,170	**–**	**79,820**	**225,990**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	21,559	**21,559**
Securities at amortized cost	–	–	36,981	**36,981**
Loans and deposits to banks	–	–	94,439	**94,439**
Loans to corporate customers	–	–	126,949	**126,949**
Other financial assets	–	–	9,723	**9,723**
	–	**–**	**289,651**	**289,651**
Liabilities measured at fair value				
Derivative financial liabilities	–	6,255	–	**6,255**
Liabilities for which fair values are disclosed				
Due to financial institutions	–	–	99,105	**99,105**
Due to customers	–	–	22,581	**22,581**
Debt securities issued	–	–	147,073	**147,073**
	–	**–**	**268,759**	**268,759**

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(EUR thousand)

25. Fair value measurement (continued)

Fair value hierarchy (continued)

	Fair value measurement using			
2022	*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	*–*	*–*	*3,958*	***3,958***
- corporate Eurobonds	*2,078*	*–*	*–*	***2,078***
- corporate bonds	*739*	*–*	*–*	***739***
Securities at fair value through other comprehensive income held by the Bank				
- corporate Eurobonds	*19,086*	*–*	*16,087*	***35,173***
- Eurobonds of IBEC member countries	*3,708*	*–*	*4,838*	***8,546***
- bonds of IBEC member countries	*6,001*	*–*	*–*	***6,001***
- corporate bonds	*5,304*	*–*	*–*	***5,304***
- Eurobonds of international financial institutions	*–*	*–*	*1,339*	***1,339***
- Eurobonds of banks	*–*	*–*	*1,271*	***1,271***
Securities at fair value through other comprehensive income pledged under repurchase agreements				
- corporate Eurobonds	*4,208*	*–*	*–*	***4,208***
- Eurobonds of IBEC member countries	*3,189*	*–*	*–*	***3,189***
- bonds of banks	*1,447*	*–*	*–*	***1,447***
- Eurobonds of international financial institutions	*1,318*	*–*	*–*	***1,318***
- Eurobonds of banks	*278*	*–*	*–*	***278***
Derivative financial assets	–	1,135	–	**1,135**
Property, plant and equipment – buildings	–	–	50,093	**50,093**
	47,356	**1,135**	**77,586**	**126,077**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	88,461	**88,461**
Securities at amortized cost	–	–	45,104	**45,104**
Loans and deposits to banks	–	–	63,262	**63,262**
Loans to corporate customers	–	–	127,689	**127,689**
Other financial assets	–	–	8,631	**8,631**
	–	**–**	**333,147**	**333,147**
Liabilities measured at fair value				
Derivative financial liabilities	–	2,137	–	**2,137**
Liabilities for which fair values are disclosed				
Due to financial institutions	–	–	65,121	**65,121**
Due to customers	–	–	18,041	**18,041**
Debt securities issued	–	–	152,190	**152,190**
	–	**–**	**235,352**	**235,352**

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.

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(EUR thousand)

25. Fair value measurement (continued)

Derivative financial instruments (continued)

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.

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 2023 and 2022, there were no transfers from Level 1 to Level 2 and from Level 2 to Level 1.

Movements in Level 3 financial instruments

The following table shows transfers between Level 1 and Level 3 of the fair value hierarchy for financial assets measured at fair value for 2023:

	Transfers from Level 1 to Level 3
Financial assets	
Securities at fair value through other comprehensive income held by the Bank	
- corporate Eurobonds	11,913
Total	**11,913**

The following table shows transfers that occurred in 2023 between Level 3 and Level 1 of the fair value hierarchy for financial assets measured at fair value due to transfer of securities to the depository for the purpose of free and liquid settlements:

	Transfers from Level 3 to Level 1
Financial assets	
Securities at fair value through profit or loss held by the Bank	
- Eurobonds of IBEC member countries	831
Securities at fair value through profit or loss pledged under repurchase agreements	2,909
- Eurobonds of IBEC member countries	
Securities at fair value through other comprehensive income pledged under repurchase agreements	
- Eurobonds of IBEC member countries	4,572
Total	**8,312**

