



International Bank for Economic Co-operation

Interim condensed financial statements

*30 June 2021
together with report on review*

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Report on Review of Interim Financial Information

To the Council of International Bank for Economic Co-operation

Introduction

We have reviewed the accompanying interim condensed financial statements of International Bank for Economic Co-operation ("the Bank"), which comprise the interim statement of financial position as at 30 June 2021, the interim statement of profit or loss and other comprehensive income, interim statement of changes in equity and interim statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



G.A. Shinin
Partner
Ernst & Young LLC

20 August 2021

Details of the 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.

Interim statement of financial position**as at 30 June 2021***(EUR thousand)*

| | Note | 30 June 2021 (unaudited) | 31 December 2020 |
|---|------|-----------------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | 5 | 20,528 | 17,589 |
| Securities at fair value through profit or loss | 6 | 15,693 | 1,119 |
| - held by the Bank | | 13,473 | 1,119 |
| - pledged under repurchase agreements | | 2,220 | - |
| Securities at fair value through other comprehensive income | 7 | 191,590 | 286,306 |
| - held by the Bank | | 156,484 | 194,444 |
| - pledged under repurchase agreements | | 35,106 | 91,862 |
| Securities at amortized cost | 8 | 66,730 | 64,596 |
| - held by the Bank | | 37,668 | 18,136 |
| - pledged under repurchase agreements | | 29,062 | 46,460 |
| Loans and deposits to banks | 9 | 176,885 | 165,276 |
| - loans issued to banks under trade financing | | 80,242 | 74,423 |
| - syndicated loans | | 58,722 | 38,526 |
| - term deposits with banks | | 37,921 | 52,327 |
| Loans to corporate customers | 10 | 211,259 | 199,043 |
| Derivative financial assets | 11 | 16 | 375 |
| Property, plant and equipment, intangible assets and right-of-use assets | 12 | 52,415 | 52,989 |
| Other assets | 13 | 27,374 | 27,836 |
| Total assets | | 762,490 | 815,129 |
| Liabilities | | | |
| Due to credit institutions | 14 | 223,359 | 286,507 |
| Due to customers | 15 | 23,379 | 47,235 |
| Derivative financial liabilities | 11 | 24,834 | 26,020 |
| Debt securities issued | 16 | 175,329 | 133,694 |
| Other liabilities | 13 | 3,761 | 4,563 |
| Total liabilities | | 450,662 | 498,019 |
| Equity | | | |
| Share capital | 1 | 200,000 | 200,000 |
| Revaluation reserve for securities at fair value through other comprehensive income | | (1,178) | 5,294 |
| Revaluation reserve for property, plant and equipment | | 21,528 | 21,528 |
| Cash flow hedge reserve | 11 | (3,593) | 621 |
| Retained earnings less net profit for the period | | 89,667 | 82,865 |
| Net profit for the period | | 5,404 | 6,802 |
| Total equity | | 311,828 | 317,110 |
| Total liabilities and equity | | 762,490 | 815,129 |
| Off-balance sheet commitments | | | |
| Credit-related commitments | 17 | 161,716 | 139,872 |

Denis Ivanov

Inna Zheleznova

20 August 2021



Chairman of the Board

Director of the Financial Department

Interim statement of profit or loss and other comprehensive income**for the six months ended 30 June 2021***(EUR thousand)*

| | <i>Note</i> | <i>For the six months ended 30 June (unaudited)</i> | |
|--|-------------|---|--------------|
| | | <i>2021</i> | <i>2020</i> |
| Interest income calculated using the EIR method | | 9,943 | 8,743 |
| Other interest income | | 168 | 217 |
| Interest expense | | (2,799) | (3,635) |
| Net interest income | 18 | 7,312 | 5,325 |
| Allowance for expected credit losses from financial assets | 22 | (276) | (2,266) |
| Net interest income after allowance for expected credit losses | | 7,036 | 3,059 |
| Fee and commission income | | 832 | 380 |
| Fee and commission expense | | (175) | (105) |
| Net fee and commission income | 19 | 657 | 275 |
| Net (losses) gains from operations with securities at fair value through profit or loss | | (74) | 1,189 |
| Net gains from operations with securities at fair value through other comprehensive income | 20 | 3,981 | 4,337 |
| Net (losses) gains from operations with derivative financial instruments and foreign currency: | | | |
| - dealing | | (201) | 854 |
| - revaluation of currency items | | (421) | (1,704) |
| Lease income | | 930 | 785 |
| Other banking income | 10 | 252 | 4,267 |
| Administrative and management expenses | 21 | (6,589) | (6,277) |
| Other provisions | 23 | (116) | (35) |
| Other banking expenses | | (51) | (113) |
| Profit for the period | | 5,404 | 6,637 |

Interim statement of profit or loss and other comprehensive income**for the six months ended 30 June 2021 (continued)***(EUR thousand)*

| | <i>Note</i> | <i>For the six months ended 30 June (unaudited)</i> | |
|---|-------------|---|----------------|
| | | <i>2021</i> | <i>2020</i> |
| Other comprehensive income (loss) | | | |
| <i>Items that are or may be subsequently reclassified to profit or loss</i> | | | |
| Unrealized losses from operations with securities at fair value through other comprehensive income | | (2,106) | (1,529) |
| Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss | 20 | (4,270) | (4,354) |
| Change in allowance for expected credit losses | | (96) | 619 |
| Net (losses) gains from cash flow hedges | 11 | (4,214) | 1,755 |
| Total items that are or may be subsequently reclassified to profit or loss | | (10,686) | (3,509) |
| Total other comprehensive loss | | (10,686) | (3,509) |
| Total comprehensive (loss) income for the period | | (5,282) | 3,128 |

Interim statement of changes in equity
for the six months ended 30 June 2021

(EUR thousand)

| | <i>Share capital</i> | <i>Revaluation reserve for securities at fair value through other comprehensive income</i> | <i>Revaluation reserve for property, plant and equipment</i> | <i>Cash flow hedge reserve</i> | <i>Retained earnings</i> | <i>Total equity</i> |
|---|--------------------------|--|--|------------------------------------|------------------------------|-------------------------|
| 1 January 2021 | 200,000 | 5,294 | 21,528 | 621 | 89,667 | 317,110 |
| Net profit for the period | – | – | – | – | 5,404 | 5,404 |
| Other comprehensive loss | | | | | | |
| <i>Items that are or may be subsequently reclassified to profit or loss</i> | | | | | | |
| Unrealized losses from operations with securities at fair value through other comprehensive income | – | (2,106) | – | – | – | (2,106) |
| Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss | – | (4,270) | – | – | – | (4,270) |
| Change in allowance for expected credit losses | – | (96) | – | – | – | (96) |
| Net unrealized gains (losses) from cash flow hedges | – | – | – | 5,464 | – | 5,464 |
| Net gains (losses) from cash flow hedges, reclassified to profit or loss | – | – | – | (9,678) | – | (9,678) |
| Total items that are or may be subsequently reclassified to profit or loss | – | (6,472) | – | (4,214) | – | (10,686) |
| Total other comprehensive loss | – | (6,472) | – | (4,214) | – | (10,686) |
| Total comprehensive loss for the period | – | (6,472) | – | (4,214) | 5,404 | (5,282) |
| 30 June 2021 (unaudited) | 200,000 | (1,178) | 21,528 | (3,593) | 95,071 | 311,828 |

Interim statement of changes in equity
for the six months ended 30 June 2021 (continued)

(EUR thousand)

| | Share capital | Revaluation reserve for securities at fair value through other comprehensive income | Revaluation reserve for property, plant and equipment | Cash flow hedge reserve | Retained earnings | Total equity |
|---|------------------|---|--|----------------------------|----------------------|-----------------|
| 1 January 2020 | 200,000 | 4,315 | 25,107 | 893 | 82,865 | 313,180 |
| Net profit for the period | – | – | – | – | 6,637 | 6,637 |
| Other comprehensive loss | | | | | | |
| <i>Items that are or may be subsequently reclassified to profit or loss</i> | | | | | | |
| Unrealized losses from operations with securities at fair value through other comprehensive income | – | (1,529) | – | – | – | (1,529) |
| Realized gains from operations with securities at fair value through other comprehensive income, reclassified to profit or loss | – | (4,354) | – | – | – | (4,354) |
| Change in allowance for expected credit losses | – | 619 | – | – | – | 619 |
| Net unrealized gains (losses) from cash flow hedges | – | – | – | (4,426) | – | (4,426) |
| Net gains (losses) from cash flow hedges, reclassified to profit or loss | – | – | – | 6,181 | – | 6,181 |
| Total items that are or may be subsequently reclassified to profit or loss | – | (5,264) | – | 1,755 | – | (3,509) |
| Total other comprehensive loss | – | (5,264) | – | 1,755 | – | (3,509) |
| Total comprehensive income for the period | – | (5,264) | – | 1,755 | 6,637 | 3,128 |
| 30 June 2020 (unaudited) | 200,000 | (949) | 25,107 | 2,648 | 89,502 | 316,308 |

Interim statement of cash flows
for the six months ended 30 June 2021
(EUR thousand)

| | <i>Note</i> | <i>For the six months ended 30 June (unaudited)</i> | |
|--|-------------|---|-----------------|
| | | 2021 | 2020 |
| Cash flows from operating activities | | | |
| Profit for the period | | 5,404 | 6,637 |
| <i>Adjustments for:</i> | | | |
| Accrued interest receivable | | (362) | 303 |
| Accrued interest payable | | (3,589) | (1,137) |
| Other accrued income receivable | | (300) | (1,681) |
| Other accrued expenses payable | | 84 | 559 |
| Depreciation and amortization | 21 | 636 | 616 |
| Allowance for expected credit losses from financial assets | 22 | 276 | 2,266 |
| Other provisions | 23 | 116 | 35 |
| Remeasurement of securities at fair value through profit or loss | | 161 | (180) |
| Revaluation of currency items | | 99 | 179 |
| Fair value remeasurement of hedges | | 322 | 1,525 |
| Net gains from operations with securities at fair value through other comprehensive income | 20 | (3,981) | (4,337) |
| Cash (used in) from operating activities before changes in operating assets and liabilities | | (1,134) | 4,785 |
| <i>(Increase) decrease in operating assets</i> | | | |
| Securities at fair value through profit or loss | | (14,456) | (11,486) |
| Loans and deposits to banks | | (8,603) | (29,694) |
| Loans to corporate customers | | (10,540) | (16,316) |
| Other assets | | (111) | (3,655) |
| <i>Increase (decrease) in operating liabilities</i> | | | |
| Due to credit institutions | | (68,451) | (12,564) |
| Due to customers | | (23,292) | (4,152) |
| Other liabilities | | 3,417 | (4,335) |
| Net cash used in operating activities | | (123,170) | (77,417) |
| Cash flows from investing activities | | | |
| Purchases of securities at fair value through other comprehensive income | | (76,537) | (223,447) |
| Sales of securities at fair value through other comprehensive income | | 170,297 | 192,588 |
| Purchases of securities at amortized cost | | (4,971) | (9,491) |
| Proceeds from redemption of securities at amortized cost | | 2,666 | 6,401 |
| Purchases of property, plant and equipment | | (62) | (362) |
| Net cash from (used in) investing activities | | 91,393 | (34,311) |

Interim statement of cash flows**for the six months ended 30 June 2021 (continued)***(EUR thousand)*

| | <i>Note</i> | <i>For the six months ended 30 June (unaudited)</i> | |
|---|-------------|---|----------------|
| | | <i>2021</i> | <i>2020</i> |
| Cash flows from financing activities | | | |
| Proceeds from bonds issued | 16 | 34,768 | 63,564 |
| (Payments) proceeds from long-term financing raised from banks | | (41) | 51,136 |
| Payments for lease liabilities | | (2) | (2) |
| Net cash from financing activities | | 34,725 | 114,698 |
| Net increase in cash and cash equivalents before translation differences | | 2,948 | 2,970 |
| Effect of changes in exchange rates on cash and cash equivalents | | (9) | (950) |
| Net increase in cash and cash equivalents | | 2,939 | 2,020 |
| Cash and cash equivalents at 31 December of the year preceding the reporting period | 5 | 17,589 | 17,286 |
| Cash and cash equivalents at 30 June of the reporting year | 5 | 20,528 | 19,306 |
| Additional information: | | | |
| Interest received | | 9,749 | 9,263 |
| Interest paid | | (6,388) | (4,772) |

(EUR thousand)

1. Principal activities of the Bank

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

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

In December 2020, the Council of the Bank approved the IBEC's Development Strategy for 2021-2025, which defines that the main mission of IBEC is:

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

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

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

The Bank's member countries are eight countries located in Europe and Asia: the Republic of Bulgaria, the Socialist Republic of Vietnam, Mongolia, the Republic of Poland, the Russian Federation, Romania, the Slovak Republic and the Czech Republic.

