IBEC

INTERNATIONAL BANK
FOR ECONOMIC CO-OPERATION

International Bank for Economic Co-operation

Financial statements

for the year 2019

Contents

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Independent auditor's report

To the Council of International Bank
for Economic Co-operation

Report on the audit of the financial statements

Opinion

We have audited the financial statements of International Bank for Economic Co-operation (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on loans to customers	
Estimation of the allowance for expected credit losses on loans to customers is a key area of judgement for the Bank's management. Identification of factors of significant credit risk increase and the determination of expected credit losses require significant use of judgment, assumptions and analysis of various factors, including financial and non-financial information by counterparty, macroeconomic projections and assessment of the expected future cash flows on loans to customers, including from the disposal of collateral. The use of various models and assumptions can significantly affect the level of allowance for expected credit losses on loans to customers. Due to the significance of loans to customers and the complexity of judgments used with regard to expected credit losses in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), the estimation of the allowance for expected credit losses was one of the key audit matters. Information on expected credit losses on loans to customers and the approach of the Bank's management to assessing allowance for expected credit losses on loans to customers are presented in Note 10 Loans to customers, Note 22 Allowance for expected credit losses, Note 24 Risk management and Note 31 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, analytical procedures with respect to the credit portfolio. In the course of our audit procedures we analyzed the expected future cash flows on all loans to customers, including from the disposal of collateral. We also assessed information disclosed in the notes to the financial statements with regard to the allowance for expected credit losses on loans to customers.
Valuation of the buildings classified to property and equipment	
As at 31 December 2019 the aggregate value of the buildings classified to property and equipment was 8% of the total Bank's assets. Bank's management measured the fair value of the buildings classifies to property and equipment bases on an analysis of current market information. The valuation of such assets is carried out using unobservable inputs and assumptions. Changes of these inputs and assumptions may have a significant impact on the result of the valuation. Due to the significance and subjectivity of these valuations they are included in the key audit matters. Information of the valuation of the buildings classified to property and equipment are presented in Note 12 Property, plant and equipment, intangible assets and right-of-use assets, and Note 25 Fair value measurement, to the financial statements.	Our audit procedures in respect of the buildings classified to property and equipment included examination of the significant assumptions applied and comparison of inputs used in the assessment to available market information on the value of objects and other observable data. We involved our real estate valuation specialists to evaluate the valuation methodology and assumptions used. We also assessed information about the valuation of the buildings classified to property and equipment disclosed in the notes to the financial statements, including information about the sensitivity of fair value to changes in key assumptions.

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Other matter

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

Other information included in the Annual report

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

G.A. Shinin
Partner
Ernst & Young LLC

21 February 2020

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.
Address: Russia 107996, Moscow, Masha Poryvaeva str., 11, GSP-6.

Details of the auditor

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

Statement of financial position

as at 31 December 2019

(EUR thousand)

	Note	2019	2018
Assets			
Cash and cash equivalents	5	17,286	18,288
Securities at fair value through profit or loss	6	4,412	5,682
- held by the Bank		*4,412*	4,989
- pledged under repurchase agreements		–	693
Securities at fair value through other comprehensive income	7	203,303	130,747
- held by the Bank		*159,002*	*83,985*
- pledged under repurchase agreements		*44,301*	*46,762*
Securities at amortized cost	8	62,532	40,916
- held by the Bank		*47,513*	*26,388*
- pledged under repurchase agreements		*15,019*	*14,528*
Loans and deposits to banks	9	110,943	51,100
- loans issued to banks under trade financing		*77,327*	*36,808*
- term deposits with banks		*19,723*	*14,292*
- syndicated loans		*13,893*	–
Loans to corporate customers	10	187,068	83,337
Derivative financial assets	11	5,689	15
Property, plant and equipment, intangible assets and right-of-use assets	12	57,013	72,247
Other assets	13	2,689	1,298
Total assets		**650,935**	**403,630**
Liabilities			
Due to credit institutions	14	129,382	96,082
Due to customers	15	97,266	7,092
Derivative financial liabilities	11	1,800	723
Debt securities issued	16	102,526	–
Other liabilities	13	6,781	1,371
Total liabilities		**337,755**	**105,268**
Equity			
Share capital	1	200,000	200,000
Revaluation reserve for securities at fair value through other comprehensive income		4,315	(3,024)
Revaluation reserve for property, plant and equipment		25,107	32,388
Cash flow hedge reserve	11	893	–
Retained earnings less net profit for the year		76,279	67,423
Net profit for the year		6,586	1,575
Total equity		**313,180**	**298,362**
Total liabilities and equity		**650,935**	**403,630**
Off-balance sheet commitments			
Credit-related commitments	17	61,949	38,603

Denis Ivanov — Chairman of the Board

Inna Zheleznova — Director of the Financial Department

21 February 2020

The accompanying notes 1-31 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

for the year 2019

(EUR thousand)

	Note	*2019*	*2018*
Interest income calculated using the EIR method		13,096	9,136
Other interest income		738	154
Interest expense		(4,695)	(1,177)
Net interest income	18	**9,139**	**8,113**
(Allowance)/reversal of allowance for expected credit losses from financial assets	22	(1,203)	541
Net interest income after allowance for expected credit losses		**7,936**	**8,654**
Fee and commission income		658	632
Fee and commission expense		(136)	(67)
Net fee and commission income	19	**522**	**565**
Net gains (losses) from operations with securities at fair value through profit or loss		1,480	(49)
Net gains from operations with securities at fair value through other comprehensive income	20	4,726	3,913
Net gains (losses) from operations with derivative financial instruments and foreign currency			
- dealing		474	(1,564)
- revaluation of currency items		(471)	1,160
Net gains (losses) from disposal of property, plant and equipment		3,127	(4)
Lease income		2,075	1,710
Other banking income		1,375	587
Administrative and management expenses	21	(14,168)	(13,315)
Other provisions	23	(38)	(41)
Other banking expenses		(452)	(41)
Profit for the year		**6,586**	**1,575**

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

	Note	2019	2018
Other comprehensive income (loss)			
Items that are or may be subsequently reclassified to profit or loss			
Unrealized gains (losses) from operations with securities at fair value through other comprehensive income		11,935	(8,092)
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	20	(4,787)	(3,504)
Change in allowance for expected credit losses		191	(514)
Net gains from cash flow hedges	11	893	–
Total items that are or may be subsequently reclassified to profit or loss		**8,232**	**(12,110)**
Total other comprehensive income (loss)		**8,232**	**(12,110)**
Total comprehensive income (loss) for the year		**14,818**	**(10,535)**

The accompanying notes 1-31 are an integral part of these financial statements.

Statement of changes in equity

for the year 2019

(EUR thousand)

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

The accompanying notes 1-31 are an integral part of these financial statements.

Statement of changes in equity (continued)

	Share capital	*Revaluation reserve for securities at fair value through other comprehensive income*	*Revaluation reserve for property, plant and equipment*	*Cash flow hedge reserve*	*Retained earnings*	*Total equity*
Balance at 31 December 2017	**200,000**	**7,970**	**32,388**	**–**	**69,269**	**309,627**
Impact of adopting IFRS 9	–	1,116	–	–	(1,846)	**(730)**
1 January 2018	**200,000**	**9,086**	**32,388**	**–**	**67,423**	**308,897**
Net profit for the year	–	–	–	–	1,575	**1,575**
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	–	(8,092)	–	–	–	**(8,092)**
Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss	–	(3,504)	–	–	–	**(3,504)**
Change in allowance for expected credit losses	–	(514)	–	–	–	**(514)**
Total items that are or may be subsequently reclassified to profit or loss	**–**	**(12,110)**	**–**	**–**	**–**	**(12,110)**
Total other comprehensive loss	**–**	**(12,110)**	**–**	**–**	**–**	**(12,110)**
Total comprehensive loss for the year	**–**	**(12,110)**	**–**	**–**	**1,575**	**(10,535)**
31 December 2018	**200,000**	**(3,024)**	**32,388**	**–**	**68,998**	**298,362**

The accompanying notes 1-31 are an integral part of these financial statements.

Statement of cash flows

for the year 2019

(EUR thousand)

	Note	*2019*	*2018*
Cash flows from operating activities			
Profit for the year		**6,586**	**1,575**
Adjustments for:			
Accrued interest receivable		(536)	72
Accrued interest payable		2,059	134
Other accrued income receivable		42	(20)
Other accrued expenses payable		251	(119)
Depreciation and amortization	21	1,444	1,440
Allowance (reversal of allowance) for expected credit losses from financial assets	22	1,203	(541)
Other provisions	23	38	41
Remeasurement of securities at fair value through profit or loss		(99)	63
Revaluation of currency items		315	(1,160)
Fair value remeasurement of hedges		156	–
Net gains from operations with securities at fair value through other comprehensive income	20	(4,726)	(3,913)
Net gains from disposal of property, plant and equipment		(3,127)	–
Other differences		312	14
Cash from (used in) operating activities before changes in operating assets and liabilities		**3,918**	**(2,414)**
(Increase) decrease in operating assets			
Securities at fair value through profit or loss		1,833	(5,366)
Loans and deposits to banks		(59,855)	(3,590)
Loans to corporate customers		(102,797)	(70,234)
Other assets		(1,627)	559
Increase (decrease) in operating liabilities			
Due to credit institutions		20,548	71,739
Due to customers		86,336	(1,009)
Other liabilities		4,844	244
Net cash used in operating activities		**(46,800)**	**(10,071)**
Cash flows from investing activities			
Purchases of securities at fair value through other comprehensive income		(282,734)	(95,057)
Sales of securities at fair value through other comprehensive income		223,025	153,490
Purchases of securities at amortized cost		(29,258)	(36,190)
Proceeds from redemption of securities at amortized cost		8,622	306
Purchases of property, plant and equipment		(1,998)	(512)
Sales of property, plant and equipment		18,938	–
Net cash (used in) from investing activities		**(63,405)**	**22,037**

Statement of cash flows (continued)

	Note	*2019*	*2018*
Cash flows from financing activities			
Proceeds from bonds issued	16, 28	98,032	–
Proceeds from long-term financing raised from banks	28	9,900	–
Payments for lease liabilities	28	(2)	–
Net cash from financing activities		**107,930**	**–**
Net (decrease) increase in cash and cash equivalents before translation differences		**(2,275)**	**11,966**
Effect of changes in exchange rates on cash and cash equivalents		1,273	(760)
Effect of changes in expected credit losses on cash and cash equivalents		–	–
Net (decrease) increase in cash and cash equivalents		**(1,002)**	**11,206**
Cash and cash equivalents at 31 December of the year preceding the reporting year	5	**18,288**	**7,082**
Cash and cash equivalents at 31 December of the reporting year	5	**17,286**	**18,288**

Additional information		
Interest received	13,298	9,362
Interest paid	(2,636)	(1,043)

The accompanying notes 1-31 are an integral part of these financial statements.