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(EUR thousand)

25. Fair value measurement (continued)

Securities at fair value (continued)

The following table shows transfers between Level 1 and Level 3 of the fair value hierarchy for financial assets measured at fair value for 2022:

	Transfers from Level 1 to Level 3
Financial assets	
Securities at fair value through other comprehensive income held by the Bank	
- corporate Eurobonds	*12,119*
- Eurobonds of IBEC member countries	*3,958*
- Eurobonds of international financial institutions	*1,339*
- Eurobonds of banks	*1,044*
Total	**18,460**

During 2023, no assets were acquired to Level 3 financial instruments of the fair value hierarchy.

In 2022, the following assets were acquired as Level 3 financial instruments in the fair value hierarchy:

	Level 3
Financial assets	
Securities at fair value through profit or loss held by the Bank	
- Eurobonds of IBEC member countries	*3,958*
Securities at fair value through other comprehensive income held by the Bank	
- corporate Eurobonds	*3,968*
- Eurobonds of IBEC member countries	*880*
- Eurobonds of banks	*227*
Total	**9,033**

During 2022, there were no transfers from Level 3 to Level 1 of the fair value hierarchy.

The following table shows a reconciliation of the 2023 opening and closing balances of Level 3 financial assets which are recorded at fair value:

	1 January 2023	***Total gains/(losses) recognized in profit or loss***	***Total gains/(losses) recognized in other comprehen-sive income***	***Acquisitions***	***Disposals***	***Settlements***	***Transfers from (to) Level 1 and Level 2***	***31 December 2023***
Financial assets								
Securities at fair value through profit or loss	3,958	(218)	–	–	–	–	(3,740)	–
Securities at fair value through other comprehensive income	23,535	(1,169)	3,929	–	(2,028)	(891)	7,341	30,717
Property, plant and equipment – building	50,093	(1,040)	–	50	–	–	–	49,103
Total Level 3 financial assets	**77,586**	**(2,427)**	**3,929**	**50**	**(2,028)**	**(891)**	**3,601**	**79,820**
Total net Level 3 financial assets	**77,586**	**(2,427)**	**3,929**	**50**	**(2,028)**	**(891)**	**3,601**	**79,820**

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(EUR thousand)

25. Fair value measurement (continued)

Securities at fair value (continued)

The following table shows a reconciliation of the 2022 opening and closing balances of Level 3 financial assets which are recorded at fair value:

	1 January 2022	*Total gains/(losses) recognized in profit or loss*	*Total gains/(losses) recognized in other comprehensive income*	*Acquisitions*	*Disposals*	*Settlements*	*Transfers from (to) Level 1 and Level 2*	*31 December 2022*
Financial assets								
Securities at fair value through profit or loss	–	–	–	–	–	–	3,958	3,958
Securities at fair value through other comprehensive income	–	–	–	–	–	–	23,535	23,535
Property, plant and equipment – building	49,150	(985)	1,587	341	–	–	–	50,093
Total Level 3 financial assets	**49,150**	**(985)**	**1,587**	**341**	**–**	**–**	**27,493**	**77,586**
Total net Level 3 financial assets	**49,150**	**(985)**	**1,587**	**341**	**–**	**–**	**27,493**	**77,586**

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

As at 31 December 2023 and 31 December 2022, 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 financial institutions, amounts due to customers, debt securities issued and securities measured at amortized cost.

26. Segment reporting

For the purposes of managing operating activities, making decisions on resource allocation and assessing performance, the Bank is organized into three operating segments based on its mission of assisting in developing market economic relations among business entities in IBEC 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 (taking into account the period of withdrawal of countries from the Agreement on the Organization and Activities of the International Bank for Economic Co-operation); raising corporate and interbank financing from counterparties from member countries.

If at the time of a transaction, the country of exposure for the company was the Bank's member country, this transaction remains in the development portfolio up to the date of repayment irrespective of whether the country has withdrawn from the Agreement on the Organization and Activities of the International Bank for Economic Co-operation.

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 (taking into account the period of withdrawal of countries from the Agreement on the Organization and Activities of the International Bank for Economic Co-operation), lending to corporate customers of the non-performing loan category, trust management.