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

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

The paid portion of the IBEC's share capital of as at 30 June 2021 amounts to EUR 200,000 thousand (31 December 2020: EUR 200,000 thousand). The allocation of shares of IBEC member countries in the Bank's paid-in share capital is provided below:

| | 30 June 2021 (unaudited) | % | 31 December 2020 | % |
|-------------------------------|-------------------------------------|------------|-------------------------|------------|
| Russian Federation | 103,179 | 51.59 | 103,179 | 51.59 |
| Czech Republic | 26,684 | 13.34 | 26,684 | 13.34 |
| Republic of Poland | 24,016 | 12.01 | 24,016 | 12.01 |
| Republic of Bulgaria | 15,121 | 7.56 | 15,121 | 7.56 |
| Romania | 14,232 | 7.12 | 14,232 | 7.12 |
| Slovak Republic | 13,342 | 6.67 | 13,342 | 6.67 |
| Mongolia | 2,668 | 1.33 | 2,668 | 1.33 |
| Socialist Republic of Vietnam | 758 | 0.38 | 758 | 0.38 |
| Total | 200,000 | 100 | 200,000 | 100 |

(EUR thousand)

1. Principal activities of the Bank (continued)

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

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

During the first six months of 2021, several events occurred that were significant to the Bank and its operations:

- ▶ On 9 March, Fitch Ratings rating agency upgraded IBEC's long-term rating from BBB- to BBB with a stable outlook. Short-term rating was also increased from F3 to F2;
- ▶ On 22 April, the ACRA rating committee confirmed IBEC's rating at AAA(RU) on the national scale and A- on the international scale with a stable outlook;
- ▶ Declaration on the adherence of IBEC to the Code of Fair Trade on Financial Markets of Moscow Exchange Group;
- ▶ In June, the Bank successfully placed the first issue of its bonds on the European market in the Republic of Bulgaria. The issue is denominated in Bulgarian levs and amounts to BGN 68 million (EUR 34,768 thousand at the exchange rate effective at the issue date) maturing within 3 years;
- ▶ In June, during the meeting of the IBEC Council, a cooperation agreement between IBEC and Joint Institute for Nuclear Research (Russian Federation) was signed. The agreement aims at establishing and developing cooperation between IBEC and Joint Institute for Nuclear Research in the area of supplier relations of the Institute with respect to export and trade financing;
- ▶ The chairman of the Board of Management of IBEC participated in St. Petersburg International Economic Forum (SPIEF) and presented at a specialized round table "Multilateral development banks in the post-COVID period: old challenges and new opportunities". IBEC's mandate to support export and import transactions and interregional connections, unique settlement function are acquiring a particular significance and allow the Bank to contribute to overcoming the crisis caused by the pandemic;
- ▶ At SPIEF, several strategic arrangements were made: a cooperation agreement with the Group of JSC Russian Export Center and a letter of intent with LLC MetPromStroy (Russian Federation). The cooperation agreement concluded with the Group of JSC Russian Export Center implies expansion of partnership under projects aimed at sustainable development: ecology, energy saving, smart urban infrastructure, new health care technologies.

2. Operating environment of the Bank

Economic growth

COVID-19 pandemic caused a severe recession of the global economy in 2020. According to estimates, global GDP decreased by 3.4%. Almost every country saw a drop in production, though its extent varied from region to region. Economies based on service sector (mainly, tourism) suffered most, as well as countries that were unable to take timely measures to sustain the pandemic.

During the first six months of 2021, the global economic activity increased significantly, though economic growth is uneven. In general, the global economic growth is expected to reach 5.9% in 2021.

According to the current projections for the member countries of IBES, it is expected a V-shape economic recovery for 2021, while in 2022, it is expected that GDP growth rates remain at the level exceeding average growth rate for the previous 5 years (2016-2020).

| <i>Dynamics of real GDP, % change</i> | <i>2020</i> | <i>Average growth rate in 2016-2020</i> | <i>2021*</i> | <i>2022*</i> |
|---------------------------------------|-------------|---|--------------|--------------|
| Republic of Bulgaria | (4.1) | 2.0 | 4.1 | 3.9 |
| Socialist Republic of Vietnam | 2.9 | 6.1 | 6.4 | 6.8 |
| Mongolia | (5.4) | 2.7 | 6.5 | 6.8 |
| Republic of Poland | (2.7) | 3.0 | 4.5 | 5.0 |
| Russian Federation | (3.0) | 0.8 | 3.1 | 2.9 |
| Romania | (3.9) | 3.3 | 6.2 | 4.7 |
| Slovak Republic | (4.8) | 1.3 | 4.5 | 5.2 |
| Czech Republic | (5.6) | 1.7 | 3.6 | 4.3 |

* IBEC's consensus forecast.

(EUR thousand)

2. Operating environment of the Bank (continued)

Global trade

Global trade started to recover earlier and more intensively than other components of the global GDP. Currently, sales of industrial products held back by still ongoing recovery of disrupted global supply chains. Highly detailed data show a growth in several components of the service sector, mainly in telecommunication and financial services. However, tourism and international travel continue to be constrained by persistent mobility restrictions. In general, it is expected that after the 8.4% fall in 2020, the global trade will increase by 8.7% in 2021.

Financial conditions

Financial conditions have tightened somewhat as the economic recovery accelerates but remain generally favorable. The cost of debt financing increased as expectations of stronger future growth and higher inflation boosted long-term yields of government bonds.

The number of corporate bankruptcies increased in some industries and countries but remained below pre-crisis levels due to availability of credit and extension of several government support measures.

It is expected that the central banks of most IBEC member countries (except for Mongolia and the Russian Federation) will continue to adhere to accommodative monetary policy to support economic recovery and intensify investment processes, which will lead to a further decrease in monetary policy rates. In Mongolia and the Russian Federation, as well as in a number of countries where the Bank operates, key rates are expected to increase slightly, including due to accelerating inflation.

3. Basis of preparation of the interim condensed financial statements and significant accounting policies

These interim condensed financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed financial statements do not include all the information and data to be disclosed in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2020.

Certain notes were included to explain events and operations that are significant for the understanding of changes in the Bank's financial position and performance, which have occurred since the date of the last annual financial statements.

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

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

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

Effect of the COVID-19 pandemic

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

In accordance with IFRS 9 *Financial Instruments*, the Bank applies the expected credit loss model to measure potential losses and reviews forecast information in a way that reflects "an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes" and "reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions." The Bank also determines to what extent, inter alia, the high level of uncertainty and any unexpected changes in short-term economic forecasts may result in negative consequences. The Bank reflects changes in economic conditions in applied macroeconomic scenarios and their respective weight coefficients.

(EUR thousand)

3. Basis of preparation of the interim condensed financial statements and significant accounting policies (continued)

Significant accounting estimates and professional judgments

In preparing these interim condensed 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.

To the extent that information was available as at 30 June 2021, the Bank recorded revised estimates of expected future cash flows in its measurement of expected credit losses (Note 22) and fair value measurement of financial instruments (Note 25).

Key significant accounting estimates and judgments used in applying accounting policies are disclosed in the financial statements for the year ended 31 December 2020. Management did not identify any areas where new accounting estimates or judgments could be applied.

Changes in accounting policies

The accounting policies and calculation methods used in the preparation of these interim condensed financial statements are consistent with those used and described in the Bank's annual financial statements for the year ended 31 December 2020 in *Summary of accounting policies*, except for the new standards below that have been applied since 1 January 2021. The nature and effect of these changes are disclosed below. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Bank adopted several amendments that have become effective since 1 January 2021, but they do not have any effect on the interim condensed financial statements of the Bank.

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

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

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

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

The amendments provide for the following:

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

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

(intentionally blank)

(EUR thousand)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|--|---|-------------------------|
| Cash on hand | 1,179 | 1,099 |
| Correspondent accounts with banks in IBEC member countries | 1,704 | 3,452 |
| Correspondent accounts with banks in other countries | 17,645 | 13,038 |
| Total cash and cash equivalents | 20,528 | 17,589 |
| Allowance for expected credit losses | – | – |
| Cash and cash equivalents less allowance for expected credit losses | 20,528 | 17,589 |

As at 30 June 2021, balances due to three major counterparties amounted to EUR 18,688 thousand and accounted for 96.59% of total cash and cash equivalents (31 December 2020: EUR 14,817 thousand, or 84.24% of total cash and cash equivalents).

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

| Cash and cash equivalents (other than cash on hand) | 30 June 2021 (unaudited) | 31 December 2020 |
|--|---|-------------------------|
| Due from central banks | 11,433 | 9,276 |
| Correspondent accounts with banks | | |
| Internationally rated | | |
| from AAA to A- | 7,062 | 6,414 |
| from BBB+ to BB- | 807 | 781 |
| from B+ to B- | 5 | 5 |
| Internally rated only | | |
| from BBB+ to BB- | 32 | 14 |
| from CCC+ to C | 10 | – |
| Total | 19,349 | 16,490 |
| Allowance for expected credit losses | – | – |
| Carrying amount | 19,349 | 16,490 |

As at 30 June 2021 and 31 December 2020, all balances of cash and cash equivalents are allocated to Stage 1.

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

6. Securities at fair value through profit or loss

Securities at fair value through profit or loss comprise:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|--|---|-------------------------|
| Held by the Bank | | |
| Eurobonds of IBEC member countries | 4,870 | – |
| from BBB+ to BB- | 4,870 | – |
| Corporate Eurobonds | 4,812 | – |
| from BBB+ to BB- | 4,812 | – |
| Corporate bonds | 3,791 | 1,119 |
| from BBB+ to BB- | 3,791 | 1,119 |
| | 13,473 | 1,119 |
| Pledged under repurchase agreements | | |
| Corporate Eurobonds | 2,220 | – |
| from BBB+ to BB- | 2,220 | – |
| | 2,220 | – |
| Securities at fair value through profit or loss | 15,693 | 1,119 |

(EUR thousand)

6. Securities at fair value through profit or loss (continued)

Securities at fair value through profit or loss comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 2,220 thousand as at 30 June 2021 (31 December 2020: there were no securities pledged under repurchase agreements). According to the repurchase agreements, the counterparty shall return transferred securities when the agreement expires (Note 14).