(EUR thousand)

1. Principal activities of the Bank

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

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

The main aims of the Bank are as follows:

- To promote the development of foreign economic ties among the Bank's member countries, business entities operating in such countries and business entities of other countries;
- To promote the establishment and activities of joint ventures, primarily with the participation of enterprises of the Bank's member countries;
- To facilitate participation of the Bank's member countries in the development of market-oriented economic relations among business entities in member countries and other countries.

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

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

In accordance with the Agreement, the authorized share capital consists of equity contributions from IBEC member countries and amounts to EUR 400,000 thousand. The paid-in share capital of IBEC as at 31 December 2019 amounts to EUR 200,000 thousand (31 December 2018: EUR 200,000 thousand).

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

	2019	***%***	***2018***	***%***
Russian Federation	103,179	51.59	103,179	51.59
Czech Republic	26,684	13.34	26,684	13.34
Republic of Poland	24,016	12.01	24,016	12.01
Republic of Bulgaria	15,121	7.56	15,121	7.56
Romania	14,232	7.12	14,232	7.12
Slovak Republic	13,342	6.67	13,342	6.67
Mongolia	2,668	1.33	2,668	1.33
Socialist Republic of Vietnam	758	0.38	758	0.38
Total	**200,000**	**100**	**200,000**	**100**

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

(EUR thousand)

1. Principal activities of the Bank (continued)

The Bank operates in accordance with the Updated Strategy of IBEC until 2020 approved by its member countries on 6 December 2018. In the reporting period, IBEC organized a number of important events in order to enhance partnership among its member countries in line with the Strategy's goals:

- In February 2019, the Bank and the Polish-Russian Chamber of Commerce and Industry (PRIHP) hosted the IBEC Days business forum in Poland that is aimed at establishing contacts with representatives of industrial companies and positioning the Bank with the business community of its member countries, as well as at pursuing opportunities to cooperate in financing cross-border trade and settlements.
- In May 2019, the Bank, the Banking Association for Central and Eastern Europe (BACEE) and the CIS Financial and Banking Council organized the Europe-CIS. 4D international business forum dedicated to the development of cooperation among EU and CIS countries. The forum took place in Moscow.
- In November 2019, the Bank and the State Bank of Vietnam organized the business forum "Enhancing Trade Cooperation of Vietnam with Central and Eastern Europe and Eurasia" in Hanoi, Vietnam. The agenda of the forum was focused on the prospects of developing the economic and trade ties of Vietnam with Europe and Eurasia.

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

In 2019, IBEC adopted a new organizational structure required for its development in the current context. It also switched over from the quota-based employment system to the up-to-date global tender-based recruitment system.

In 2019, IBEC entered into an agreement for the supply of a modern automated banking system and started its implementation.

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

On 9 October 2019, IBEC placed a debut issue of bonds in the amount of RUB 7 billion on the Moscow Exchange. The funds raised are used to finance IBEC's key business projects in line with the Bank's Updated Development Strategy.

2. Operating environment of the Bank

According to the analytical center of World Bank Group, 2019 saw a significant slowdown in global economic growth accompanied by lackluster growth in world trade and investment. The economic downturn affected both developing and developed countries, primarily the eurozone.

The global economic growth rate in 2019 is estimated at 2.4%, which is 0.6 p.p. lower than in 2018. Experts estimate a growth rate of 1.6% for developed economies (down 0.6 p.p. from 2018) and 3.5% for emerging and developing countries (down 0.8 p.p. from 2018). Compared with 2018, the growth rate of investments and consumption in the world economy decreased by 36% and 23%, respectively.

World trade in goods was falling during most of 2019, with developed countries as well as China and East Asian countries suffering the most acute decline. According to expert estimates, world trade growth decreased in 2019 by more than 2 p.p. year-on-year to 1.4%, the lowest level since the global financial crisis.

World trade was negatively impacted primarily by reduced global demand, a prolonged trade war between the US and China resulting in higher tariffs in trade between these countries, growing political uncertainty, lower investment activity and stronger protectionism (while in 2013-2017 protectionist measures affected 4% of world trade in goods, in 2018-2019 the proportion reached almost 7%).

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(EUR thousand)

2. Operating environment of the Bank (continued)

In 2019, foreign trade also slowed down in all IBEC member countries:

	*2019**	*2018*
Russian Federation	0%	16%
Czech Republic	(1)%	12%
Republic of Poland	2%	15%
Republic of Bulgaria	0%	11%
Romania	1%	15%
Slovak Republic	2%	12%
Mongolia	20%	24%
Socialist Republic of Vietnam	4%	11%

* *Estimated data for 2019.*

Foreign direct investments in 2019 also remained on a downward trend. Despite the weak investment activity, many countries – both developed and developing – saw a growth in corporate lending.

In 2019, the central banks of major countries eased their monetary policies in response to downgraded economic growth forecasts and low inflation, which led to a significant decrease in interest rates in most developed countries.

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.

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.

(EUR thousand)

3. Basis of preparation of financial statements (continued)

Significant accounting estimates and professional judgments (continued)

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 31);
- 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 2019, the fair value of the building owned by the Bank was EUR 54,636 thousand (2018: EUR 71,547 thousand). The fair value of one square meter was EUR 2,158 (2018: EUR 2,190). If the value of one square meter increases by 10%, the fair value of the building will be EUR 60,100 thousand (2018: EUR 78,702 thousand); if the value of one square meter decreases by 10%, the fair value of the building will be EUR 49,172 thousand (2018: EUR 64,392 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 2019, 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 2019. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment are described below:

IFRS 16 Leases

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

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

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The Bank entered into leases providing for renting out of vacant premises located within a building complex. The new standard had no impact on the Bank’s financial statements as at 1 January 2019.

(EUR thousand)

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Annual improvements 2015-2017 cycle: IFRS 3, IFRS 11, IAS 12 and IAS 23.

Reclassifications

In these financial statements, the Bank has changed the presentation of consumer lending and reclassified it from loans to customers to other assets in the statement of financial position, since the Bank believes that this type of lending is, in terms of its economic substance, an incentive to motivate the Bank's employees. Accordingly, loans to customers were renamed loans to corporate customers.

The Bank has also changed the presentation of the statement of financial position due to the reclassification of derivative financial instruments from other assets and other liabilities to derivative financial instruments in assets and liabilities. Management believes that such presentation provides a more informative and relevant presentation of financial information and is more consistent with market practice.

The effect of changes on the statement of financial position as at 31 December 2018 is provided below.

	Previously recorded amounts	***Effect of reclassification***	***Adjusted data***
Derivative financial assets	–	15	15
Loans to customers	83,401	(83,401)	–
Loans to corporate customers	–	83,337	83,337
Other assets	1,249	49	1,298
Derivative financial liabilities	–	723	723
Other liabilities	2,094	(723)	1,371

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2019	***2018***
Cash on hand	900	1,135
Correspondent accounts with banks in IBEC member countries	1,145	799
Correspondent accounts with banks in other countries	15,241	16,354
Total cash and cash equivalents	**17,286**	**18,288**
Allowance for expected credit losses	–	–
Cash and cash equivalents less allowance for expected credit losses	**17,286**	**18,288**

As at 30 December 2019, balances with three major counterparties amounted to EUR 15,405 thousand, or 89.12% of total cash and cash equivalents (31 December 2018: EUR 16,338 thousand, or 89.34% of total cash and cash equivalents).

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(EUR thousand)

5. Cash and cash equivalents (continued)

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

Cash and cash equivalents (other than cash on hand)	***2019***	***2018***
Amounts due from central banks	13,657	14,984
Correspondent accounts with banks		
Internationally rated		
from AAA to A-	*165*	*566*
from BBB+ to BB-	*2,228*	*1,577*
from B+ to B-	*330*	*8*
from CCC+ to C	*6*	*7*
Internally rated only		
from BBB+ to BB-	*–*	*11*
Total	**16,386**	**17,153**
Allowance for expected credit losses	–	–
Carrying amount	**16,386**	**17,153**

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

6. Securities at fair value through profit or loss

Securities at fair value through profit or loss comprise:

	2019	***2018***
Held by the Bank		
Corporate bonds	4,412	1,197
from BBB+ to BB-	*4,412*	*1,197*
Eurobonds of IBEC member countries	–	2,924
from BBB+ to BB-	–	*2,924*
Eurobonds of banks	–	868
from B+ to B-	–	*868*
	4,412	**4,989**
Pledged under repurchase agreements		
Corporate bonds	–	693
from BBB+ to BB-	–	*693*
	–	**693**
Securities at fair value through profit or loss	**4,412**	**5,682**

As at 31 December 2019, there were no securities pledged under repurchase agreements. As at 31 December 2018, securities at fair value through profit or loss comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 693 thousand. According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

Corporate bonds are issued in Russian rubles, mature from October 2022 to October 2025 (31 December 2018: March 2034) and bear a coupon rate from 7.7% p.a. to 7.9% p.a. (31 December 2018: 9.1% p.a.).

As at 31 December 2018, Eurobonds of IBEC member countries are issued in euros, mature in March 2029 and bear a coupon rate of 2.875% p.a. As at 31 December 2019, there were no such securities.

As at 31 December 2018, Eurobonds of banks are issued in US dollars, mature in October 2023 and bear a coupon rate of 7.25% p.a. As at 31 December 2019, there were no such securities.