Other activities — Lease services and other activities.

(EUR thousand)

26. Segment reporting (continued)

Management monitors 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 2023 and 2022, respectively:

2023	***Development portfolio***	***Other banking activities***	***Other activities***	***Total***
Interest income calculated using the EIR method	14,287	7,325	4	**21,616**
Other interest income	48	70	–	**118**
Interest expense	(10,341)	(105)	(61)	**(10,507)**
Net interest income (expense)	**3,994**	**7,290**	**(57)**	**11,227**
Allowance for expected credit losses from financial assets	20,285	(24,056)	–	**(3,771)**
Net interest income (expense) after allowance for expected credit losses	**24,279**	**(16,766)**	**(57)**	**7,456**
Net fee and commission income (expense)	563	(383)	–	**180**
Net losses from operations with securities at fair value through profit or loss	(142)	132	–	**(10)**
Net losses from operations with securities at fair value through other comprehensive income	(542)	(1,508)	–	**(2,050)**
Net losses from operations with securities at amortized cost	(253)	(149)	–	**(402)**
Net losses from operations with loans at amortized cost	–	–	–	**–**
Net gains (losses) from operations with derivative financial instruments and foreign currency	19,747	(12,149)	90	**7,688**
Lease income	–	–	1,709	**1,709**
Other banking income	8	272	272	**552**
Net losses from disposal of property, plant and equipment	–	–	(13)	**(13)**
Other provisions	–	–	(47)	**(47)**
Other banking expenses	(103)	(134)	(28)	**(265)**
Segment profit (loss)	**43,557**	**(30,685)**	**1,926**	**14,798**

(continued on the next page)

(EUR thousand)

26. Segment reporting (continued)

2022	*Development portfolio*	*Other banking activities*	*Other activities*	*Total*
Interest income calculated using the EIR method	14,261	4,023	6	**18,290**
Other interest income	88	72	–	**160**
Interest expense	(11,201)	(2,390)	(77)	**(13,668)**
Net interest income (expense)	**3,148**	**1,705**	**(71)**	**4,782**
Allowance for expected credit losses from financial assets	(21,683)	(691)	–	**(22,374)**
Net interest (expense) income after allowance for expected credit losses	**(18,535)**	**1,014**	**(71)**	**(17,592)**
Net fee and commission income (expense)	1,775	(314)	–	**1,461**
Net losses from operations with securities at fair value through profit or loss	(1,359)	(653)	–	**(2,012)**
Net losses from operations with securities at fair value through other comprehensive income	(8,447)	(6,294)	–	**(14,741)**
Net losses from operations with securities at amortized cost	(2,263)	(195)	–	**(2,458)**
Net losses from operations with loans at amortized cost	(2,880)	(972)	–	**(3,852)**
Net losses from operations with derivative financial instruments and foreign currency	(12,515)	(22,852)	(756)	**(36,123)**
Lease income	–	–	2,561	**2,561**
Other banking income	37	189	295	**521**
Net losses from disposal of property, plant and equipment	–	–	(13)	**(13)**
Other provisions	–	–	(134)	**(134)**
Other banking expenses	(481)	(47)	(2)	**(530)**
Segment (loss) profit	**(44,668)**	**(30,124)**	**1,880**	**(72,912)**

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

	2023	*2022*
Total segment profit (loss)	**14,798**	**(72,912)**
Other unallocated expenses	(12,275)	(12,840)
Profit (loss) for the year	**2,523**	**(85,752)**

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 2023	245,511	220,379	52,956	**518,846**
31 December 2022	201,858	206,474	53,732	**462,064**

	Development portfolio	*Other banking activities*	*Other activities*	*Total*
Segment liabilities				
31 December 2023	267,272	14,389	4,047	**285,708**
31 December 2022	212,312	29,642	5,356	**247,310**

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(EUR thousand)

26. Segment reporting (continued)

	Development portfolio	*Other banking activities*	*Other activities*	*Total*
Credit-related commitments				
31 December 2023	60,119	–	–	**60,119**
31 December 2022	45,101	–	–	**45,101**

In 2023, the Bank's revenue from lease transactions with two external counterparties (31 December 2022: three external counterparties) exceeded 20% of the Bank's income for 2023 and amounted to EUR 1,158 thousand (2022: EUR 2,319 thousand).