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

7. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|--|---|-------------------------|
| Held by the Bank | | |
| <i>Internationally rated</i> | | |
| Eurobonds of IBEC member countries | 42,704 | 51,882 |
| from AAA to A- | 1,780 | 13,373 |
| from BBB+ to BB- | 38,233 | 35,899 |
| from B+ to B- | 2,691 | 2,610 |
| Corporate Eurobonds | 41,898 | 68,876 |
| from AAA to A- | – | 11,256 |
| from BBB+ to BB- | 18,969 | 35,186 |
| from B+ to B- | 22,929 | 22,434 |
| Eurobonds of international financial institutions | 25,446 | 26,681 |
| from AAA to A- | 23,443 | 26,681 |
| from BBB+ to BB- | 2,003 | – |
| Corporate bonds | 17,515 | 19,649 |
| from BBB+ to BB- | 17,515 | 19,649 |
| Eurobonds of funds | 11,176 | 14,350 |
| from AAA to A- | 11,176 | 14,350 |
| Eurobonds of banks | 5,177 | 2,088 |
| from BBB+ to BB- | 5,177 | 2,088 |
| Bonds of banks | 7,911 | 327 |
| from AAA to A- | 1,512 | – |
| from BBB+ to BB- | 6,399 | 327 |
| Bonds of IBEC member countries | 2,055 | 7,151 |
| from AAA to A- | 2,055 | 7,151 |
| Bonds of other countries | – | 838 |
| from B+ to B- | – | 838 |
| <i>Internally rated only</i> | | |
| Corporate bonds | 2,602 | 2,602 |
| from B+ to B- | 2,602 | 2,602 |
| | 156,484 | 194,444 |
| Pledged under repurchase agreements | | |
| <i>Internationally rated</i> | | |
| Corporate Eurobonds | 16,365 | 36,805 |
| from BBB+ to BB- | 16,365 | 36,805 |
| Eurobonds of IBEC member countries | 13,985 | 47,692 |
| from AAA to A- | 8,287 | 4,767 |
| from BBB+ to BB- | 5,698 | 42,925 |
| Eurobonds of banks | 3,062 | – |
| from BBB+ to BB- | 3,062 | – |
| Bonds of banks | 1,391 | – |
| from BBB+ to BB- | 1,391 | – |
| Eurobonds of international financial institutions | 303 | 1,267 |
| from AAA to A- | 303 | 1,267 |
| Eurobonds of other countries | – | 4,961 |
| from BBB+ to BB- | – | 4,961 |
| Bonds of IBEC member countries | – | 1,137 |
| from AAA to A- | – | 1,137 |
| | 35,106 | 91,862 |
| Securities at fair value through other comprehensive income | 191,590 | 286,306 |

(EUR thousand)

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

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

| Securities at fair value through other comprehensive income | Stage 1 | Stage 2 | Total |
|---|----------------|----------------|------------------|
| Gross carrying amount at 1 January 2021 | 280,196 | 6,110 | 286,306 |
| New originated or purchased assets | 78,465 | 231 | 78,696 |
| Change in fair value | (2,627) | 859 | (1,768) |
| Assets derecognized or redeemed (excluding write-offs) | (173,027) | – | (173,027) |
| Changes in currency exchange rates | 1,383 | – | 1,383 |
| Gross carrying amount at 30 June 2021 (unaudited) | 184,390 | 7,200 | 191,590 |
| Allowance for expected credit losses at 1 January 2021 | 738 | 562 | 1,300 |
| New originated or purchased assets | 76 | – | 76 |
| Assets derecognized or redeemed (excluding write-offs) | (263) | – | (263) |
| Changes to inputs used for ECL calculations | 87 | 2 | 89 |
| Changes in currency exchange rates | 2 | – | 2 |
| Allowance for expected credit losses at 30 June 2021 (unaudited) | 640 | 564 | 1,204 |
| Gross carrying amount at 1 January 2020 | 203,303 | – | 203,303 |
| New originated or purchased assets | 225,414 | – | 225,414 |
| Transfer to Stage 2 | (6,029) | 6,029 | – |
| Assets derecognized or redeemed (excluding write-offs) | (194,059) | – | (194,059) |
| Changes in currency exchange rates | (2,064) | – | (2,064) |
| Gross carrying amount at 30 June 2020 (unaudited) | 226,565 | 6,029 | 232,594 |
| Allowance for expected credit losses at 1 January 2020 | 794 | – | 794 |
| New originated or purchased assets | 283 | – | 283 |
| Transfer to Stage 2 | (584) | 584 | – |
| Assets derecognized or redeemed (excluding write-offs) | (346) | – | (346) |
| Changes to models and inputs used for ECL calculations | 685 | – | 685 |
| Changes in currency exchange rates | (3) | – | (3) |
| Allowance for expected credit losses at 30 June 2020 (unaudited) | 829 | 584 | 1,413 |

Securities at fair value through other comprehensive income comprise securities pledged as collateral under repurchase agreements with a fair value of EUR 35,106 thousand as at 30 June 2021 (31 December 2020: EUR 91,862 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

Eurobonds of IBEC member countries are issued in euros and US dollars for circulation on markets external to the issuing country and for trade in over-the-counter markets. Eurobonds mature from December 2022 to September 2050 (31 December 2020: from December 2022 to September 2050), and coupon rates range from 0% to 5.125% p.a. (31 December 2020: from 0% to 5.125% p.a.).

Corporate Eurobonds are debt securities denominated in euros, US dollars and Russian rubles issued by financial and industrial entities in IBEC member countries and other countries for circulation on markets external to the issuer and for trade on exchange markets. Corporate Eurobonds mature from December 2022 to June 2031 (31 December 2020: from December 2022 to October 2028), and coupon rates range from 1% to 6.75% p.a. (31 December 2020: 0.875% to 6.75% p.a.).

Eurobonds of international financial institutions are denominated in euros and US dollars and are traded on exchange markets external to the issuing country. Eurobonds mature from January 2022 to March 2026 (31 December 2020: from January 2022 to July 2035), and coupon rates range from 0% to 1% p.a. (31 December 2020: from 0% to 0.5% p.a.).

Corporate bonds denominated in Russian rubles and euros were issued by financial institutions in IBEC member countries for circulation on internal markets of the issuing countries and trade on exchange markets. Corporate bonds mature from December 2024 to November 2033 (31 December 2020: from December 2024 to November 2033), and coupon rates range from 1.75% to 8.35% p.a. (31 December 2020: from 1.75% to 6.95% p.a.).

(EUR thousand)

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

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

Eurobonds of banks comprise debt securities denominated in euros and US dollars and intended for circulation on markets external to the issuer. Eurobonds of banks mature from January 2025 to June 2026 (31 December 2020: June 2025), and the coupon rates range from 0.375% to 3.4% p.a. (31 December 2020: 1.375% p.a.).

Bonds of banks are debt securities denominated in Russian rubles and euros for circulation on internal markets of the issuing countries. Bonds of banks mature from December 2021 to April 2028 (31 December 2020: December 2021), and the coupon rates range from 0.01% to 5.75% p.a. (31 December 2020: 5.75% p.a.).

Bonds of IBEC member countries were issued in euros for circulation on internal and exchange markets of the issuing countries and for trade on over-the-counter markets, mature in May 2025 (31 December 2020: May 2025) and the coupon rate is 0.25% p.a. (31 December 2020: 0.25% p.a.).

As at 31 December 2020, bonds of other countries were issued in Russian rubles for circulation on internal and exchange markets of the issuing countries and for trade on over-the-counter markets, mature in May 2025 and the coupon rate is 8.5% p.a. As at 30 June 2021, the Bank has no bonds of other countries.

As at 31 December 2020, Eurobonds of other countries are issued in euros, traded on exchange markets external to the issuing country, mature in November 2030 and the coupon rate is 0.5% p.a. As at 30 June 2021, the Bank has no Eurobonds of other countries.

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:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|--|---|-------------------------|
| Held by the Bank | | |
| <i>Internationally rated</i> | | |
| Corporate Eurobonds | 17,766 | 10,661 |
| from BBB+ to BB- | 17,766 | – |
| from B+ to B- | – | 10,661 |
| Eurobonds of banks | 16,561 | 4,214 |
| from BBB+ to BB- | 12,223 | – |
| from B+ to B- | 4,338 | 4,214 |
| Corporate bonds | 702 | 668 |
| from BBB+ to BB- | 702 | 668 |
| <i>Internally rated only</i> | | |
| Corporate bonds | 3,002 | 3,003 |
| from B+ to B- | 3,002 | 3,003 |
| | 38,031 | 18,546 |
| Pledged under repurchase agreements | | |
| <i>Internationally rated</i> | | |
| Corporate Eurobonds | 24,183 | 29,041 |
| from BBB+ to BB- | 13,387 | 29,041 |
| from B+ to B- | 10,796 | – |
| Eurobonds of IBEC member countries | 5,125 | 5,148 |
| from BBB+ to BB- | 5,125 | 5,148 |
| Eurobonds of banks | – | 12,483 |
| from BBB+ to BB- | – | 12,483 |
| | 29,308 | 46,672 |
| Total securities at amortized cost | 67,339 | 65,218 |
| Allowance for expected credit losses | (609) | (622) |
| Securities at amortized cost | 66,730 | 64,596 |

(EUR thousand)

8. Securities at amortized cost (continued)

Securities at amortized cost comprise securities pledged as collateral under repurchase agreements with an amortized cost of EUR 29,062 thousand as at 30 June 2021 (31 December 2020: EUR 46,460 thousand). According to the contract, the counterparty shall return securities transferred under repurchase agreements when the contract expires (Note 14).

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

Eurobonds of banks comprise debt securities issued in euros and US dollars for circulation on markets external to the issuer, mature from February 2023 to October 2023 (31 December 2020: from February 2023 to October 2023) and coupon rates range from 4.032% to 7.25% p.a. (31 December 2020: from 4.032% to 7.25% p.a.).

Eurobonds of IBEC member countries are issued in euros for circulation on markets external to issuing country and for trade on over-the-counter markets. Eurobonds mature from December 2026 to April 2027 (31 December 2020: from December 2026 to April 2027), and coupon rates range from 2% to 2.375% p.a. (31 December 2020: 2% to 2.375% p.a.).