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:

	2019	***2018***
Held by the Bank		
Corporate Eurobonds	102,349	50,515
from BBB+ to BB-	*92,477*	*35,858*
from B+ to B-	*9,872*	*14,657*
Corporate bonds	23,651	–
from BBB+ to BB-	*23,651*	–
Eurobonds of IBEC member countries	19,354	21,107
from AAA to A-	*3,517*	*3,158*
from BBB+ to BB-	*11,256*	*14,015*
from B+ to B-	*4,581*	*3,934*
Eurobonds of funds	6,590	7,691
from AAA to A-	*6,590*	*7,691*
Bonds of banks	2,550	–
from BBB+ to BB-	*2,550*	–
Eurobonds of banks	2,395	3,538
from AAA to A-	*201*	–
from BBB+ to BB-	*2,194*	*3,538*
Eurobonds of international financial institutions	2,113	–
from AAA to A-	*2,113*	–
Bonds of IBEC member countries	–	1,134
from BBB+ to BB-	–	*1,134*
	159,002	**83,985**
Pledged under repurchase agreements		
Corporate Eurobonds	21,595	10,024
from BBB+ to BB-	*15,852*	*10,024*
from B+ to B-	*5,743*	–
Eurobonds of IBEC member countries	15,826	34,218
from AAA to A-	*6,464*	*8,685*
from BBB+ to BB-	*9,362*	*25,533*
Eurobonds of banks	6,880	–
from AAA to A-	*3,814*	–
from BBB+ to BB-	*3,066*	–
Corporate bonds	–	2,520
from BBB+ to BB-	–	*2,520*
	44,301	**46,762**
Securities at fair value through other comprehensive income	**203,303**	**130,747**

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(EUR thousand)

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

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

Securities at fair value through other comprehensive income	***Stage 1***	***Stage 2***	***Total***
Gross carrying amount at 1 January 2019	**130,747**	**–**	**130,747**
New originated or purchased assets	299,534	–	**299,534**
Assets derecognized or redeemed (excluding write-offs)	(228,263)	–	**(228,263)**
Changes in currency exchange rates	1,285	–	**1,285**
Gross carrying amount at 31 December 2019	**203,303**	**–**	**203,303**
Allowance for expected credit losses at 1 January 2019	**602**	**–**	**602**
New originated or purchased assets	676	–	**676**
Assets derecognized or redeemed (excluding write-offs)	(725)	–	**(725)**
Changes to models and inputs used for ECL calculations	233	–	**233**
Changes in currency exchange rates	8	–	**8**
Allowance for expected credit losses at 31 December 2019	**794**	**–**	**794**
Gross carrying amount at 1 January 2018	**190,893**	**4,968**	**195,861**
New originated or purchased assets	92,394	**–**	**92,394**
Assets derecognized or redeemed (excluding write-offs)	(154,021)	(5,092)	**(159,113)**
Changes in currency exchange rates	1,481	124	**1,605**
Gross carrying amount at 31 December 2018	**130,747**	**–**	**130,747**
Allowance for expected credit losses at 1 January 2018	**906**	**210**	**1,116**
New originated or purchased assets	379	–	**379**
Assets derecognized or redeemed (excluding write-offs)	(366)	(183)	**(549)**
Changes to models and inputs used for ECL calculations	(332)	(32)	**(364)**
Changes in currency exchange rates	15	5	**20**
Allowance for expected credit losses at 31 December 2018	**602**	**–**	**602**

Securities at fair value through other comprehensive income comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 44,301 thousand as at 31 December 2019 (31 December 2018: EUR 46,762 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

Corporate Eurobonds are debt securities denominated in euros, US dollars and Swiss francs and issued by financial and industrial entities of IBEC member countries for circulation on markets external to the issuer and for trade on exchange markets. Corporate Eurobonds mature from December 2022 to October 2028 (31 December 2018: from January 2021 to June 2025), and coupon rates range from 0.875% p.a. to 7.75% p.a. (31 December 2018: from 1.66% p.a. to 8.25% p.a.).

Corporate bonds denominated in Russian rubles and euros were issued by financial institutions of IBEC member countries for circulation on the internal markets of the issuing countries and for trade on exchange markets. Corporate bonds mature from October 2022 to March 2034 (31 December 2018: March 2034), and coupon rates range from 1.75% p.a. to 9.1% p.a. (31 December 2018: 9.10% p.a.).

Eurobonds of IBEC member countries are issued in euros and US dollars for circulation on markets external to the issuing country and for trade in over-the-counter markets. Eurobonds mature from December 2022 to July 2031 (31 December 2018: from April 2021 to May 2028), and coupon rates range from 1% p.a. to 5.125% p.a. (31 December 2018: from 1.5% p.a. to 10.88% p.a.).

(EUR thousand)

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

Eurobonds of funds are denominated in euros and represent Eurobonds of international financial funds that are traded on exchange markets external to the issuing country. Eurobonds of funds mature from January 2020 to July 2023 (31 December 2018: from October 2019 to January 2020), and coupon rates range from 0% p.a. to 1.5% p.a. (31 December 2018: from 0.875% p.a. to 1.5% p.a.).

Bonds of banks are debt securities denominated in rubles for circulation on the domestic markets of the country where the issuer is located. Bonds of banks mature from November 2020 to November 2026, and coupon rates range from 7.27% p.a. to 8% p.a. (31 December 2018: no bonds of banks).

Eurobonds of banks are debt securities denominated in euros for circulation on markets external to the issuer. Eurobonds of banks mature from April 2021 to July 2029 (31 December 2018: March 2019), and coupon rates range from 0% p.a. to 5.15% p.a. (31 December 2018: 3.08% p.a.).

Eurobonds of international financial institutions are denominated in euros and traded on exchange markets external to the issuing country. Eurobonds mature in October 2020 and bear a coupon rate of 1.4514% p.a. (as at 31 December 2018 no Eurobonds of international financial institutions).

As at 31 December 2019, there were no bonds of IBEC member countries. As at 31 December 2018, bonds of IBEC member countries were issued in Bulgarian levs for circulation on the internal and exchange markets of the issuing countries and for trade on over-the-counter markets, were to mature in April 2025 and bore a coupon rate of 2.3% p.a.

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

8. Securities at amortized cost

Securities at amortized cost comprise:

	2019	*2018*
Held by the Bank		
Corporate Eurobonds	22,663	5,799
from BBB+ to BB-	*16,134*	*5,799*
from B+ to B-	*6,529*	–
Eurobonds of banks	17,170	20,648
from BBB+ to BB-	*12,515*	*20,648*
from B+ to B-	*4,655*	–
Corporate bonds	8,054	–
from BBB+ to BB-	*8,054*	–
	47,887	**26,447**
Pledged under repurchase agreements		
Corporate Eurobonds	9,949	10,177
from BBB+ to BB-	*9,949*	*10,177*
Eurobonds of IBEC member countries	5,163	–
from BBB+ to BB-	*5,163*	–
Corporate bonds	–	4,410
from BBB+ to BB-	–	*4,410*
	15,112	**14,587**
Total securities at amortized cost	**62,999**	**41,034**
Allowance for expected credit losses	(467)	(118)
Securities at amortized cost	**62,532**	**40,916**

Securities at amortized cost comprise securities pledged as collateral under repurchase agreements with an amortized cost of EUR 15,019 thousand as at 31 December 2019 (31 December 2018: EUR 14,528 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

Corporate Eurobonds and bonds are debt securities issued in euros, US dollars and Russian rubles by financial and industrial entities of IBEC member countries for circulation on markets internal and external to the issuer and for trade on over-the-counter and exchange markets. Eurobonds mature from May 2021 to May 2027 (31 December 2018: from May 2021 to June 2025), and coupon rates range from 1.5% p.a. to 7.75% p.a. (31 December 2018: from 2.25% p.a. to 3.50% p.a.). Corporate bonds mature from December 2024 to March 2034 (31 December 2018: March 2034), and coupon rates range from 1.75% p.a. to 9.1% p.a. (31 December 2018: 9.1% p.a.).

(EUR thousand)

8. Securities at amortized cost (continued)

Eurobonds of banks are debt securities issued in euros and US dollars for circulation on markets external to the issuer with a maturity from February 2023 to October 2023 (31 December 2018: from March 2019 to February 2023) and a coupon rate from 4.032% p.a. to 7.25% p.a. (31 December 2018: from 3.08% p.a. to 4.032% p.a.).

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

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

Securities at amortized cost	***Stage 1***	***Total***
Gross carrying amount at 1 January 2019	**41,034**	**41,034**
New originated or purchased assets	31,318	**31,318**
Assets derecognized or redeemed (excluding write-offs)	(10,022)	**(10,022)**
Changes in currency exchange rates	669	**669**
Gross carrying amount at 31 December 2019	**62,999**	**62,999**
Allowance for expected credit losses at 1 January 2019	**118**	**118**
New originated or purchased assets	157	**157**
Assets derecognized or redeemed (excluding write-offs)	(13)	**(13)**
Changes to models and inputs used for ECL calculations	203	**203**
Changes in currency exchange rates	2	**2**
Allowance for expected credit losses at 31 December 2019	**467**	**467**
Gross carrying amount at 1 January 2018	**5,188**	**5,188**
New originated or purchased assets	36,210	**36,210**
Assets derecognized or redeemed (excluding write-offs)	(306)	**(306)**
Changes in currency exchange rates	(58)	**(58)**
Gross carrying amount at 31 December 2018	**41,034**	**41,034**
Allowance for expected credit losses at 1 January 2018	**44**	**44**
New originated or purchased assets	118	**118**
Assets derecognized or redeemed (excluding write-offs)	–	**–**
Changes to models and inputs used for ECL calculations	(44)	**(44)**
Changes in currency exchange rates	–	**–**
Allowance for expected credit losses at 31 December 2018	**118**	**118**

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

	2019	***2018***
Credit investment portfolio of securities	29,635	9,466
Securities purchased on capital markets	32,897	31,450
Securities at amortized cost	**62,532**	**40,916**

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

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(EUR thousand)

9. Loans and deposits to banks

Loans and deposits to banks comprise:

	2019	*2018*
Loans issued to banks under trade financing	77,805	37,000
Term deposits with banks in IBEC member countries	16,024	14,338
Term deposits with banks in other countries	3,925	–
Syndicated loans	14,078	–
Total loans and deposits to banks	**111,832**	**51,338**
Allowance for expected credit losses	(889)	(238)
Loans and deposits to banks	**110,943**	**51,100**

As at 31 December 2019, balances with three major counterparties amounted to EUR 46,725 thousand, or 42.12% of total loans and deposits to banks (31 December 2018: EUR 33,205 thousand, or 64.98% 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	***2019***	***2018***
Internationally rated		
from BBB+ to BB-	*5,194*	*1,206*
from B+ to B-	*76,802*	*25,334*
from CCC+ to C	*27,261*	*24,787*
Internally rated only		
from BBB+ to BB-	*574*	–
from B+ to B-	*2,001*	–
Not rated	–	11
Total	**111,832**	**51,338**
Allowance for expected credit losses	(889)	(238)
Carrying amount	**110,943**	**51,100**