The tables below show segment revenue from contracts with external customers that are within the scope of IFRS 15 for 2023 and 2022, respectively:

2023	*Development portfolio*	*Other banking activities*	*Other activities*	*Total*
Interest income	14,335	7,395	4	**21,734**
Fee and commission income	1,095	36	–	**1,131**
- documentary operations	*670*	–	–	***670***
- fee for servicing a loan/credit facility	*348*	–	–	***348***
- accounts maintenance	*30*	*13*	–	***43***
- currency control	*25*	*18*	–	***43***
- cash and settlement operations	*22*	*5*	–	***27***
Lease income	–	–	1,709	**1,709**
Total revenue from contracts with customers	**15,430**	**7,431**	**1,713**	**24,574**

2022	*Development portfolio*	*Other banking activities*	*Other activities*	*Total*
Interest income	14,349	4,095	6	**18,450**
Fee and commission income	2,072	10	–	**2,082**
- documentary operations	*1,795*	–	–	***1,795***
- fee for servicing a loan/credit facility	*186*	*2*	–	***188***
- accounts maintenance	*35*	*6*	–	***41***
- cash and settlement operations	*29*	*2*	–	***31***
- currency control	*27*	–	–	***27***
Lease income	–	–	2,561	**2,561**
Total revenue from contracts with customers	**16,421**	**4,105**	**2,567**	**23,093**

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 2023, remuneration to the key management personnel of the Bank amounted to EUR 1,180 thousand (2022: EUR 1,606 thousand). Remuneration to the key management personnel of the Bank includes contributions to the Social Fund of the Russian Federation (until 2023: the Pension Fund and the Compulsory Medical Insurance Fund of the Russian Federation) in the amount of EUR 53 thousand (2022: EUR 55 thousand) and the pension funds in IBEC member countries in the amount of EUR 5 thousand (2022: EUR 24 thousand).

(EUR thousand)

27. Related party transactions (continued)

Transactions with the Bank's key management personnel (continued)

As at 31 December 2023 and 31 December 2022, balances on the accounts of the Bank's key management personnel were as follows:

	2023	***2022***
Current accounts	170	139

Transactions with government-related companies

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

The table below discloses transactions with government-related companies:

Statement of financial position	***2023***	***2022***
Assets		
Cash and cash equivalents	11,970	72,575
Securities at fair value through profit or loss	4,555	4,697
Securities at fair value through other comprehensive income	129,876	46,117
Securities at amortized cost	6,736	37,056
Loans and deposits to banks	36,334	39,718
Loans to corporate customers	39,647	45,092
Derivative financial assets	–	1,135
Other assets	7,238	781
Liabilities		
Due to financial institutions	97,875	39,106
Due to customers	7,456	7,506
Derivative financial liabilities	6,255	2,123
Other liabilities	2,930	147
Off-balance sheet commitments		
Credit-related commitments	–	–

Amounts included in the statement of profit or loss and other comprehensive income for transactions with government-related companies for 2023 and 2022 are as follows:

Statement of profit or loss and other comprehensive income	***2023***	***2022***
Interest income calculated using the EIR method	10,440	8,720
Other interest income	69	89
Interest expense	(1,375)	(4,199)
Reversal of allowance (allowance) for expected credit losses from financial assets	6,643	(11,936)
Fee and commission income	7	11
Fee and commission expense	(76)	(169)
Net losses from operations with securities at fair value through profit or loss	(142)	(1,042)
Net losses from operations with securities at fair value through other comprehensive income	(193)	(9,202)
Net losses from operations with securities at amortized cost	–	(219)
Net losses from operations with derivative financial instruments and foreign currency	(14,525)	(7,221)
Lease income	1,377	2,457
Other banking income	51	73
Administrative and management expenses	(244)	(342)
Other banking expenses	(1)	(31)

(EUR thousand)

28. Capital adequacy

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

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

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

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

The Bank's capital adequacy ratio as at 31 December 2023 and 31 December 2022 comprised 47.4% and 41.4%, respectively.