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

| Securities at amortized cost | Stage 1 | Total |
|---|----------------|---------------|
| Gross carrying amount at 1 January 2021 | 65,218 | 65,218 |
| New originated or purchased assets | 6,212 | 6,212 |
| Assets derecognized or redeemed (excluding write-offs) | (4,401) | (4,401) |
| Changes in currency exchange rates | 310 | 310 |
| Gross carrying amount at 30 June 2021 (unaudited) | 67,339 | 67,339 |
| Allowance for expected credit losses at 1 January 2021 | 622 | 622 |
| New originated or purchased assets | 9 | 9 |
| Assets derecognized or redeemed (excluding write-offs) | (3) | (3) |
| Changes to inputs used for ECL calculations | (26) | (26) |
| Changes in currency exchange rates | 7 | 7 |
| Allowance for expected credit losses at 30 June 2021 (unaudited) | 609 | 609 |
| Gross carrying amount at 1 January 2020 | 62,999 | 62,999 |
| New originated or purchased assets | 10,648 | 10,648 |
| Assets derecognized or redeemed (excluding write-offs) | (8,128) | (8,128) |
| Changes in currency exchange rates | (418) | (418) |
| Gross carrying amount at 30 June 2020 (unaudited) | 65,101 | 65,101 |
| Allowance for expected credit losses at 1 January 2020 | 467 | 467 |
| New originated or purchased assets | 42 | 42 |
| Assets derecognized or redeemed (excluding write-offs) | (44) | (44) |
| Changes to models and inputs used for ECL calculations | 125 | 125 |
| Changes in currency exchange rates | (3) | (3) |
| Allowance for expected credit losses at 30 June 2020 (unaudited) | 587 | 587 |

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.

| | 30 June 2021 (unaudited) | 31 December 2020 |
|---|-------------------------------------|-------------------------|
| Credit investment portfolio of securities | 37,132 | 32,230 |
| Securities purchased on capital markets | 29,598 | 32,366 |
| Securities at amortized cost | 66,730 | 64,596 |

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

(EUR thousand)

9. Loans and deposits to banks

Loans and deposits to banks comprise:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|---|-----------------------------|------------------|
| Loans issued to banks under trade financing | 80,636 | 74,782 |
| Syndicated loans | 58,949 | 38,792 |
| Term deposits with banks in IBEC member countries | 38,003 | 52,497 |
| Total loans and deposits to banks | 177,588 | 166,071 |
| Allowance for expected credit losses | (703) | (795) |
| Loans and deposits to banks | 176,885 | 165,276 |

As at 30 June 2021, balances due to three major counterparties amounted to EUR 58,334 thousand, or 32.98% of total loans and deposits to banks (31 December 2020: EUR 61,991 thousand, or 37.51% 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):

| <i>Loans and deposits to banks</i> | 30 June 2021 (unaudited) | 31 December 2020 |
|--------------------------------------|-----------------------------|------------------|
| Internationally rated | | |
| from BBB+ to BB- | 59,699 | 43,404 |
| from B+ to B- | 117,889 | 121,922 |
| Internally rated only | | |
| from B+ to B- | – | 745 |
| Total | 177,588 | 166,071 |
| Allowance for expected credit losses | (703) | (795) |
| Carrying amount | 176,885 | 165,276 |

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

| <i>Loans and deposits to banks</i> | Stage 1 | Stage 2 | Total |
|---|----------------|--------------|----------------|
| Gross carrying amount at 1 January 2021 | 163,631 | 2,440 | 166,071 |
| New originated or purchased assets | 109,441 | 63 | 109,504 |
| Assets derecognized or redeemed (excluding write-offs) | (100,542) | (64) | (100,606) |
| Changes in currency exchange rates | 2,538 | 81 | 2,619 |
| Gross carrying amount at 30 June 2021 (unaudited) | 175,068 | 2,520 | 177,588 |
| Allowance for expected credit losses at 1 January 2021 | 772 | 23 | 795 |
| New originated or purchased assets | 397 | – | 397 |
| Assets derecognized or redeemed (excluding write-offs) | (265) | (6) | (271) |
| Changes to inputs used for ECL calculations | (226) | (13) | (239) |
| Changes in currency exchange rates | 20 | 1 | 21 |
| Allowance for expected credit losses at 30 June 2021 (unaudited) | 698 | 5 | 703 |

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(EUR thousand)

9. Loans and deposits to banks (continued)

| <i>Loans and deposits to banks</i> | <i>Stage 1</i> | <i>Stage 2</i> | <i>Total</i> |
|---|----------------|----------------|------------------|
| Gross carrying amount at 1 January 2020 | 111,832 | – | 111,832 |
| New originated or purchased assets | 145,776 | – | 145,776 |
| Transfer to Stage 2 | (10,029) | 10,029 | – |
| Assets derecognized or redeemed (excluding write-offs) | (115,795) | – | (115,795) |
| Changes in currency exchange rates | (649) | – | (649) |
| Gross carrying amount at 30 June 2020 (unaudited) | 131,135 | 10,029 | 141,164 |
| Allowance for expected credit losses at 1 January 2020 | 889 | – | 889 |
| New originated or purchased assets | 1,090 | – | 1,090 |
| Transfer to Stage 2 | (86) | 86 | – |
| Assets derecognized or redeemed (excluding write-offs) | (213) | – | (213) |
| Changes to models and inputs used for ECL calculations | (754) | – | (754) |
| Changes in currency exchange rates | (8) | – | (8) |
| Allowance for expected credit losses at 30 June 2020 (unaudited) | 918 | 86 | 1,004 |

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

10. Loans to corporate customers

Loans to corporate customers comprise:

| | <i>30 June 2021 (unaudited)</i> | <i>31 December 2020</i> |
|--|-------------------------------------|-------------------------|
| Loans issued to legal entities from IBEC member countries | 100,412 | 102,330 |
| Syndicated loans issued to legal entities from other countries | 48,742 | 45,028 |
| Loans for foreign trade purposes issued to legal entities from IBEC member countries | 40,298 | 40,323 |
| Syndicated loans issued to legal entities from IBEC member countries | 24,928 | 13,794 |
| Total loans to corporate customers | 214,380 | 201,475 |
| Allowance for expected credit losses | (3,121) | (2,432) |
| Loans to corporate customers less allowance for expected credit losses | 211,259 | 199,043 |

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

| | <i>30 June 2021 (unaudited)</i> | | <i>31 December 2020</i> | |
|---|-------------------------------------|------------|-------------------------|------------|
| | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Transport | 58,463 | 27.68 | 59,558 | 29.92 |
| Gas industry | 54,246 | 25.68 | 39,972 | 20.08 |
| Food industry | 41,028 | 19.42 | 37,776 | 18.98 |
| Investment activities (leases) | 26,771 | 12.67 | 28,282 | 14.21 |
| Finance | 14,884 | 7.05 | 14,983 | 7.53 |
| Aluminum industry | 5,839 | 2.76 | 6,324 | 3.18 |
| Investing activities | 4,974 | 2.35 | 4,998 | 2.51 |
| Retail trade | 4,694 | 2.22 | 4,722 | 2.37 |
| Machine building | 360 | 0.17 | – | – |
| Telecommunications | – | – | 2,428 | 1.22 |
| Total loans to corporate customers | 211,259 | 100 | 199,043 | 100 |

As at 30 June 2021, balances with three major counterparties of the Bank amounted to EUR 118,577 thousand, or 56.13% of the Bank's total loan portfolio less allowance for expected credit losses (31 December 2020: EUR 115,309 thousand, or 57.93% of the Bank's total loan portfolio less allowance for expected credit losses).

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(EUR thousand)

10. Loans to corporate customers (continued)

Loans are issued to customers operating in the following countries:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|----------------------|-------------------------------------|-------------------------|
| Republic of Bulgaria | 74,104 | 59,953 |
| Mongolia | 39,626 | 39,649 |
| Russian Federation | 26,462 | 27,942 |
| Republic of Poland | 13,268 | 14,212 |
| Romania | 10,533 | 13,474 |
| Czech Republic | 360 | – |
| Other countries | 46,906 | 43,813 |
| Total | 211,259 | 199,043 |

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 | 30 June 2021 (unaudited) | 31 December 2020 |
|--------------------------------------|-------------------------------------|-------------------------|
| Internationally rated | | |
| from BBB+ to BB- | 61,966 | 62,503 |
| from B+ to B- | 15,134 | – |
| Internally rated only | | |
| from BBB+ to BB- | 85,615 | 83,560 |
| from B+ to B- | 45,305 | 55,412 |
| from CCC+ to C | 6,360 | – |
| Total | 214,380 | 201,475 |
| Allowance for expected credit losses | (3,121) | (2,432) |
| Carrying amount | 211,259 | 199,043 |

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

| Loans to corporate customers | Stage 1 | Stage 2 | Stage 3 | Total |
|---|----------------|----------------|----------------|----------------|
| Gross carrying amount at 1 January 2021 | 182,873 | 11,362 | 7,240 | 201,475 |
| New originated or purchased assets | 69,882 | 251 | 222 | 70,355 |
| Transfer from Stage 2 to Stage 1 | 5,998 | (5,998) | – | – |
| Assets derecognized or redeemed (excluding write-offs) | (58,389) | (1,023) | – | (59,412) |
| Changes in currency exchange rates | 1,566 | 154 | 242 | 1,962 |
| Gross carrying amount at 30 June 2021 (unaudited) | 201,930 | 4,746 | 7,704 | 214,380 |
| Allowance for expected credit losses at 1 January 2021 | 914 | 315 | 1,203 | 2,432 |
| New originated or purchased assets | 481 | – | – | 481 |
| Assets derecognized or redeemed (excluding write-offs) | (35) | (281) | – | (316) |
| Transfer from Stage 2 to Stage 1 | 160 | (160) | – | – |
| Changes to inputs used for ECL calculations | (278) | 175 | 573 | 470 |
| Changes in currency exchange rates | 2 | 2 | 50 | 54 |
| Allowance for expected credit losses at 30 June 2021 (unaudited) | 1,244 | 51 | 1,826 | 3,121 |

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(EUR thousand)

10. Loans to corporate customers (continued)

| <i>Loans to corporate customers</i> | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>Total</i> |
|---|----------------|----------------|----------------|----------------|
| Gross carrying amount at 1 January 2020 | 179,611 | 7,834 | – | 187,445 |
| New originated or purchased assets | 55,035 | 260 | – | 55,295 |
| Assets derecognized or redeemed (excluding write-offs) | (38,833) | (408) | – | (39,241) |
| Changes in currency exchange rates | (1,319) | (58) | – | (1,377) |
| Gross carrying amount at 30 June 2020 (unaudited) | 194,494 | 7,628 | – | 202,122 |
| Allowance for expected credit losses at 1 January 2020 | 260 | 117 | – | 377 |
| New originated or purchased assets | 662 | – | – | 662 |
| Assets derecognized or redeemed (excluding write-offs) | (67) | – | – | (67) |
| Changes to models and inputs used for ECL calculations | 547 | 148 | – | 695 |
| Changes in currency exchange rates | – | (1) | – | (1) |
| Allowance for expected credit losses at 30 June 2020 (unaudited) | 1,402 | 264 | – | 1,666 |

During the six months ended 30 June 2020, the Bank sold to an unrelated party the loan debt previously recognized by the IBEC Council as uncollectable. The Bank wrote off the outstanding amount of EUR 15,749 thousand (including overdue interest of EUR 1,565 thousand and penalty of EUR 3,164 thousand) against the allowance. Selling price comprised EUR 3,500 thousand. This amount is included in the interim statement of profit or loss and other comprehensive income in other banking income. During the six months ended 30 June 2021, there were no sales.