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

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(EUR thousand)

9. Loans and deposits to banks (continued)

Loans and deposits to banks	***Stage 1***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2018	**46,003**	**11**	**46,014**
New originated or purchased assets	208,698	–	**208,698**
Assets derecognized or redeemed (excluding write-offs)	(204,668)	–	**(204,668)**
Changes in currency exchange rates	1,294	–	**1,294**
Gross carrying amount at 31 December 2018	**51,327**	**11**	**51,338**
Allowance for expected credit losses at 1 January 2018	**686**	**11**	**697**
New originated or purchased assets	1,324	–	**1,324**
Assets derecognized or redeemed (excluding write-offs)	(808)	–	**(808)**
Changes to models and inputs used for ECL calculations	(993)	–	**(993)**
Changes in currency exchange rates	18	–	**18**
Allowance for expected credit losses at 31 December 2018	**227**	**11**	**238**

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

10. Loans to corporate customers

Loans to corporate customers comprise:

	2019	***2018***
Loans issued to legal entities from IBEC member countries	83,208	20,282
Loans for foreign trade purposes issued to legal entities from IBEC member countries	40,010	30,007
Syndicated loans issued to legal entities from IBEC member countries	36,545	25,103
Syndicated loans issued to legal entities from other countries	27,682	8,411
Total loans to corporate customers	**187,445**	**83,803**
Allowance for expected credit losses	(377)	(466)
Loans to corporate customers less allowance for expected credit losses	**187,068**	**83,337**

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

	2019		***2018***	
	Amount	***%***	***Amount***	***%***
Gas industry	50,012	26.73	–	–
Power industry	39,953	21.36	29,962	35.95
Investment activities (leases)	28,021	14.98	28,018	33.62
Telecommunications	22,369	11.96	24,955	29.95
Pharmaceuticals	19,847	10.61	–	–
Transport	12,830	6.86	–	–
Aluminum industry	9,002	4.81	–	–
Retail trade	5,034	2.69	–	–
Sale of agricultural products	–	–	402	0.48
Total loans to corporate customers	**187,068**	**100**	**83,337**	**100**

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(EUR thousand)

10. Loans to corporate customers (continued)

As at 31 December 2019, balances with three major counterparties of the Bank amounted to EUR 110,267 thousand, or 58.95% of the Bank's total loan portfolio less allowance for expected credit losses (31 December 2018: EUR 64,671 thousand, or 77.54% of the Bank's total loan portfolio less allowance for expected credit losses).

Loans are issued to customers operating in the following countries:

	2019	***2018***
Russian Federation	68,909	49,723
Republic of Bulgaria	58,518	10,007
Romania	27,900	15,350
Hungary	19,847	–
Republic of Poland	4,177	–
Other countries	7,717	8,257
Total	**187,068**	**83,337**

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

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

Loans to corporate customers	***2019***	***2018***
Internationally rated		
from BBB+ to BB-	*42,807*	*44,982*
Internally rated only		
from AAA to A-	*4 178*	–
from BBB+ to BB-	*140 460*	*30,007*
from B+ to B-	–	*8,814*
Total	**187,445**	**83,803**
Allowance for expected credit losses	(377)	(466)
Carrying amount	**187,068**	**83,337**

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

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(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 2018	**13,061**	**–**	**39,212**	**52,273**
New originated or purchased assets	75,976	–	–	**75,976**
Transfer to Stage 2	(9,886)	9,886	–	**–**
Assets derecognized or redeemed (excluding write-offs)	(4,042)	(1,457)	(116)	**(5,615)**
Write-offs	–	–	(39,096)	**(39,096)**
Changes in currency exchange rates	(120)	385	–	**265**
Gross carrying amount at 31 December 2018	**74,989**	**8,814**	**–**	**83,803**
Allowance for expected credit losses at 1 January 2018	**–**	**–**	**39,212**	**39,212**
New originated or purchased assets	359	–	–	**359**
Assets derecognized or redeemed (excluding write-offs)	–	–	(116)	**(116)**
Changes to models and inputs used for ECL calculations	(47)	155	–	**108**
Write-offs	–	–	(39,096)	**(39,096)**
Changes in currency exchange rates	(1)	–	–	**(1)**
Allowance for expected credit losses at 31 December 2018	**311**	**155**	**–**	**466**

Collateral and other credit enhancements

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

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

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

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

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

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

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(EUR thousand)

10. Loans to corporate customers (continued)

Collateral and other credit enhancements (continued)

Collateral obtained for loans to corporate customers comprises:

	2019	*2018*
Loans secured by real estate	57,472	25,357
Loans secured by deposits	50,012	–
Loans secured by pledge of (movable) property	21,075	826
Loans guaranteed by other parties, including credit insurance	11,123	7,431
Unsecured loans	47,386	49,723
Total loans to corporate customers	**187,068**	**83,337**

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

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

11. Derivative financial instruments

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

	Notional principal	*Fair value*	
		Asset	*Liability*
2019			
Interest rate contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	24,662	1,968	–
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	19,824	–	1,800
Cross-currency interest rate contracts used as hedging instruments			
Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments	73,691	3,721	–
Total derivative assets/liabilities		**5,689**	**1,800**
2018			
Foreign exchange contracts			
Derivative financial instruments (contracts with residents of IBEC member countries)	24,012	15	622
Derivative financial instruments (contracts with non-residents of IBEC member countries)	9,029	–	101
Total derivative assets/liabilities		**15**	**723**

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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.

	2019		*2018*	
	Contracts with positive fair value	***Contracts with negative fair value***	***Contracts with positive fair value***	***Contracts with negative fair value***
Interest rate swaps: fair value at the end of the reporting period				
- USD payable on settlement (-)	19,016	–	–	–
- RUB receivable on settlement (+)	25,738	–	–	–
- EUR payable on settlement (−)	4,754	–	–	–
Foreign exchange swaps: fair value at the end of the reporting period				
- USD payable on settlement (-)	–	16,724	5,705	23,071
- EUR receivable on settlement (+)	–	17,319	5,720	27,320
- Payable in other currencies on settlement (-)	–	2,395	–	4,972
Cross-currency interest rate swaps used as hedging instruments: fair value at the end of the reporting period				
- EUR payable on settlement (-)	76,990	–	–	–
- RUB receivable on settlement (+)	80,711	–	–	–
Net fair value of interest rate, foreign exchange and cross-currency interest rate swaps	**5,689**	**(1,800)**	**15**	**(723)**

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

Cash flow hedges

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

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

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

	Cash flow hedge reserve	
2019	***Continuing hedges***	***Discontinued hedges***
Cash flow hedges		
RUB-denominated bonds with a fixed interest rate	893	–

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

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

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

(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

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

		Carrying value			Changes in the fair values of hedging instruments used for measuring hedge ineffectiveness			Reclassified to profit or loss in:		
					Effective portion	Effective portion	Hedge ineffectiveness			
2019	*Notional amount*	*Assets*	*Liabilities*	*In 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*	*Net 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*
Cash flow hedges										
Cross-currency interest rate swaps	73,691	3,721	–	**4,115**	4,536	(353)	(68)	**1,146**	**2,232**	**(88)**

The cumulative amount of the change in the fair value of the hedged item since the beginning of the hedging relationship amounted to EUR 4,536 thousand as of 31 December 2019. 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 4,590 thousand as of 31 December 2019. For 2019, the effective portion of hedging relationships recognized in other comprehensive income (cash flow hedge reserve, excluding basis currency spread) was adjusted to the smallest of the two amounts.

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(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

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

2019	*12 months to 5 years*	*Total*
Cash flow hedges		
Cross-currency interest rate swaps		
Notional principal	73,691	**73,691**
Average fixed interest rate, EUR	1.1%	**1.1%**
Average fixed interest rate, RUB	7.9%	**7.9%**
Average EUR/RUB exchange rate	0.0142	**0.0142**

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

	Cash flow hedge reserve net of basis currency spread	*Basis currency spread*
Balance at 1 January 2019	**–**	**–**
Cash flow hedges		
Effective portion of changes in the fair value of cross-currency interest rate swaps	4,536	(353)
Net amounts reclassified to profit or loss:		
- interest expense	(1,146)	–
- net gains (losses) from operations with derivative financial instruments and foreign currency	(2,232)	88
Balance at 31 December 2019	**1,158**	**(265)**

As at 31 December 2018, there were no cash flow hedges.

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

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

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

(EUR thousand)

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

Movements in property, plant and equipment for 2018 were as follows:

2018	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Total*
Cost						
Balance at 1 January 2018		**100,768**	**1,462**	**614**	**381**	**103,225**
Additions		91	41	52	328	**512**
Disposals		–	(48)	(89)	(141)	**(278)**
Balance at 31 December 2018		**100,859**	**1,455**	**577**	**568**	**103,459**
Accumulated depreciation						
Balance at 1 January 2018		**28,019**	**1,288**	**432**	**294**	**30,033**
Depreciation charges for the year	21	1,293	69	17	61	**1,440**
Disposals		–	(47)	(74)	(140)	**(261)**
Balance at 31 December 2018		**29,312**	**1,310**	**375**	**215**	**31,212**
Net book value						
Net book value at 1 January 2018		**72,749**	**174**	**182**	**87**	**73,192**
Net book value at 31 December 2018		**71,547**	**145**	**202**	**353**	**72,247**

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

	2019	*2018*
Cost	48,235	61,965
Accumulated depreciation	(14,573)	(17,949)
Net book value	**33,662**	**44,016**

Revaluation of assets

As at 31 December 2015, an independent assessment of the fair value of the building was performed by an independent firm of professional appraisers with acknowledged qualifications and relevant professional experience in the valuation of property of a similar category and in a similar location.

In 2019 and 2018, the Bank did not engage an independent appraiser for the independent assessment of the fair value of the building. Management of the Bank performed an analysis and concluded that there were no significant changes in the real estate market and in the condition of the building in 2019. In addition, in 2019, the Bank sold part of the building. Management of the Bank believes that the fair value of the building did not change significantly as at 31 December 2019 compared with 31 December 2015.

To analyze the fair value of the building, the Bank used the market method and the income capitalization method.