The table below shows the composition of the Bank's capital computed in accordance with the Basel Accord (Basel II) as at 31 December 2023 and 31 December 2022:

	2023	***2022***
Capital	233,138	214,754
Total capital	**233,138**	**214,754**
Risk-weighted assets		
Credit risk	393,605	405,341
Market risk	86,452	102,206
Operational risk	11,832	10,921
Total risk-weighted assets	**491,889**	**518,468**

29. Events after the reporting date

On 19 February 2024, Analytical Credit Rating Agency (ACRA) confirmed the credit rating of IBEC at "BBB+" (stable outlook) under the international scale and at AAA(RU) (stable outlook) under the national scale for the Russian Federation.

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Interest income and expense (continued)

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);
- The right to interest income on digital financial assets is recorded within interest income.

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.

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(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 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 (including digital 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.

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(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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

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

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

All other financial assets are classified as measured at FVPL.

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

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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

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

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

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

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

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

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

Modifications to the terms of financial assets and financial liabilities

Financial assets

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

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

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

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

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.

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(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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

If the modification takes place due to the financial difficulties of the borrower, the respective gain or loss are presented separately. In all other cases, the respective gain or loss are presented within interest income calculated using the effective interest rate method. For loans with fixed interest rates, where the borrower has the right of early repayment of the loan at the nominal value without penalties, a change in the interest rate to market level in response to a change in the market conditions is accounted for by the Bank in a way similar to the accounting for the instruments with the floating interest rate, i.e., the effective interest rate is revised prospectively.

Financial liabilities

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

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

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

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

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

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

Impairment of a digital financial asset certifying a cash claim is recorded in allowances for expected credit losses from digital financial assets at amortized cost or through other comprehensive income.

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.

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(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.

(EUR thousand)

30. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

Digital financial assets

Digital financial assets comprise digital rights, including those certifying cash claims, rights under issuable securities, equity rights in a private joint stock company, a right to claim transfer of issuable securities, that are provided for by a decision to issue digital financial assets according to the procedure established by law of member countries, which are issued, are accounted for and circulate only via entering (modifying) records in a blockchain or another information system.

A right to receive cash equivalent to the underlying asset is accounted for similarly to the respective financial asset under these accounting policies.

At the date of initial recognition, a digital financial asset certifying a cash claim is recognized at fair value and subsequently accounted for in accordance with the business model.

Loans to corporate customers

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

Derivative financial instruments

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

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

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

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

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

Hedge accounting

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

At inception of the hedge relationship, the Bank documents the relationship between the hedged item and the hedging instrument, including the nature of the hedging risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge. Hedging effectiveness is assessed at the inception of the hedge relationship and further on a monthly basis.

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the statement of profit or loss and other comprehensive income 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 and other comprehensive income 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.

(EUR thousand)

30. Summary of accounting policies (continued)

Derivative financial instruments (continued)

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 and other comprehensive income 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 and other comprehensive income in order to reduce accrued interest expense/income on the respective hedged item, as it affects cash flows from the hedged item.

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

Financial assets under repurchase agreements

Repurchase agreements comprise loans collateralized by securities.

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

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

Financial guarantees and loan commitments

Financial guarantees

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

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

The Bank has no loan commitments measured at FVPL.

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Property, plant and equipment (continued)

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

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

Operating leases

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

Intangible assets

Intangible assets include software, licenses and trademarks.

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

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

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

Right-of-use assets

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

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.

(EUR thousand)

30. Summary of accounting policies (continued)

Right-of-use assets (continued)

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).

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(EUR thousand)

30. Summary of accounting policies (continued)

Due to financial institutions

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

Term loans and deposits from financial institutions 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.

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(EUR thousand)

30. Summary of accounting policies (continued)

Currency translation

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

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

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

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.

Income (expense) from disposal of digital financial assets is recognized at the settlement date.

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.