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:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|---|-------------------------------------|-------------------------|
| Loans secured by pledge of (movable) property | 61,106 | 60,437 |
| Loans guaranteed by other parties, including credit insurance | 52,945 | 39,626 |
| Loans secured by real estate | 16,102 | 16,742 |
| Loans secured by deposits | 8,366 | 8,098 |
| Unsecured loans | 72,740 | 74,140 |
| Total loans to corporate customers | 211,259 | 199,043 |

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

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 interim condensed financial statements as assets or liabilities.

| | Notional principal | Fair value | |
|--|-------------------------------|-------------------|------------------|
| | | Asset | Liability |
| 30 June 2021 (unaudited) | | | |
| Foreign exchange contracts | | | |
| Derivative financial instruments (contracts with residents of IBEC member countries) | 58,042 | 16 | 1,134 |
| Interest rate contracts | | | |
| Derivative financial instruments (contracts with residents of IBEC member countries) | 10,000 | – | 48 |
| Interest rate contracts used as hedging instruments | | | |
| Derivative financial instruments (contracts with residents of IBEC member countries) | 14,000 | – | 198 |
| Cross-currency interest rate contracts used as hedging instruments | | | |
| Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments | 111,943 | – | 17,570 |
| Derivative financial instruments (contracts with residents of other countries) used as hedging instruments | 38,497 | – | 5,884 |
| Total derivative assets/liabilities | | 16 | 24,834 |
| 31 December 2020 | | | |
| Foreign exchange contracts | | | |
| Derivative financial instruments (contracts with residents of IBEC member countries) | 44,173 | 341 | 605 |
| Derivative financial instruments (contracts with residents of other countries) | 3,291 | 34 | – |
| Cross-currency interest rate contracts used as hedging instruments | | | |
| Derivative financial instruments (contracts with residents of IBEC member countries) used as hedging instruments | 111,948 | – | 19,195 |
| Derivative financial instruments (contracts with residents of other countries) used as hedging instruments | 38,498 | – | 6,220 |
| Total derivative assets/liabilities | | 375 | 26,020 |

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(EUR thousand)

11. Derivative financial instruments (continued)

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

| | 30 June 2021 (unaudited) | | 31 December 2020 | |
|--|---|---|---|---|
| | Contracts with positive fair value | Contracts with negative fair value | Contracts with positive fair value | Contracts with negative fair value |
| Foreign exchange swaps: fair value at the end of the reporting period | | | | |
| - USD payable on settlement (-) | – | 18,014 | – | 12,150 |
| - EUR receivable on settlement (+) | 13,274 | 43,557 | 28,656 | 18,500 |
| - payable in other currencies on settlement (-) | 13,258 | 26,677 | 28,281 | 6,955 |
| Interest rate swaps: fair value at the end of the reporting period | | | | |
| - EUR payable on settlement (-) | – | 10,048 | – | – |
| - EUR receivable on settlement (+) | – | 10,000 | – | – |
| Interest rate swaps used as hedging instruments: fair value at the end of the reporting period | | | | |
| - EUR payable on settlement (-) | – | 14,198 | – | – |
| - EUR receivable on settlement (+) | – | 14,000 | – | – |
| Cross-currency interest rate swaps used as hedging instruments: fair value at the end of the reporting period | | | | |
| - EUR payable on settlement (-) | – | 155,694 | – | 157,285 |
| - RUB receivable on settlement (+) | – | 132,240 | – | 131,870 |
| Net fair value of interest rate, foreign exchange and cross-currency interest rate swaps | 16 | (24,834) | 375 | (26,020) |

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

Cash flow hedges

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

The Bank's cash 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 derivative against the principal of the hedged item.

As at 30 June 2021 and 31 December 2020, the Bank designated the following financial liabilities as hedged items in cash flow hedge relationships:

| Cash flow hedges | Cash flow hedge reserve | |
|--|--------------------------------|----------------------------|
| | Continuing hedges | Discontinued hedges |
| 30 June 2021 (unaudited) | | |
| RUB-denominated bonds with a fixed interest rate | (3,593) | – |
| 31 December 2020 | | |
| RUB-denominated bonds with a fixed interest rate | 621 | – |

(EUR thousand)

11. Derivative financial instruments (continued)

Cash flow hedges (continued)

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

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

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

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(EUR thousand)

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

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

| | | | | | <i>Changes in the fair values of hedging instruments used for measuring hedge ineffectiveness</i> | | | | | |
|------------------------------------|------------------------|---------------|--------------------|-----------------|---|----------|--|---|---|--|
| | | | | | <i>Carrying amount</i> | | <i>Effective portion</i> | | <i>Hedge ineffectiveness</i> | <i>Reclassified to profit or loss in</i> |
| | | | | | | | <i>Recognized in other comprehensive income (cash flow hedge reserve net of basis currency spread)</i> | <i>Recognized in other comprehensive income (basis currency spread)</i> | <i>Recognized in the interim statement of profit or loss within net (losses) gains from operations with derivative financial instruments and foreign currency</i> | <i>Net (losses) gains from operations with derivative financial instruments and foreign currency (revaluation of currency items)</i> |
| <i>Cash flow hedges</i> | <i>Notional amount</i> | <i>Assets</i> | <i>Liabilities</i> | <i>Total</i> | | | | | <i>Interest income (expense) calculated using the EIR method</i> | <i>Net (losses) gains from operations with derivative financial instruments and foreign currency</i> |
| 30 June 2021 (unaudited) | | | | | | | | | | |
| Cross-currency interest rate swaps | 150,440 | – | 23,454 | 5,514 | | 5,968 | (504) | 50 | 3,495 | 6,528 |
| 31 December 2020 | | | | | | | | | | |
| Cross-currency interest rate swaps | 150,446 | – | 25,415 | (22,300) | | (21,650) | (750) | 100 | 6,114 | (27,674) |

The cumulative amount of the change in fair value of the hedged item since the beginning of the hedging relationship amounted to EUR (11,145) thousand as at 30 June 2021 (31 December 2020: EUR (17,114) thousand). The cumulative amount of the change in the fair value of the hedging instrument, excluding basis currency spread, from the moment the hedge began, amounted to EUR (20,128) thousand as at 30 June 2021 (31 December 2020: EUR (22,543) thousand). During the six months ended 30 June 2021 and 30 June 2020, the effective portion of hedging relationships recognized in other comprehensive income (cash flow hedge reserve, excluding basis currency spread) was adjusted to the smallest of the two amounts.

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(EUR thousand)

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

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

| <i>Cash flow hedges</i> | <i>12 months to 5 years</i> | <i>Total</i> |
|------------------------------------|---------------------------------|----------------|
| 30 June 2021 (unaudited) | | |
| Cross-currency interest rate swaps | | |
| Notional amount | 150,440 | 150,440 |
| Average fixed interest rate, EUR | 1.24% | 1.24% |
| Average fixed interest rate, RUB | 7.14% | 7.14% |
| Average EUR/RUB exchange rate | 0.012 | 0.012 |
| 31 December 2020 | | |
| Cross-currency interest rate swaps | | |
| Notional amount | 150,446 | 150,446 |
| Average fixed interest rate, EUR | 1.24% | 1.24% |
| Average fixed interest rate, RUB | 7.14% | 7.14% |
| Average EUR/RUB exchange rate | 0.0123 | 0.0123 |

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

| <i>Cash flow hedges</i> | <i>Cash flow hedge reserve net of basis currency spread</i> | <i>Basis currency spread</i> |
|---|---|--------------------------------------|
| Balance at 1 January 2021 | 1,068 | (447) |
| Effective portion of changes in the fair value of cross-currency interest rate swaps | 5,968 | (504) |
| Net amounts reclassified to profit or loss: | | |
| - interest expense | (3,495) | - |
| - net gains (losses) from operations with derivative financial instruments and foreign currency | (6,528) | 345 |
| Balance at 30 June 2021 (unaudited) | (2,987) | (606) |
| Balance at 1 January 2020 | 1,158 | (265) |
| Effective portion of changes in the fair value of cross-currency interest rate swaps | (3,345) | (1,081) |
| Net amounts reclassified to profit or loss: | | |
| - interest expense | (2,591) | - |
| - net gains (losses) from operations with derivative financial instruments and foreign currency | 8,548 | 224 |
| Balance at 30 June 2020 (unaudited) | 3,770 | (1,122) |

Fair value hedges

As at 31 June 2021, for the purposes of managing changes in fair value of securities recognized in the interim statement of financial position within securities at fair value through other comprehensive income, an interconnection was established qualifying for fair value hedges. The result of EUR 43 thousand was recognized in the interim statement of profit or loss and other comprehensive income within net (losses) gains from operations with derivative financial instruments and foreign currency. During the six months ended 30 June 2020 there were no operations fair value hedges.

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(EUR thousand)

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

Movements in property, plant and equipment for the six months ended 30 June 2021 were as follows:

| 30 June 2021 (unaudited) | Note | Building | Office equipment and computer hardware | Furniture | Transport | Intangible assets and investments in intangible assets | Right-of-use assets | Total |
|---|-------------|-----------------|---|------------------|------------------|---|--------------------------------|---------------|
| Cost | | | | | | | | |
| Balance at 1 January 2021 | | 73,209 | 1,561 | 518 | 568 | 1,873 | 26 | 77,755 |
| Additions | | 27 | 9 | – | – | 26 | – | 62 |
| Disposals | | – | (1) | – | – | – | – | (1) |
| Balance at 30 June 2021 (unaudited) | | 73,236 | 1,569 | 518 | 568 | 1,899 | 26 | 77,816 |
| Accumulated depreciation | | | | | | | | |
| Balance at 1 January 2021 | | 23,131 | 925 | 326 | 375 | 2 | 7 | 24,766 |
| Depreciation charges for the reporting period | 21 | 486 | 93 | 8 | 39 | 7 | 3 | 636 |
| Disposals | | – | (1) | – | – | – | – | (1) |
| Balance at 30 June 2021 (unaudited) | | 23,617 | 1,017 | 334 | 414 | 9 | 10 | 25,401 |
| Net book value | | | | | | | | |
| Net book value at 1 January 2021 | | 50,078 | 636 | 192 | 193 | 1,871 | 19 | 52,989 |
| Net book value at 30 June 2021 (unaudited) | | 49,619 | 552 | 184 | 154 | 1,890 | 16 | 52,415 |

Movements in property, plant and equipment for the six months ended 30 June 2020 were as follows:

| 30 June 2020 (unaudited) | Note | Building | Office equipment and computer hardware | Furniture | Transport | Intangible assets and investments in intangible assets | Right-of-use assets | Total |
|---|-------------|-----------------|---|------------------|------------------|---|--------------------------------|---------------|
| Cost | | | | | | | | |
| Balance at 1 January 2020 | | 78,386 | 1,632 | 557 | 568 | 1,605 | 25 | 82,773 |
| Additions | | 38 | 122 | – | – | 188 | – | 348 |
| Disposals | | – | – | (1) | – | – | – | (1) |
| Balance at 30 June 2020 (unaudited) | | 78,424 | 1,754 | 556 | 568 | 1,793 | 25 | 83,120 |
| Accumulated depreciation | | | | | | | | |
| Balance at 1 January 2020 | | 23,750 | 1,371 | 340 | 296 | 1 | 2 | 25,760 |
| Depreciation charges for the reporting period | 21 | 515 | 52 | 6 | 39 | 1 | 3 | 616 |
| Disposals | | – | – | (1) | – | – | – | (1) |
| Balance at 30 June 2020 (unaudited) | | 24,265 | 1,423 | 345 | 335 | 2 | 5 | 26,375 |
| Net book value | | | | | | | | |
| Net book value at 1 January 2020 | | 54,636 | 261 | 217 | 272 | 1,604 | 23 | 57,013 |
| Net book value at 30 June 2020 (unaudited) | | 54,159 | 331 | 211 | 233 | 1,791 | 20 | 56,745 |

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(EUR thousand)

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

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

| | 30 June 2021 (unaudited) | 31 December 2020 |
|--------------------------|---|-------------------------|
| Cost | 48,317 | 48,290 |
| Accumulated depreciation | (15,572) | (15,238) |
| Net book value | 32,745 | 33,052 |

Revaluation of assets

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

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

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

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

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

The Bank expects to receive the following operating lease payments after 30 June 2021: within 30 days: EUR 141 thousand; 31 days to 180 days: EUR 573 thousand; 181 days to one year: EUR 114 thousand; one year to three years: EUR 42 thousand.