The market method is based on the analysis of comparable sales of similar buildings. The following key assumptions were used in applying the market method:

- Sales prices of similar buildings ranging from EUR 2 thousand to EUR 3.5 thousand per square meter were used for valuation purposes;
- The price of comparable buildings was reduced by a negotiated discount of 10%;
- The price of comparable buildings was adjusted for location and floor space within the range of 0%-10%.

The following key assumptions were used in applying the income capitalization method:

- Cash flows are forecast for a period of 1 to 5 years, excluding the effect of inflation;
- Rental rates vary from EUR 315 to EUR 350 per square meter per year;
- The average annual growth rate of rental rates varies from approximately 4.2% to 4.39% per year during the valuation period;
- Net cash flows are discounted to their present value using the discount rate of 10.0%.

(EUR thousand)

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

Revaluation of assets (continued)

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

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

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

The Bank expects to receive the following operating lease payments after 31 December 2019: within 30 days: EUR 170 thousand; 31 days to 180 days: EUR 846 thousand; 181 days to one year: EUR 764 thousand; over one year to 3 years: EUR 1,438 thousand.

13. Other assets and liabilities

Other assets comprise:

	Note	*2019*	*2018*
Financial assets			
Collateral		1,778	320
Accounts receivable under financial and business operations		446	452
Consumer lending		293	64
Bank fees receivable from customers		28	12
Allowance for expected credit losses from financial assets	22	(7)	(11)
Total financial assets less allowance for expected credit losses		**2,538**	**837**
Non-financial assets			
Property transferred to the Bank in repayment of the loan		103	403
Inventories		48	58
Total non-financial assets		**151**	**461**
Total other assets		**2,689**	**1,298**

Changes in the allowance for expected credit losses from other financial assets are presented below:

	Stage 1	*Total*
Balance at 1 January 2019	**11**	**11**
New originated or purchased assets	13	13
Assets derecognized or redeemed (excluding write-offs)	(7)	(7)
Changes to models and inputs used for ECL calculations	–	–
Write-offs	(10)	(10)
Changes in currency exchange rates	–	–
Balance at 31 December 2019	**7**	**7**
Balance at 1 January 2018	**17**	**17**
New originated or purchased assets	9	9
Write-offs	(15)	(15)
Balance at 31 December 2018	**11**	**11**

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(EUR thousand)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	Note	*2019*	*2018*
Financial liabilities			
Settlements under financial and business operations		5,180	219
Contributions to social security funds		1,218	945
Advances received		85	8
Lease liabilities		23	−
Other accrued liabilities		11	33
Total financial liabilities		**6,517**	**1,205**
Non-financial liabilities			
Allowance for expected credit losses from credit-related commitments	17, 22	154	36
Provision for unused vacations	23	99	119
Allowance for litigation charges	23	11	11
Total non-financial liabilities		**264**	**166**
		6,781	**1,371**

14. Due to credit institutions

Amounts due to credit institutions comprise:

	2019	*2018*
Loans from banks in IBEC member countries	59,278	42,977
Repurchase agreements	54,205	51,776
Long-term financing from banks in other countries	9,920	−
Loans from banks in other countries	4,599	−
Loans from international financial institutions	1,010	1,259
Correspondent accounts of banks from IBEC member countries	370	70
Due to credit institutions	**129,382**	**96,082**

As at 31 December 2019, balances due to three major counterparties amounted to EUR 70,364 thousand, or 54.38% of total amounts due to credit institutions (31 December 2018: EUR 62,989 thousand due to three major counterparties, or 65.56% of total amounts due to credit institutions).

The Bank entered into repurchase agreements with banks in IBEC member countries and banks in other countries with encumbrances on securities with a fair value of EUR 59,320 thousand as at 31 December 2019 (31 December 2018: EUR 61,983 thousand) (Notes 6, 7 and 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	*2019*	*2018*
Carrying amount of transferred assets − securities at fair value through profit or loss	6	−	693
Carrying amount of transferred assets − securities at fair value through other comprehensive income	7	44,301	46,762
Carrying amount of transferred assets − securities at amortized cost	8	15,019	14,528
Carrying amount of associated liabilities − due to credit institutions		(54,205)	(51,776)

The Bank transfers securities under repurchase agreements to a third party for cash or other financial assets and does not derecognize them. In certain circumstances, when the value of securities increases, the Bank may demand 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.

(EUR thousand)

15. Due to customers

Amounts due to customers comprise:

	2019	***2018***
Deposits of organizations in IBEC member countries	82,357	–
Current accounts of organizations in IBEC member countries	9,437	1,213
Current accounts of organizations in other countries	449	453
Other current accounts	5,023	5,426
Due to customers	**97,266**	**7,092**

As at 31 December 2019, balances due to three major customers of the Bank amounted to EUR 88,754 thousand, or 91.25% of total amounts due to customers (31 December 2018: EUR 1,859 thousand, or 26.21% of total amounts due to customers).

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

	2019		***2018***	
	Amount	***%***	***Amount***	***%***
Gas industry	50,882	55.2	–	–
Power industry	30,175	32.7	–	–
Construction	7,714	8.4	36	2.2
Finance	874	0.9	187	11.2
Research	843	0.9	–	–
Pharmaceuticals	712	0.8	–	–
Manufacturing	326	0.3	128	7.7
Trade	235	0.3	986	59.2
Transport	205	0.2	139	8.3
Other	277	0.3	190	11.4
Total due to customers	**92,243**	**100**	**1,666**	**100**

16. Debt securities issued

Debt securities issued comprise:

	2019	***2018***
RUB-denominated bonds	102,526	–
Debt securities issued	**102,526**	**–**

The Bank placed exchange-traded bonds on the Moscow Exchange in the amount of RUB 7 billion (EUR 98,266 thousand) with a maturity on 9 October 2029 and put date in October 2022. The coupon rate on the bonds was set at 7.90% payable on a semi-annual basis, with the first coupon payment to be made on 8 April 2020 (31 December 2018: no debt securities issued).

17. Credit-related commitments

Credit-related commitments comprise the following:

	2019	***2018***
Guarantees issued	24,502	12,082
Loan commitments	18,448	24,985
Reimbursement obligations	17,080	250
Letters of credit	2,073	1,322
Total credit-related commitments	**62,103**	**38,639**
Allowance for expected credit losses (Note 22)	(154)	(36)
Credit-related commitments	**61,949**	**38,603**

(EUR thousand)

17. Credit-related commitments (continued)

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

	2019	*2018*
Russian Federation	28,673	34,635
Poland	12,568	–
Romania	1,673	2,400
Mongolia	1,416	–
Other countries	17,619	1,568
Total	**61,949**	**38,603**

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

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

Credit-related commitments	*Stage 1*	*Total*
Amount of commitments at 1 January 2019	**38,639**	**38,639**
New exposures	79,844	**79,844**
Exposures expired or amounts paid	(60,401)	**(60,401)**
Changes in currency exchange rates	4,021	**4,021**
Amount of commitments at 31 December 2019	**62,103**	**62,103**
Allowance for expected credit losses at 1 January 2019	**36**	**36**
New exposures	158	**158**
Exposures expired or amounts paid	(23)	**(23)**
Changes to models and inputs used for ECL calculations	(21)	**(21)**
Changes in currency exchange rates	4	**4**
Allowance for expected credit losses at 31 December 2019	**154**	**154**
Amount of commitments at 1 January 2018	**16,921**	**16,921**
New exposures	109,506	**109,506**
Exposures expired or amounts paid	(85,497)	**(85,497)**
Changes in currency exchange rates	(2,291)	**(2,291)**
Amount of commitments at 31 December 2018	**38,639**	**38,639**
Allowance for expected credit losses at 1 January 2018	**–**	**–**
New exposures	149	**149**
Exposures expired or amounts paid	(110)	**(110)**
Changes to models and inputs used for ECL calculations	(3)	**(3)**
Changes in currency exchange rates	–	**–**
Allowance for expected credit losses at 31 December 2018	**36**	**36**

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

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

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

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

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

(EUR thousand)

17. Credit-related commitments (continued)

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

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

18. Interest income and interest expense

	2019	***2018***
Interest income		
Interest income calculated using the EIR method		
Securities at fair value through other comprehensive income	4,737	5,132
Loans to corporate customers	3,530	1,427
Loans and deposits to banks	2,762	2,246
- loans issued to banks under trade financing	*1,745*	*880*
- term deposits with banks	*939*	*924*
- syndicated loans	*78*	*442*
Securities at amortized cost	2,062	326
Other	5	5
Other interest income		
Securities at fair value through profit or loss	738	154
Total interest income	**13,834**	**9,290**
Interest expense		
Interest expense calculated using the EIR method		
Due to credit institutions	(2,527)	(1,119)
Due to customers	(1,540)	(57)
Debt securities issued	(625)	–
Lease liabilities	(1)	–
Other	(2)	(1)
Total interest expense	**(4,695)**	**(1,177)**
Net interest income	**9,139**	**8,113**

19. Net fee and commission income

	2019	***2018***
Documentary operations	306	37
One-off fee for issuing a loan/credit facility	166	209
Cash and settlement operations	90	88
Accounts maintenance	58	59
Currency control	38	239
Fee and commission income	**658**	**632**
Fee and commission expense	(136)	(67)
Net fee and commission income	**522**	**565**

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

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

	2019	***2018***
Result from disposal of debt securities	4,726	3,913
Total net gains from operations with securities at fair value through other comprehensive income	**4,726**	**3,913**

The gain from the revaluation of securities at fair value through other comprehensive income due to their disposal during 2019 is reclassified from other comprehensive income to net gains from operations with securities at fair value through other comprehensive income in the amount of EUR 4,787 thousand (2018: EUR 3,504 thousand).