13. Other assets and liabilities

Other assets comprise:

| | Note | 30 June 2021 (unaudited) | 31 December 2020 |
|---|-------------|---|-------------------------|
| Financial assets | | | |
| Margin call | | 25,884 | 26,750 |
| Accounts receivable under financial and business operations | | 745 | 478 |
| Bank fees receivable from customers | | 320 | 139 |
| Consumer lending | | 253 | 313 |
| Allowance for expected credit losses from financial assets | 22 | (4) | (3) |
| Total financial assets less allowance for expected credit losses | | 27,198 | 27,677 |
| Non-financial assets | | | |
| Property transferred to the Bank in repayment of the loan | | 103 | 103 |
| Inventories | | 73 | 56 |
| Total non-financial assets | | 176 | 159 |
| Total other assets | | 27,374 | 27,836 |

As at 30 June 2021 and 31 December 2020, other financial assets are classified in Stage 1.

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(EUR thousand)

13. Other assets and liabilities (continued)

Other liabilities comprise:

| | | 30 June 2021 | 31 December 2020 |
|--|-------------|---------------------|-------------------------|
| | Note | (unaudited) | |
| Financial liabilities | | | |
| Contributions to social security funds | | 2,007 | 1,786 |
| Settlements under financial and business operations | | 1,164 | 1,941 |
| Advances received | | – | 241 |
| Lease liabilities | | 17 | 19 |
| Total financial liabilities | | 3,188 | 3,987 |
| Non-financial liabilities | | | |
| Provision for unused vacations | 23 | 290 | 181 |
| Allowance for expected credit losses from credit-related commitments | 17, 22 | 272 | 384 |
| Allowance for litigation charges | 23 | 11 | 11 |
| Total non-financial liabilities | | 573 | 576 |
| Total other liabilities | | 3,761 | 4,563 |

14. Due to credit institutions

Amounts due to credit institutions comprise:

| | | 30 June 2021 | 31 December 2020 |
|---|--|---------------------|-------------------------|
| | | (unaudited) | |
| Loans from banks in IBEC member countries | | 80,761 | 74,382 |
| Repurchase agreements | | 60,666 | 121,413 |
| Long-term related financing from banks in IBEC member countries | | 39,750 | 39,740 |
| Loans from international financial institutions | | 22,009 | 13,546 |
| Loans from banks in other countries | | 19,934 | 26,919 |
| Correspondent accounts with banks in IBEC member countries | | 234 | 577 |
| Correspondent accounts with banks in other countries | | 5 | 1 |
| Long-term financing from banks in other countries | | – | 9,929 |
| Due to credit institutions | | 223,359 | 286,507 |

As at 30 June 2021, balances due to three major counterparties amounted to EUR 106,280 thousand, or 47.58% of the total amount due to credit institutions (31 December 2020: EUR 133,366 thousand due to three major counterparties, or 46.55% of the total amount due to credit institutions).

The Bank entered into repurchase agreements with banks in IBEC member countries and with banks in other countries with encumbrances on securities with a fair value of EUR 66,388 thousand as at 30 June 2021 (31 December 2020: EUR 138,322 thousand) (Notes 6, 7, 8).

Transferred financial assets not derecognized

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

| | | 30 June 2021 | 31 December 2020 |
|---|-------------|---------------------|-------------------------|
| | Note | (unaudited) | |
| Carrying amount of transferred assets – securities at fair value through profit or loss | 6 | 2,220 | – |
| Carrying amount of transferred assets – securities at fair value through other comprehensive income | 7 | 35,106 | 91,862 |
| Carrying amount of transferred assets – securities at amortized cost | 8 | 29,062 | 46,460 |
| Carrying amount of associated liabilities – due to credit institutions | | (60,666) | (121,413) |

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(EUR thousand)

14. Due to credit institutions (continued)

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

15. Due to customers

Due to customers comprise:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|--|-------------------------------------|-------------------------|
| Deposits of organizations in IBEC member countries | 8,374 | 31,321 |
| Due to the Fund | 5,987 | 7,809 |
| Current accounts of organizations in IBEC member countries | 3,918 | 3,090 |
| Current accounts of organizations in other countries | 364 | 475 |
| Other current accounts | 4,736 | 4,540 |
| Due to customers | 23,379 | 47,235 |

As at 30 June 2021, balances due to three major customers of the Bank amounted to EUR 14,863 thousand, or 63.58% of total amounts due to customers (31 December 2020: EUR 38,506 thousand, or 81.52% of total amounts due to customers).

Due to the Fund represent amounts due to the International Fund for Technological Development held in a fiduciary capacity.

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

| | 30 June 2021 (unaudited) | | 31 December 2020 | |
|-------------------------------|-------------------------------------|------------|-------------------------|------------|
| | Amount | % | Amount | % |
| Gas industry | 8,374 | 66.2 | 8,100 | 23.2 |
| Finance | 1,247 | 9.9 | 825 | 2.4 |
| Manufacturing | 668 | 5.3 | 702 | 2.0 |
| Transport | 470 | 3.7 | 49 | 0.1 |
| Research | 368 | 2.9 | 159 | 0.5 |
| Pharmaceuticals | 361 | 2.8 | 1,027 | 2.9 |
| Trade | 322 | 2.5 | 107 | 0.3 |
| Construction | 114 | 0.9 | 920 | 2.6 |
| Mining | 2 | 0.0 | – | – |
| Power industry | – | – | 22,597 | 64.8 |
| Other | 730 | 5.8 | 400 | 1.2 |
| Total due to customers | 12,656 | 100 | 34,886 | 100 |

16. Debt securities issued

Debt securities issued comprise:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|-------------------------------|-------------------------------------|-------------------------|
| RUB-denominated bonds | 140,670 | 133,694 |
| BGN-denominated bonds | 34,659 | – |
| Debt securities issued | 175,329 | 133,694 |

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

(EUR thousand)

16. Debt securities issued (continued)

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

When placing bonds in currencies other than euros and without natural hedge, the Bank entered into cross-currency interest rate contracts to regulate currency risks (Note 11).

17. Credit-related commitments

Credit-related commitments comprise the following:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|---|-------------------------------------|-------------------------|
| Loan commitments | 66,318 | 69,978 |
| Guarantees issued | 36,473 | 36,954 |
| Letters of credit | 30,622 | 7,434 |
| Reimbursement obligations | 28,575 | 25,890 |
| Total credit-related commitments | 161,988 | 140,256 |
| Allowance for expected credit losses (Notes 13, 22) | (272) | (384) |
| Credit-related commitments | 161,716 | 139,872 |

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

| | 30 June 2021 (unaudited) | 31 December 2020 |
|----------------------|-------------------------------------|-------------------------|
| Russian Federation | 83,648 | 85,139 |
| Mongolia | 25,920 | 9,663 |
| Romania | 9,171 | 5,796 |
| Republic of Bulgaria | 5,000 | 5,000 |
| Czech Republic | 1,014 | 2,052 |
| Republic of Poland | 415 | 981 |
| Other countries | 36,548 | 31,241 |
| Total | 161,716 | 139,872 |

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

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(EUR thousand)

17. Credit-related commitments (continued)

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:

| <i>Credit-related commitments</i> | <i>Stage 1</i> | <i>Total</i> |
|---|-----------------------|---------------------|
| Amount of commitments at 1 January 2021 | 140,256 | 140,256 |
| New exposures | 111,902 | 111,902 |
| Exposures expired or amounts paid | (93,027) | (93,027) |
| Changes in currency exchange rates | 2,857 | 2,857 |
| Amount of commitments at 30 June 2021 (unaudited) | 161,988 | 161,988 |
| Allowance for expected credit losses at 1 January 2021 | 384 | 384 |
| New exposures | 375 | 375 |
| Exposures expired or amounts paid | (223) | (223) |
| Changes to inputs used for ECL calculations | (281) | (281) |
| Changes in currency exchange rates | 17 | 17 |
| Allowance for expected credit losses at 30 June 2021 (unaudited) | 272 | 272 |
| Amount of commitments at 1 January 2020 | 62,103 | 62,103 |
| New exposures | 117,085 | 117,085 |
| Exposures expired or amounts paid | (79,440) | (79,440) |
| Changes in currency exchange rates | (2,536) | (2,536) |
| Amount of commitments at 30 June 2020 (unaudited) | 97,212 | 97,212 |
| Allowance for expected credit losses at 1 January 2020 | 154 | 154 |
| New exposures | 771 | 771 |
| Exposures expired or amounts paid | (705) | (705) |
| Changes to models and inputs used for ECL calculations | 41 | 41 |
| Changes in currency exchange rates | 1 | 1 |
| Allowance for expected credit losses at 30 June 2020 (unaudited) | 262 | 262 |

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 a customer cannot meet its obligations to third parties.

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

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

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

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(EUR thousand)

18. Interest income and interest expense

| <i>For the six months ended 30 June (unaudited)</i> | | |
|---|----------------|----------------|
| | 2021 | 2020 |
| Interest income | | |
| <i>Interest income calculated using the EIR method</i> | | |
| Loans to corporate customers | 4,165 | 2,629 |
| Loans and deposits to banks | 2,448 | 2,393 |
| - loans issued to banks under trade financing | 1,088 | 1,253 |
| - syndicated loans | 1,008 | 608 |
| - term deposits with banks | 352 | 532 |
| Securities at fair value through other comprehensive income | 2,251 | 2,537 |
| Securities at amortized cost | 1,073 | 1,179 |
| Other | 6 | 5 |
| Other interest income | | |
| Securities at fair value through profit or loss | 168 | 217 |
| Total interest income | 10,111 | 8,960 |
| Interest expense | | |
| <i>Interest expense calculated using the EIR method</i> | | |
| Debt securities issued | (1,353) | (1,151) |
| Due to credit institutions | (1,073) | (853) |
| Due to customers | (346) | (1,625) |
| Lease liabilities | (1) | (1) |
| Other | (26) | (5) |
| Total interest expense | (2,799) | (3,635) |
| Net interest income | 7,312 | 5,325 |

19. Net fee and commission income

| <i>For the six months ended 30 June (unaudited)</i> | | |
|---|-------------|-------------|
| | 2021 | 2020 |
| Documentary operations | 553 | 280 |
| Fee for servicing a loan/credit facility | 121 | 15 |
| Fiduciary operations | 101 | - |
| Cash and settlement operations | 28 | 40 |
| Accounts maintenance | 21 | 25 |
| Currency control | 8 | 20 |
| Fee and commission income | 832 | 380 |
| Fee and commission expense | (175) | (105) |
| Net fee and commission income | 657 | 275 |

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:

| <i>For the six months ended 30 June (unaudited)</i> | | |
|---|--------------|--------------|
| | 2021 | 2020 |
| Result from disposal of debt securities | 3,981 | 4,337 |
| Total net gains from operations with securities at fair value through other comprehensive income | 3,981 | 4,337 |

The gain from the revaluation of securities at fair value through other comprehensive income due to their disposal during the six months ended 30 June 2021 is reclassified from other comprehensive income to net gains from securities at fair value through other comprehensive income in the amount of EUR 4,270 thousand (six months ended 30 June 2020: EUR 4,354 thousand).