(EUR thousand)

21. Administrative and management expenses

	2019	*2018*
Staff costs	8,687	8,142
Repair and maintenance of the building, equipment and apartments	1,761	1,694
Depreciation of property, plant and equipment	1,444	1,440
Building security expenses	338	306
Telecommunication expenses	287	270
Meetings of the Council, the Audit Committee and the Working Group of Authorized Representatives and entertainment expenses	426	446
Transport expenses	278	233
Information and advisory expenses	355	311
Office expenses	210	130
Business trip expenses	213	192
Audit expenses	63	61
Professional development	48	42
Other administrative and management expenses	58	48
Total administrative and management expenses	**14,168**	**13,315**

Staff costs comprise contributions to:

	2019	*2018*
Pension Fund of the Russian Federation	717	623
Compulsory Medical Insurance Fund of the Russian Federation	257	229
Pension funds of other IBEC member countries	42	50
Social Insurance Fund of the Russian Federation	14	27
Total	**1,030**	**929**

22. Allowances for expected credit losses

The tables below show (gains) losses associated with allowances for expected credit losses from financial assets recognized in profit or loss for 2019 and 2018:

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

2018	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Securities at fair value through other comprehensive income	7	(319)	(215)	–	**(534)**
Securities at amortized cost	8	74	–	–	**74**
Loans and deposits to banks	9	(477)	–	–	**(477)**
Loans to corporate customers	10	312	155	(116)	**351**
Credit-related commitments	17	36	–	–	**36**
Other financial assets	13	9	–	–	**9**
		(365)	**(60)**	**(116)**	**(541)**

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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 2019 and 31 December 2018 is presented below:

	Securities at fair value through other comprehensive income	*Securities at amortized cost*	*Loans and deposits to banks*	*Loans to corporate customers*	*Credit-related commitments*	*Other financial assets*	*Total*
Balance at 1 January 2019	**602**	**118**	**238**	**466**	**36**	**11**	**1,471**
New originated or purchased assets	676	157	1,812	135	158	13	**2,951**
Assets derecognized or redeemed (excluding write-offs)	(725)	(13)	(323)	(1)	(23)	(7)	**(1,092)**
Changes to models and inputs used for ECL calculations	233	203	(841)	(230)	(21)	–	**(656)**
Write-offs	–	–	–	–	–	(10)	**(10)**
Changes in currency exchange rates	8	2	3	7	4	–	**24**
Balance at 31 December 2019	**794**	**467**	**889**	**377**	**154**	**7**	**2,688**
Balance at 1 January 2018	**1,116**	**44**	**697**	**39,212**	**–**	**17**	**41,086**
New originated or purchased assets	379	118	1,324	359	149	9	**2,338**
Assets derecognized or redeemed (excluding write-offs)	(549)	–	(808)	(116)	(110)	–	**(1,583)**
Changes to models and inputs used for ECL calculations	(364)	(44)	(993)	108	(3)	–	**(1,296)**
Write-offs	–	–	–	(39,096)	–	(15)	**(39,111)**
Changes in currency exchange rates	20	–	18	(1)	–	–	**37**
Balance at 31 December 2018	**602**	**118**	**238**	**466**	**36**	**11**	**1,471**

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(EUR thousand)

23. Other provisions

Movements in other provisions are presented below:

	Provisions for legal claims	*Provision for unused vacations*	*Total*
1 January 2019	**11**	**119**	**130**
Charge	–	38	**38**
Write-offs	–	(58)	**(58)**
31 December 2019	**11**	**99**	**110**
1 January 2018	**11**	**129**	**140**
Charge	–	41	**41**
Write-offs	–	(51)	**(51)**
31 December 2018	**11**	**119**	**130**

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

24. Risk management

Introduction

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

Risk management structure

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

Council of the Bank

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

Board of the Bank

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

Credit Committee (CC)

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

Assets, Liabilities and Risk Management Committee (ALRMC)

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

Risk Control Department (RCD)

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

(EUR thousand)

24. Risk management (continued)

Risk management structure (continued)

Internal Audit Department (IAD)

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

Risk measurement and reporting systems

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

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

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

Risk mitigation

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

Excessive risk concentration

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

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

Credit risk

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

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

The Bank considers credit ratings assigned by S&P, Moody's, and Fitch agencies to manage the credit quality of its financial assets. In addition to the analysis of the financial standing of counterparties, the Bank also analyses cash flows and prepares cash flow models for its corporate lending transactions.

The Bank manages credit risk through regular analysis of the ability of its customers and counterparties to discharge their principal and interest repayment obligations. The Bank's customers/counterparties are regularly monitored; their cash flow models are controlled and clarified, their financial positions are reviewed for compliance with the assigned internal credit ratings, and, where necessary, respective adjustments are made. The credit quality review process allows the Bank to assess potential losses on risks to which it is exposed and take appropriate mitigation actions. In addition, credit risk is further mitigated by obtaining collateral, guarantees (including state guarantees) and warranties from legal entities and individuals.

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

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

Risks associated with credit-related commitments

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

Definition of default

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

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

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

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

When the Bank assesses probability of default under the financial instrument, the inputs and their significance over time may vary in order to respond to changes in circumstances.

Significant increase in credit risk

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

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

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

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

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

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

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

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

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

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

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

Credit risk levels (grades)

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

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

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

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

Creating a term structure of probability of default

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

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

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

(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

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

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

Inputs for measuring expected credit losses

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

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

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

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

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

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

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

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

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(EUR thousand)

24. Risk management (continued)

Credit risk (continued)

Forward-looking information

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

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

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

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

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

Credit quality per class of financial assets

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

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

Internal credit ratings "B" are generally consistent with international ratings "from BB to B-"; internal credit ratings "BB" are generally comparable with international ratings "from BB+ to BB", except when an international rating is limited by a sovereign rating; internal credit ratings "BBB" are comparable with international ratings "from BBB+ to BBB-".

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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 2019:

	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	*13,657*	–	–	***13,657***
Correspondent accounts with internationally rated banks	*2,729*	–	–	***2,729***
Total	**16,386**	**–**	**–**	**16,386**
Allowance for expected credit losses	–	–	–	**–**
Carrying amount	**16,386**	**–**	**–**	**16,386**
Securities at fair value through other comprehensive income				
- held by the Bank				
Internationally rated	*159,002*	–	–	***159,002***
Carrying amount	**159,002**	**–**	**–**	**159,002**
Allowance for expected credit losses	**(546)**	**–**	**–**	**(546)**
- pledged under repurchase agreements				
Internationally rated	*44,301*	–	–	***44,301***
Carrying amount	**44,301**	**–**	**–**	**44,301**
Allowance for expected credit losses	**(248)**	**–**	**–**	**(248)**
Securities at amortized cost				
- held by the Bank				
Internationally rated	*47,887*	–	–	***47,887***
Total	**47,887**	**–**	**–**	**47,887**
Allowance for expected credit losses	(374)	–	–	**(374)**
Carrying amount	**47,513**	**–**	**–**	**47,513**
- pledged under repurchase agreements				
Internationally rated	*15,112*	–	–	***15,112***
Total	**15,112**	**–**	**–**	**15,112**
Allowance for expected credit losses	(93)	–	–	**(93)**
Carrying amount	**15,019**	**–**	**–**	**15,019**
Loans and deposits to banks				
Internationally rated	*109,257*	–	–	***109,257***
Internally rated only	*2,575*	–	–	***2,575***
Total	**111,832**	**–**	**–**	**111,832**
Allowance for expected credit losses	(889)	–	–	**(889)**
Carrying amount	**110,943**	**–**	**–**	**110,943**
Loans to corporate customers				
Internationally rated	*42,807*	–	–	***42,807***
Internally rated only	*136,804*	*7,834*	–	***144,638***
Total	**179,611**	**7,834**	**–**	**187,445**
Allowance for expected credit losses	(261)	(116)	–	**(377)**
Carrying amount	**179,350**	**7,718**	**–**	**187,068**

(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 2018:

	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	*14,984*	–	–	***14,984***
Correspondent accounts with banks				
Internationally rated	*2,158*	–	–	***2,158***
Internally rated only	*11*	–	–	***11***
Total	**17,153**	**–**	**–**	**17,153**
Allowance for expected credit losses	–	–	–	**–**
Carrying amount	**17,153**	**–**	**–**	**17,153**
Securities at fair value through other comprehensive income				
- held by the Bank				
Internationally rated	*83,985*	–	–	***83,985***
Carrying amount	**83,985**	**–**	**–**	**83,985**
Allowance for expected credit losses	**(487)**	**–**	**–**	**(487)**
- pledged under repurchase agreements				
Internationally rated	*46,762*	–	–	***46,762***
Carrying amount	**46,762**	**–**	**–**	**46,762**
Allowance for expected credit losses	**(115)**	**–**	**–**	**(115)**
Securities at amortized cost				
- held by the Bank				
Internationally rated	26,447	**–**	–	**26,447**
Total	**26,447**	**–**	**–**	**26,447**
Allowance for expected credit losses	(59)	–	–	**(59)**
Carrying amount	**26,388**	**–**	**–**	**26,388**
- pledged under repurchase agreements				
Internationally rated	14,587	**–**	–	**14,587**
Total	**14,587**	**–**	**–**	**14,587**
Allowance for expected credit losses	(59)	–	–	**(59)**
Carrying amount	**14,528**	**–**	**–**	**14,528**
Loans and deposits to banks				
Internationally rated	51,327	–	–	**51,327**
Not rated	–	–	11	**11**
Total	**51,327**	**–**	**11**	**51,338**
Allowance for expected credit losses	(227)	–	(11)	**(238)**
Carrying amount	**51,100**	**–**	**–**	**51,100**
Loans to corporate customers				
Internationally rated	44,982	–	–	**44,982**
Internally rated only	30,007	8,814	–	**38,821**
Total	**74,989**	**8,814**	**–**	**83,803**
Allowance for expected credit losses	(311)	(155)	–	**(466)**
Carrying amount	**74,678**	**8,659**	**–**	**83,337**

Credit-related commitments relate to stage 1 as at 31 December 2019 and 31 December 2018.

There were no transfers of other financial assets between stages in 2019 and 2018.