(EUR thousand)

21. Administrative and management expenses

| <i>For the six months ended 30 June (unaudited)</i> | | |
|--|--------------|--------------|
| | 2021 | 2020 |
| Staff costs | 4,493 | 4,322 |
| Repair and maintenance of the building, equipment and apartments | 707 | 667 |
| Depreciation of property, plant and equipment | 636 | 616 |
| Information and advisory expenses | 155 | 156 |
| Building security expenses | 139 | 92 |
| Other administrative and management expenses | 459 | 424 |
| Total administrative and management expenses | 6,589 | 6,277 |

Staff costs comprise contributions to:

| <i>For the six months ended 30 June (unaudited)</i> | | |
|---|-------------|-------------|
| | 2021 | 2020 |
| Pension Fund of the Russian Federation | 455 | 442 |
| Compulsory Medical Insurance Fund of the Russian Federation | 137 | 128 |
| Pension funds of other IBEC member countries | 21 | 21 |
| Total | 613 | 591 |

22. Allowances for expected credit losses

The tables below shows losses (gains) associated with allowances for expected credit losses from financial assets recognized in profit or loss for the six months ended 30 June 2021 and six months ended 30 June 2020:

| 30 June 2021 (unaudited) | Note | Stage 1 | Stage 2 | Stage 3 | Total |
|---|-------------|----------------|----------------|----------------|--------------|
| Securities at fair value through other comprehensive income | 7 | (100) | 2 | – | (98) |
| Securities at amortized cost | 8 | (20) | – | – | (20) |
| Loans and deposits to banks | 9 | (94) | (19) | – | (113) |
| Loans to corporate customers | 10 | 168 | (106) | 573 | 635 |
| Credit-related commitments | 17 | (129) | – | – | (129) |
| Other financial assets | 13 | 1 | – | – | 1 |
| | | (174) | (123) | 573 | 276 |

| 30 June 2020 (unaudited) | Note | Stage 1 | Stage 2 | Stage 3 | Total |
|---|-------------|----------------|----------------|----------------|--------------|
| Securities at fair value through other comprehensive income | 7 | 622 | – | – | 622 |
| Securities at amortized cost | 8 | 123 | – | – | 123 |
| Loans and deposits to banks | 9 | 123 | – | – | 123 |
| Loans to corporate customers | 10 | 1,142 | 148 | – | 1,290 |
| Credit-related commitments | 17 | 107 | – | – | 107 |
| Other financial assets | 13 | 1 | – | – | 1 |
| | | 2,118 | 148 | – | 2,266 |

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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 30 June 2021 and 30 June 2020 is presented below:

| | <i>Securities at fair value through other comprehensive income</i> | <i>Securities at amortized cost</i> | <i>Loans and deposits to banks</i> | <i>Loans to corporate customers</i> | <i>Credit-related commitments</i> | <i>Other financial assets</i> | <i>Total</i> |
|--|--|---|--|---|---------------------------------------|---------------------------------------|----------------|
| Balance at 1 January 2021 | 1,300 | 622 | 795 | 2,432 | 384 | 3 | 5,536 |
| New originated or purchased assets | 76 | 9 | 397 | 481 | 375 | 3 | 1,341 |
| Assets derecognized or redeemed (excluding write-offs) | (263) | (3) | (271) | (316) | (223) | (2) | (1,078) |
| Changes to inputs used for ECL calculations | 89 | (26) | (239) | 470 | (281) | – | 13 |
| Changes in currency exchange rates | 2 | 7 | 21 | 54 | 17 | – | 101 |
| Balance at 30 June 2021 (unaudited) | 1,204 | 609 | 703 | 3,121 | 272 | 4 | 5,913 |
| Balance at 1 January 2020 | 794 | 467 | 889 | 377 | 154 | 7 | 2,688 |
| New originated or purchased assets | 283 | 42 | 1,090 | 662 | 771 | 2 | 2,850 |
| Assets derecognized or redeemed (excluding write-offs) | (346) | (44) | (213) | (67) | (705) | (1) | (1,376) |
| Changes to models and inputs used for ECL calculations | 685 | 125 | (754) | 695 | 41 | – | 792 |
| Write-offs | – | – | – | – | – | (4) | (4) |
| Changes in currency exchange rates | (3) | (3) | (8) | (1) | 1 | – | (14) |
| Balance at 30 June 2020 (unaudited) | 1,413 | 587 | 1,004 | 1,666 | 262 | 4 | 4,936 |

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(EUR thousand)

23. Other provisions

Movements in other provisions for the six months ended 30 June 2021 and six months ended 30 June 2020 are presented below:

| | <i>Provisions for legal claims</i> | <i>Provision for unused vacations</i> | <i>Total</i> |
|---------------------------------|--|---|--------------|
| 1 January 2021 | 11 | 181 | 192 |
| Charge | – | 116 | 116 |
| Write-offs | – | (7) | (7) |
| 30 June 2021 (unaudited) | 11 | 290 | 301 |
| 1 January 2020 | 11 | 99 | 110 |
| Charge | – | 35 | 35 |
| Write-offs | – | (4) | (4) |
| 30 June 2020 (unaudited) | 11 | 130 | 141 |

The provision for unused vacations and provisions for legal claims are recognized as other liabilities. As at 30 June 2021 and 31 December 2020, provisions for legal claims include the amount of expected litigation charges and possible litigation payments where the Bank acts as a defendant.

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

Risk measurement and reporting systems

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

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

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

Excessive risk concentration

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

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

Credit risk

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

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

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

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 to 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 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 significant increase in credit risk that cannot be promptly and fully identified as a result of its quantitative analysis.

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

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(EUR thousand)

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

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

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

Credit risk levels (grades)

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

Credit risk levels of s 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 the 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, the 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 the 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 the Moody's average historical data on recovery rates for unsecured bank loans.

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

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

Forward-looking information

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

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

(EUR thousand)

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

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

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

In these interim condensed 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 rating using the scale of internal credit rating, that are consistent with the ratings assigned by international rating agencies.

The table below shows the credit quality of assets exposed to credit risk (by three stages of impairment) by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available) as at 30 June 2021:

| | Stage 1 | Stage 2 | Stage 3 | |
|--|---------------------|---------------------|---------------------|----------------|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| Cash and cash equivalents | | | | |
| (other than cash on hand) | | | | |
| <i>Due from central banks</i> | 11,433 | – | – | 11,433 |
| <i>Correspondent accounts with internationally rated banks</i> | 7,874 | – | – | 7,874 |
| <i>Correspondent accounts with banks having internal credit ratings only</i> | 42 | – | – | 42 |
| Total | 19,349 | – | – | 19,349 |
| Allowance for expected credit losses | – | – | – | – |
| Carrying amount | 19,349 | – | – | 19,349 |
| Securities at fair value through other comprehensive income | | | | |
| - held by the Bank | | | | |
| <i>Internationally rated</i> | 146,682 | 7,200 | – | 153,882 |
| <i>Internally rated only</i> | 2,602 | – | – | 2,602 |
| Carrying amount | 149,284 | 7,200 | – | 156,484 |
| Allowance for expected credit losses | (542) | (564) | – | (1,106) |
| - pledged under repurchase agreements | | | | |
| <i>Internationally rated</i> | 35,106 | – | – | 35,106 |
| Carrying amount | 35,106 | – | – | 35,106 |
| Allowance for expected credit losses | (98) | – | – | (98) |

(continued on the next page)

(EUR thousand)

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

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|--|---------------------------------------|---------------------------------------|---------------------------------------|----------------|
| Securities at amortized cost | | | | |
| - held by the Bank | | | | |
| Internationally rated | 35,029 | – | – | 35,029 |
| Internally rated only | 3,002 | – | – | 3,002 |
| Total | 38,031 | – | – | 38,031 |
| Allowance for expected credit losses | (363) | – | – | (363) |
| Carrying amount | 37,668 | – | – | 37,668 |
| - pledged under repurchase agreements | | | | |
| Internationally rated | 29,308 | – | – | 29,308 |
| Total | 29,308 | – | – | 29,308 |
| Allowance for expected credit losses | (246) | – | – | (246) |
| Carrying amount | 29,062 | – | – | 29,062 |
| Loans and deposits to banks | | | | |
| Internationally rated | 175,068 | 2,520 | – | 177,588 |
| Total | 175,068 | 2,520 | – | 177,588 |
| Allowance for expected credit losses | (698) | (5) | – | (703) |
| Carrying amount | 174,370 | 2,515 | – | 176,885 |
| Loans to corporate customers | | | | |
| Internationally rated | 77,100 | – | – | 77,100 |
| Internally rated only | 124,830 | 4,746 | 7,704 | 137,280 |
| Total | 201,930 | 4,746 | 7,704 | 214,380 |
| Allowance for expected credit losses | (1,244) | (51) | (1,826) | (3,121) |
| Carrying amount | 200,686 | 4,695 | 5,878 | 211,259 |

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

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

(EUR thousand)

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

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

All credit-related commitments relate to stage 1 as at 30 June 2021 and 31 December 2020.

There were no transfers of other financial assets between stages for the six months ended 30 June 2021 and six months ended 30 June 2020.

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(EUR thousand)

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

Information on risk concentration by geographical region is based on the geographical location of the Bank's counterparties. The table below shows risk concentration by geographical region as at 30 June 2021:

| <i>Country</i> | <i>Cash and cash equivalents (other than cash on hand)</i> | <i>Securities at fair value through profit or loss held by the Bank</i> | <i>Securities at fair value through profit or loss pledged under repurchase agreements</i> | <i>Securities at fair value through other comprehensive income held by the Bank</i> | <i>Securities at fair value through other comprehensive income pledged under repurchase agreements</i> | <i>Securities at amortized cost held by the Bank</i> | <i>Securities at amortized cost pledged under repurchase agreements</i> | <i>Loans and deposits to banks</i> | <i>Loans to corporate customers</i> | <i>Derivative financial assets</i> | <i>Other financial assets</i> | <i>Total</i> | <i>Share, %</i> |
|-------------------------------|--|---|--|---|--|--|---|------------------------------------|-------------------------------------|------------------------------------|-------------------------------|----------------|-----------------|
| Russian Federation | 1,568 | 4,578 | 2,220 | 47,988 | 8,512 | 18,963 | 6,100 | 49,178 | 26,462 | 3 | 18,458 | 184,030 | 25.97 |
| Republic of Bulgaria | 26 | 2,857 | – | 11,052 | 5,531 | 6,650 | 3,374 | – | 74,104 | 13 | 6 | 103,613 | 14.62 |
| Mongolia | 5 | – | – | 2,691 | – | 4,195 | – | 51,419 | 39,626 | – | 15 | 97,951 | 13.82 |
| Romania | 67 | 2,013 | – | 9,865 | 4,811 | 2,896 | 11,589 | – | 10,533 | – | – | 41,774 | 5.89 |
| IFI ¹ | – | – | – | 36,622 | 302 | – | – | – | – | – | – | 36,924 | 5.21 |
| Republic of Poland | 38 | 2,009 | – | 7,806 | 8,287 | 4,964 | – | – | 13,268 | – | – | 36,372 | 5.13 |
| Czech Republic | – | – | – | 17,074 | 4,784 | – | 5,013 | – | 360 | – | 13 | 27,244 | 3.84 |
| Slovak Republic | – | 2,016 | – | 11,163 | 2,879 | – | 2,986 | – | – | – | – | 19,044 | 2.69 |
| Socialist Republic of Vietnam | – | – | – | – | – | – | – | 18,965 | – | – | – | 18,965 | 2.68 |
| Other countries | 17,645 | – | – | 12,223 | – | – | – | 57,323 | 46,906 | – | 8,706 | 142,803 | 20.15 |
| Total | 19,349 | 13,473 | 2,220 | 156,484 | 35,106 | 37,668 | 29,062 | 176,885 | 211,259 | 16 | 27,198 | 708,720 | 100 |

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

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¹ IFI – international financial funds and institutions. As at 30 June 2021, IFI are represented by the European Investment Bank, the European Stability Mechanism, the European Union and the Eurasian Development Bank.