(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 2019:

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

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

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

(EUR thousand)

24. Risk management (continued)

Geographical risk (continued)

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

Country	*Cash and cash equivalents (other than cash on hand)*	*Securities at fair value through profit or loss held by the Bank*	*Securities at fair value through profit or loss pledged under repurchase agreements*	*Securities at fair value through other comprehensive income held by the Bank*	*Securities at fair value through other comprehensive income pledged under repurchase agreements*	*Securities at amortized cost held by the Bank*	*Securities at amortized cost pledged under repurchase agreements*	*Loans and deposits to banks*	*Loans to corporate customers*	*Derivative financial assets*	*Other financial assets*	*Total*	*Share, %*
Russian Federation	757	1,197	693	35,244	2,520	26,287	4,403	1,205	49,723	15	693	**122,737**	**37.22**
Romania	6	2,924	–	5,784	25,533	–	–	–	15,350	–	–	**49,597**	**15.04**
Mongolia	7	868	–	3,934	–	–	–	34,470	–	–	–	**39,279**	**11.91**
Republic of Bulgaria	9	–	–	6,712	10,024	101	10,125	–	10,007	–	16	**36,994**	**11.22**
Czech Republic	12	–	–	18,809	–	–	–	–	–	–	–	**18,821**	**5.71**
Republic of Poland	1	–	–	3,158	8,685	–	–	–	–	–	4	**11,848**	**3.59**
Slovak Republic	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**
Socialist Republic of Vietnam	8	–	–	2,653	–	–	–	8,436	–	–	–	**11,097**	**3.36**
IFI[2]	–	–	–	7,691	–	–	–	–	–	–	–	**7,691**	**2.33**
Hungary	–	–	–	–	–	–	–	–	–	–	–	**–**	–
Other countries	16,353	–	–	–	–	–	–	6,989	8,257	–	124	**31,723**	**9.62**
Total	**17,153**	**4,989**	**693**	**83,985**	**46,762**	**26,388**	**14,528**	**51,100**	**83,337**	**15**	**837**	**329,787**	**100**

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

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

(EUR thousand)

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

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

2018	***On demand and less than 30 days***	***31 to 180 days***	***181 to 365 days***	***Over 365 days***	***Total gross amount of cash (inflow) outflow***	***Carrying amount***
Due to credit institutions	27,742	56,913	7,639	5,192	97,486	96,082
Due to customers	7,092	–	–	–	7,092	7,092
Other liabilities	1,371	–	–	–	1,371	1,371
Gross settled derivative financial instruments:						
- inflow	–	(5,563)	(9,093)	(12,664)	(27,320)	(27,320)
- outflow	–	5,664	9,109	13,270	28,043	28,043
Total	**36,205**	**57,014**	**7,655**	**5,798**	**106,672**	**105,268**

The table below shows the contractual maturities of credit-related commitments. All outstanding credit-related commitments 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***
2019	25,794	2,420	–	16,970	16,765	**61,949**
2018	12,067	11,313	14,976	247	–	**38,603**

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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 2019 and 31 December 2018 by contractual maturity. Quoted debt securities measured at fair value through other comprehensive income and at fair value through profit or loss and not pledged under repurchase agreements are classified as "On demand and less than 1 month," as they are highly liquid securities, which can be sold by the Bank in the short-term on the arm-length basis. Securities at fair value through other comprehensive income and securities at fair value through profit or loss pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of the respective contractual obligations of the Bank.

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

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(EUR thousand)

24. Risk management (continued)

Classification of assets and liabilities by maturity (continued)

2018	*On demand and less than 1 month*	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Total*
Cash and cash equivalents	18,288	–	–	–	–	**18,288**
Securities at fair value through profit or loss						
- held by the Bank	4,989	–	–	–	–	**4,989**
- pledged under repurchase agreements	–	–	693	–	–	**693**
Securities at fair value through other comprehensive income						
- held by the Bank	83,985	–	–	–	–	**83,985**
- pledged under repurchase agreements	17,394	21,360	8,008	–	–	**46,762**
Securities at amortized cost						
- held by the Bank	–	8,089	–	15,188	3,111	**26,388**
- pledged under repurchase agreements	–	–	–	4,403	10,125	**14,528**
Loans and deposits to banks	2,110	39,449	9,541	–	–	**51,100**
Loans to corporate customers	150	114	400	74,567	8,106	**83,337**
Derivative financial assets	–	10	–	5	–	**15**
Other financial assets	774	1	10	52	–	**837**
Total financial assets	**127,690**	**69,023**	**18,652**	**94,215**	**21,342**	**330,922**
Due to credit institutions	27,701	56,684	7,287	4,410	–	**96,082**
Due to customers	7,092	–	–	–	–	**7,092**
Derivative financial liabilities	–	101	16	606	–	**723**
Other financial liabilities	1,205	–	–	–	–	**1,205**
Total financial liabilities	**35,998**	**56,785**	**7,303**	**5,016**	**–**	**105,102**
Net position	**91,692**	**12,238**	**11,349**	**89,199**	**21,342**	**225,820**
Cumulative liquidity gap for financial instruments	**91,692**	**103,930**	**115,279**	**204,478**	**225,820**	**–**

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

	2019		*2018*	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
1 bp parallel fall	**247**	**187**	**51**	**16**
EUR	(293)	(353)	(198)	(233)
USD	257	257	217	217
RUB	168	168	32	32
Other currencies	115	115	–	–
1 bp parallel rise	**(247)**	**(187)**	**(51)**	**(16)**
EUR	293	353	198	233
USD	(257)	(257)	(217)	(217)
RUB	(168)	(168)	(32)	(32)
Other currencies	(115)	(115)	–	–

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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 2019 and 31 December 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019				*2018*			
	Average interest rate, %				*Average interest rate, %*			
	EUR	*USD*	*RUB*	*Other currencies*	*EUR*	*USD*	*RUB*	*Other currencies*
Interest-bearing assets								
Correspondent accounts with banks in IBEC member countries and other banks	(0.01)	0.30	–	(0.01)	(0.40)	0.01	–	(0.48)
Securities at fair value through profit or loss								
- held by the Bank	–	–	7.77	–	2.88	7.25	9.10	–
- pledged under repurchase agreements	–	–	–	–	–	–	9.10	–
Securities at fair value through other comprehensive income								
- held by the Bank	2.26	4.73	7.44	1.05	2.64	8.03	–	2.65
- pledged under repurchase agreements	2.66	4.72	–	0.90	3.04	3.00	9.10	–
Securities at amortized cost								
- held by the Bank	3.19	7.50	9.10	–	3.46	–	–	–
- pledged under repurchase agreements	2.98	–	–	–	3.50	–	9.10	–
Loans and deposits to banks	2.61	4.66	10.58	–	2.49	5.28	8.93	–
Loans to corporate customers	1.63	5.77	10.00	5.36	2.16	5.94	–	–
Consumer lending	3.00	–	–	–	3.00	–	–	–
Interest-bearing liabilities								
Due to credit institutions	0.23	2.49	6.62	2.97	0.01	3.20	8.67	–
Correspondent accounts with banks in IBEC member countries and other credit institutions	(0.01)	–	1.37	–	(0.01)	–	2.65	–
Due to customers	–	2.00	8.07	–	–	–	–	–
Debt securities issued	–	–	7.90	–	–	–	–	–

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(EUR thousand)

24. Risk management (continued)

Currency risk

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

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

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

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(EUR thousand)

24. Risk management (continued)

Currency risk (continued)

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

	Note	*USD*	*RUB*	*EUR*	*Other*	*Total*
Cash and cash equivalents		2,394	616	15,223	55	**18,288**
Securities at fair value through profit or loss						
- held by the Bank		868	1,198	2,923	–	**4,989**
- pledged under repurchase agreements		–	693	–	–	**693**
Securities at fair value through other comprehensive income						
- held by the Bank		18,251	–	59,448	6,286	**83,985**
- pledged under repurchase agreements		8,685	2,520	35,557	–	**46,762**
Securities at amortized cost						
- held by the Bank		–	–	26,388	–	**26,388**
- pledged under repurchase agreements		–	4,403	10,125	–	**14,528**
Loans and deposits to banks		31,606	2,272	17,222	–	**51,100**
Loans to corporate customers		28,018	–	55,319	–	**83,337**
Other financial assets	13	–	394	443	–	**837**
Total financial assets		**89,822**	**12,096**	**222,648**	**6,341**	**330,907**
Due to credit institutions		56,277	12,882	26,918	5	**96,082**
Due to customers		1,164	1,180	4,741	7	**7,092**
Other financial liabilities	13	12	185	1,008	–	**1,205**
Total financial liabilities		**57,453**	**14,247**	**32,667**	**12**	**104,379**
Net balance sheet position		**32,369**	**(2,151)**	**189,981**	**6,329**	**226,528**
Net off-balance sheet position		**(28,777)**	**–**	**33,041**	**(4,972)**	**(708)**
Net balance sheet and off-balance sheet position		**3,592**	**(2,151)**	**223,022**	**1,357**	**225,820**

As at 31 December 2019 and 31 December 2018, a weakening of the euro against the Russian ruble and the US dollar would have caused an increase (decrease) in equity and profit (or loss) as shown in the table below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The effect on equity does not differ from the effect on the statement of profit or loss.

	2019	*2018*
20% appreciation of USD against EUR	383	718
20% appreciation of RUB against EUR	(702)	(430)

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

Operational risk

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

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

(EUR thousand)

25. Fair value measurement

Fair value measurements

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

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

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

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

Fair value hierarchy

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

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

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 2019 and 31 December 2018:

2019	***Level 1***	***Level 2***	***Total***
Financial assets			
Securities at fair value through profit or loss held by the Bank			
- corporate bonds	4,412	–	**4,412**
Securities at fair value through other comprehensive income held by the Bank			
- corporate Eurobonds	102,349	–	**102,349**
- corporate bonds	18,600	5,051	**23,651**
- Eurobonds of IBEC member countries	19,354	–	**19,354**
- Eurobonds of funds	6,590	–	**6,590**
- bonds of banks	2,550	–	**2,550**
- Eurobonds of banks	2,395	–	**2,395**
- Eurobonds of international financial institutions	2,113	–	**2,113**
Securities at fair value through other comprehensive income pledged under repurchase agreements			
- corporate Eurobonds	21,595	–	**21,595**
- Eurobonds of IBEC member countries	15,826	–	**15,826**
- Eurobonds of banks	6,880	–	**6,880**
Derivative financial assets	–	5,689	**5,689**
	202,664	**10,740**	**213,404**
Financial liabilities			
Derivative financial liabilities	–	(1,800)	**(1,800)**

(EUR thousand)

25. Fair value measurement (continued)

Fair value hierarchy (continued)

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

Derivative financial instruments

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

Securities at fair value

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

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

Transfers between Level 1 and Level 2

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

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

The above financial instruments were transferred from Level 1 to Level 2, as during the period, despite the sufficient volume of trade, the frequency of trade was insufficient to classify them as actively traded. Their fair values were subsequently determined using valuation techniques based on observable market inputs. There were no transfers from Level 2 to Level 1 during 2019. There were no transfers between the levels of the fair value hierarchy during 2018.

(EUR thousand)

25. Fair value measurement (continued)

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

As at 31 December 2019 and 31 December 2018, 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 value. Financial assets and liabilities not recorded at fair value in the statement of financial position include loans and deposits to banks, loans to corporate customers, amounts due to credit institutions, amounts due to customers, debt securities issued and securities measured at amortized cost.

26. Segment reporting

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

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

Segment performance is measured differently from profit or loss in the financial statements, as shown in the following table, which includes information about the income, expenses, profit, assets and liabilities of the Bank's operating segments:

2019	*Development portfolio*	*Other banking activities*	*Other activities*	*Total*
Income				
Interest income	8,728	5,101	5	**13,834**
Fee and commission income	645	13	–	**658**
Net gains from operations with securities at fair value through profit or loss	1,194	286	–	**1,480**
Net gains from operations with securities at fair value through other comprehensive income	1,932	2,794	–	**4,726**
Net gains from operations with derivative financial instruments and foreign currency	(720)	772	(49)	**3**
Net gains from disposal of property, plant and equipment	–	–	3,127	**3,127**
Lease income	–	–	2,075	**2,075**
Other banking income	–	1,304	71	**1,375**
Total income	**11,779**	**10,270**	**5,229**	**27,278**
Interest expense	(4,232)	(426)	(37)	**(4,695)**
Allowance for expected credit losses from financial assets	(936)	(267)	–	**(1,203)**
Fee and commission expense	(73)	(62)	(1)	**(136)**
Other provisions	–	–	(38)	**(38)**
Other banking expenses	(102)	(47)	(303)	**(452)**
Total expenses	**(5,343)**	**(802)**	**(379)**	**(6,524)**
Other unallocated expenses				**(14,168)**
Profit for the year				**6,586**
Segment assets	435,715	157,336	57,884	**650,935**
Segment liabilities	264,347	61,843	11,565	**337,755**
Total equity				**313,180**
Credit-related commitments	**43,510**	**18,439**	**–**	**61,949**

(EUR thousand)

26. Segment reporting (continued)

2018	*Development portfolio*	*Other banking activities*	*Other activities*	*Total*
Income				
Interest income	3,146	6,139	5	**9,290**
Reversal of allowance for expected credit losses from financial assets	(139)	680	−	**541**
Fee and commission income	620	12	−	**632**
Net gains from operations with securities at fair value through other comprehensive income	22	3,891	−	**3,913**
Lease income	−	−	1,710	**1,710**
Other banking income	−	533	54	**587**
Total income	**3,649**	**11,255**	**1,769**	**16,673**
Interest expense	(1,003)	(120)	(54)	**(1,177)**
Fee and commission expense	(8)	(58)	(1)	**(67)**
Net losses from operations with securities at fair value through profit or loss	(62)	13	−	**(49)**
Net losses from operations with derivative financial instruments and foreign currency	853	(1,207)	(50)	**(404)**
Net losses from disposal of property, plant and equipment	−	−	(4)	**(4)**
Other provisions	−	−	(41)	**(41)**
Other banking expenses	(4)	(35)	(2)	**(41)**
Total expenses	**(224)**	**(1,407)**	**(152)**	**(1,783)**
Other unallocated expenses				**(13,315)**
Profit for the year				**1,575**
Segment assets	153,985	176,420	73,225	**403,630**
Segment liabilities	78,061	20,446	6,761	**105,268**
Total equity				**298,362**
Credit-related commitments	**13,635**	**24,968**	**−**	**38,603**

In 2019 the Bank had two external counterparties (31 December 2018: two external counterparties), the revenue from its' lease operations exceeded 20% of the Bank's total revenue (2019 − EUR 1,575 thousand, 2018 – EUR 1,499 thousand).

Geographic information

Allocation of the Bank's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the year ended 31 December 2019 and 31 December 2018 is presented in the table below:

	2019					*2018*				
	Russia Federation	*Mongolia*	*Other member countries*	*Other countries*	*Total*	*Russia Federation*	*Mongolia*	*Other member countries*	*Other countries*	*Total*
Interest income	5 921	2 166	4 058	1 689	**13 834**	2 850	2 482	3 366	592	**9 290**
Non-current assets lease income	2 075	−	−	−	**2 075**	1 710	−	−	−	**1 710**

Non-current assets are presented by fixed assets.

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.

(EUR thousand)

27. Related party transactions (continued)

Transactions with the Bank's key management personnel

During 2019, remuneration to the key management personnel of the Bank amounted to EUR 1,908 thousand (2018: EUR 2,088 thousand). Remuneration to the key management personnel of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 37 thousand (2018: EUR 55 thousand), the pension funds of IBEC member countries in the amount of EUR 16 thousand (2018: EUR 24 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 18 thousand (2018: EUR 26 thousand).

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

	2019	***2018***
Current accounts	1,363	1,836

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	***2019***	***2018***
Assets		
Cash and cash equivalents	651	517
Securities at fair value through profit or loss	4,412	5,682
Securities at fair value through other comprehensive income	114,166	87,431
Securities at amortized cost	50,046	40,916
Loans and deposits to banks	19,043	1,157
Loans to corporate customers	118,920	49,724
Derivative financial assets	2,634	14
Other assets	1,828	269
Liabilities		
Due to credit institutions	18,793	40,420
Due to customers	81,129	83
Derivative financial liabilities	1,793	622
Other liabilities	113	176
Off-balance sheet commitments		
Credit-related commitments	5,765	22,568

Amounts included in the statement of profit or loss and other comprehensive income for transactions with government-related companies for 2019 and 2018 are as follows:

Statement of profit or loss	***2019***	***2018***
Interest income calculated using the EIR method	7,132	5,195
Other interest income	457	154
Interest expense	(2,104)	(352)
(Allowance) reversal of allowance for expected credit losses from financial assets	(484)	554
Fee and commission income	28	175
Fee and commission expense	(5)	(17)
Net gains (losses) from operations with securities at fair value through profit or loss	1,235	(23)
Net gains from operations with securities at fair value through other comprehensive income	4,520	3,506
Net gains (losses) from operations with derivative financial instruments and foreign currency	1,557	(1,618)
Lease income	1,579	1,310
Other banking income	14	20
Administrative and management expenses	(481)	(639)
Other banking expenses	(14)	(2)

(EUR thousand)

28. Changes in liabilities arising from financing activities

	Note	*Long-term financing from banks*	*Debt securities issued*	*Lease liabilities*	*Total liabilities arising from financing activities*
Carrying amount at 1 January 2019	13, 14, 16	**–**	**–**	**–**	**–**
Proceeds		9,900	98,032	–	**107,932**
Liability arising as a result of recognition of the respective asset		–	–	25	**25**
Redemption		–	–	(2)	**(2)**
Interest paid		–	–	(1)	**(1)**
Translation differences		–	2,705	–	**2,705**
Interest accrued		20	1,789	1	**1,810**
Carrying amount at 31 December 2019	13, 14, 16	**9,920**	**102,526**	**23**	**112,469**

29. Capital adequacy

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

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

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

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

The Bank's capital adequacy ratio as at 31 December 2019 and 31 December 2018 comprised 57.2% and 89.6%, respectively. This indicates that the Bank maintains the requisite level of capital adequacy.

The table below shows the composition of the Bank's capital computed in accordance with the Basel Accord (Basel II) as at 31 December 2019 and 31 December 2018.

	2019	***2018***
Capital	313,180	298,362
Total capital	**313,180**	**298,362**
Risk-weighted assets		
Credit risk	450,169	268,329
Market risk	90,122	57,626
Operational risk	7,459	7,089
Total risk-weighted assets	**547,750**	**333,044**

30. Events after the reporting period

On 24 January 2020, Moody's Investors Service assigned a long-term foreign currency rating of Baa3 with a stable outlook to the Bank.

(intentionally blank)

(EUR thousand)

31. Summary of accounting policies

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

Interest income and expense

Effective interest rate

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

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

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

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

Amortized cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

Presentation

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

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

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

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

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

(EUR thousand)

31. Summary of accounting policies (continued)

Fee and commission income and expense

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

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

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

Net trading income

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

Cash and cash equivalents

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

Financial assets and financial liabilities

Classification of financial assets

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

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 amortized cost:

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

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

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

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

All other financial assets are classified as measured at FVPL.

(EUR thousand)

31. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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

Reclassification

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

Financial liabilities may not be reclassified after initial recognition.

Business model assessment

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

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

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

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

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

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

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

(EUR thousand)

31. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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

Financial liabilities

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

Derecognition of financial assets and liabilities

The Bank derecognizes financial assets when:

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

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

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

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

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

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

Financial liabilities

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

Modifications to the terms of financial assets and financial liabilities

Financial assets

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

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

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

(EUR thousand)

31. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

(EUR thousand)

31. Summary of accounting policies (continued)

Financial assets and financial liabilities (continued)

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

Impairment of financial assets

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

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

The model of expected credit losses is used.

Impairment loss is not recognized for investments in equity instruments.

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

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

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

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

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

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

Measuring ECLs

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

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

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

(EUR thousand)

31. 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 significant decrease in the risk that contractual cash flows will not be received and there are no other indicators of impairment.

Recording allowance for ECLs in the statement of financial position

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

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

Write-offs

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

Recoveries of amounts previously written off are recorded within other banking income in the statement of profit or loss and other comprehensive income.

Loans to corporate customers

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

(EUR thousand)

31. Summary of accounting policies (continued)

Derivative financial instruments

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

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are recognized at fair value 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.

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

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

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

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

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

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

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

Financial assets under repurchase agreements

Repurchase agreements comprise loans collateralized by securities.

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

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

(EUR thousand)

31. Summary of accounting policies (continued)

Financial guarantees and loan commitments

Financial guarantees

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

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

The Bank has no loan commitments measured at FVPL.

Loan commitments

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

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

Property, plant and equipment

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

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

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

Depreciation of an asset begins when it is available for use and ends when the asset is derecognized.

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

- Building − 67 years;
- Office equipment and computer hardware − from 2 to 10 years;
- Furniture − from 5 to 10 years;
- Vehicles − 5 years.

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

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

(EUR thousand)

31. Summary of accounting policies (continued)

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.

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.

(EUR thousand)

31. Summary of accounting policies (continued)

Finance lease liabilities (continued)

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

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

Due to credit institutions

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

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

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.

(EUR thousand)

31. 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 rate of IBEC member country currency is obtained from the website of the respective country central bank, 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.

Taxation

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

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