(EUR thousand)

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

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

| <i>Country</i> | <i>Cash and cash equivalents (other than cash on hand)</i> | <i>Securities at fair value through profit or loss held by the Bank</i> | <i>Securities at fair value through profit or loss pledged under repurchase agreements</i> | <i>Securities at fair value through other comprehensive income held by the Bank</i> | <i>Securities at fair value through other comprehensive income pledged under repurchase agreements</i> | <i>Securities at amortized cost held by the Bank</i> | <i>Securities at amortized cost pledged under repurchase agreements</i> | <i>Loans and deposits to banks</i> | <i>Loans to corporate customers</i> | <i>Derivative financial assets</i> | <i>Other financial assets</i> | <i>Total</i> | <i>Share, %</i> |
|-------------------------------|--|---|--|---|--|--|---|------------------------------------|-------------------------------------|------------------------------------|-------------------------------|----------------|-----------------|
| Russian Federation | 1,214 | 1,119 | – | 27,026 | 27,181 | 4,674 | 23,083 | 35,187 | 27,942 | 292 | 18,702 | 166,420 | 21.87 |
| Mongolia | 5 | – | – | 2,610 | – | 4,076 | – | 51,395 | 39,649 | – | 1 | 97,736 | 12.84 |
| Republic of Bulgaria | 14 | – | – | 3,104 | 17,817 | – | 10,150 | – | 59,953 | 49 | – | 91,087 | 11.97 |
| Romania | 180 | – | – | 32,554 | 10,684 | 9,386 | 5,142 | – | 13,474 | – | – | 71,420 | 9.39 |
| Czech Republic | – | – | – | 52,295 | 12,800 | – | 5,075 | – | – | – | 1 | 70,171 | 9.22 |
| Republic of Poland | 2,039 | – | – | 15,677 | 12,269 | – | – | – | 14,212 | – | – | 44,197 | 5.81 |
| IFI ² | – | – | – | 41,031 | 1,267 | – | – | – | – | – | – | 42,298 | 5.56 |
| Socialist Republic of Vietnam | – | – | – | – | – | – | – | 27,228 | – | – | – | 27,228 | 3.58 |
| Slovak Republic | – | – | – | 11,111 | 4,883 | – | 3,010 | – | – | – | 3 | 19,007 | 2.50 |
| Other countries | 13,038 | – | – | 9,036 | 4,961 | – | – | 51,466 | 43,813 | 34 | 8,970 | 131,318 | 17.26 |
| Total | 16,490 | 1,119 | – | 194,444 | 91,862 | 18,136 | 46,460 | 165,276 | 199,043 | 375 | 27,677 | 760,882 | 100 |

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

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² IFI – international financial funds and institutions. As at 31 December 2020, IFI are represented by the European Investment Bank, the European Financial Stability Facility, the European Stability Mechanism and the European Union.

(EUR thousand)

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

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

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

The tables below summarize the maturity profile of the Bank's financial liabilities as at 30 June 2021 and 31 December 2020 based on contractual undiscounted cash flows. Repayments which are subject to notice are treated as if notice were to be given immediately.

| 30 June 2021 (unaudited) | 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 | 53,952 | 59,548 | 71,306 | 42,038 | 226,844 | 223,359 |
| Due to customers | 15,013 | 34 | 906 | 7,841 | 23,794 | 23,379 |
| Debt securities issued | – | 5,193 | 5,192 | 185,152 | 195,537 | 175,329 |
| Other liabilities | 3,745 | 2 | 3 | 11 | 3,761 | 3,761 |
| Gross settled derivative financial instruments | | | | | | |
| - inflow | (17,681) | (24,820) | (4,627) | (146,255) | (193,383) | (199,797) |
| - outflow | 17,809 | 21,551 | 937 | 159,629 | 199,926 | 224,631 |
| Total | 72,838 | 61,508 | 73,717 | 248,416 | 456,479 | 450,662 |

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

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

| | On demand and less than 1 month | 1 to 6 months | 6 to 12 months | 12 months to 5 years | Over 5 years | Total |
|--------------------------|--|--------------------------|---------------------------|---------------------------------|-------------------------|----------------|
| 30 June 2021 (unaudited) | 49,434 | 30,755 | 16,723 | 11,335 | 53,469 | 161,716 |
| 31 December 2020 | 37,736 | 905 | 36,887 | 12,766 | 51,578 | 139,872 |

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(EUR thousand)

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

The tables below show the analysis of all financial assets and financial liabilities of the Bank as at 30 June 2021 and 31 December 2020 by contractual maturity. Quoted debt securities measured at fair value through other comprehensive income and at fair value through profit or loss and not pledged under repurchase agreements are classified as "On demand and less than 1 month", as they are highly liquid securities, which can be sold by the Bank in the short-term on the arm-length basis. Securities at fair value through other comprehensive income and securities at fair value through profit or loss pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of the respective contractual obligations of the Bank.

| 30 June 2021 (unaudited) | On demand and less than 1 month | 1 to 6 months | 6 to 12 months | 12 months to 5 years | Over 5 years | Overdue | Total |
|--|--|--------------------------|---------------------------|---------------------------------|-------------------------|----------------|----------------|
| Cash and cash equivalents | 20,528 | - | - | - | - | - | 20,528 |
| Securities at fair value through profit or loss | | | | | | | |
| - held by the Bank | 13,473 | - | - | - | - | - | 13,473 |
| - pledged under repurchase agreements | - | - | 2,220 | - | - | - | 2,220 |
| Securities at fair value through other comprehensive income | | | | | | | |
| - held by the Bank | 156,484 | - | - | - | - | - | 156,484 |
| - pledged under repurchase agreements | - | - | 35,106 | - | - | - | 35,106 |
| Securities at amortized cost | | | | | | | |
| - held by the Bank | - | - | - | 34,626 | 3,042 | - | 37,668 |
| - pledged under repurchase agreements | - | - | 29,062 | - | - | - | 29,062 |
| Loans and deposits to banks | 24,303 | 89,409 | 20,914 | 42,259 | - | - | 176,885 |
| Loans to corporate customers | 10,708 | 35,759 | 19,309 | 96,360 | 48,754 | 369 | 211,259 |
| Derivative financial assets | 2 | 14 | - | - | - | - | 16 |
| Other financial assets | 26,945 | 13 | 176 | 64 | - | - | 27,198 |
| Total financial assets | 252,443 | 125,195 | 106,787 | 173,309 | 51,796 | 369 | 709,899 |
| Due to credit institutions | 53,795 | 59,195 | 70,619 | - | 39,750 | - | 223,359 |
| Due to customers | 15,013 | - | - | - | 8,366 | - | 23,379 |
| Derivative financial liabilities | 129 | 420 | - | 24,039 | 246 | - | 24,834 |
| Debt securities issued | - | 1,667 | - | 173,662 | - | - | 175,329 |
| Other financial liabilities | 3,172 | 2 | 2 | 12 | - | - | 3,188 |
| Total financial liabilities | 72,109 | 61,284 | 70,621 | 197,713 | 48,362 | - | 450,089 |
| Net position | 180,334 | 63,911 | 36,166 | (24,404) | 3,434 | 369 | 259,810 |
| Cumulative liquidity gap for financial instruments | 180,334 | 244,245 | 280,411 | 256,007 | 259,441 | 259,810 | - |
| 31 December 2020 | On demand and less than 1 month | 1 to 6 months | 6 to 12 months | 12 months to 5 years | Over 5 years | Overdue | Total |
| Cash and cash equivalents | 17,589 | - | - | - | - | - | 17,589 |
| Securities at fair value through profit or loss | | | | | | | |
| - held by the Bank | 1,119 | - | - | - | - | - | 1,119 |
| - pledged under repurchase agreements | - | - | - | - | - | - | - |
| Securities at fair value through other comprehensive income | | | | | | | |
| - held by the Bank | 194,444 | - | - | - | - | - | 194,444 |
| - pledged under repurchase agreements | 4,964 | 86,898 | - | - | - | - | 91,862 |
| Securities at amortized cost | | | | | | | |
| - held by the Bank | - | - | - | 14,640 | 3,496 | - | 18,136 |
| - pledged under repurchase agreements | - | 46,460 | - | - | - | - | 46,460 |
| Loans and deposits to banks | 30,866 | 51,443 | 60,245 | 22,722 | - | - | 165,276 |
| Loans to corporate customers | 8,871 | 40,859 | 10,545 | 88,681 | 49,722 | 365 | 199,043 |
| Derivative financial assets | 66 | 309 | - | - | - | - | 375 |
| Other financial assets | 27,363 | 7 | 49 | 258 | - | - | 27,677 |
| Total financial assets | 285,282 | 225,976 | 70,839 | 126,301 | 53,218 | 365 | 761,981 |
| Due to credit institutions | 76,363 | 150,627 | 9,941 | 9,917 | 39,659 | - | 286,507 |
| Due to customers | 31,326 | 2 | 7,809 | - | 8,098 | - | 47,235 |
| Derivative financial liabilities | 61 | 2,328 | 3,376 | 20,255 | - | - | 26,020 |
| Debt securities issued | - | 1,580 | - | 132,114 | - | - | 133,694 |
| Other financial liabilities | 3,968 | 2 | 3 | 14 | - | - | 3,987 |
| Total financial liabilities | 111,718 | 154,539 | 21,129 | 162,300 | 47,757 | - | 497,443 |
| Net position | 173,564 | 71,437 | 49,710 | (35,999) | 5,461 | 365 | 264,538 |
| Cumulative liquidity gap for financial instruments | 173,564 | 245,001 | 294,711 | 258,712 | 264,173 | 264,538 | - |

(EUR thousand)

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

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

Interest rate risk

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

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

Interest rate sensitivity analysis

| | 30 June 2021 | | 31 December 2020 | |
|---------------------------|-----------------------|---------------|-------------------------|---------------|
| | (unaudited) | | | |
| | Profit or loss | Equity | Profit or loss | Equity |
| 1 bp parallel fall | (258) | (295) | 945 | 945 |
| EUR | (586) | (620) | 285 | 285 |
| USD | 270 | 269 | 573 | 573 |
| RUB | 328 | 326 | 279 | 279 |
| Other currencies | (270) | (270) | (192) | (192) |
| 1 bp parallel rise | 258 | 295 | (945) | (945) |
| EUR | 586 | 620 | (285) | (285) |
| USD | (270) | (269) | (573) | (573) |
| RUB | (328) | (326) | (279) | (279) |
| Other currencies | 270 | 270 | 192 | 192 |

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(EUR thousand)

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

The following table shows weighted average interest rates for interest-bearing assets and liabilities as at 30 June 2021 and 31 December 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

| | 30 June 2021 (unaudited) | | | | 31 December 2020 | | | |
|--|---------------------------------|------------|------------|-------------------------|---------------------------------|------------|------------|-------------------------|
| | Average interest rate, % | | | | Average interest rate, % | | | |
| | EUR | USD | RUB | Other currencies | EUR | USD | RUB | Other currencies |
| Interest-bearing assets | | | | | | | | |
| Correspondent accounts with banks in IBEC member countries and other banks | (0.54) | – | – | (0.05) | (0.61) | – | – | (0.31) |
| Securities at fair value through profit or loss | | | | | | | | |
| - held by the Bank | 1.74 | – | 8.08 | – | – | – | 7.25 | – |
| - pledged under repurchase agreements | 1.50 | – | – | – | – | – | – | – |
| Securities at fair value through other comprehensive income | | | | | | | | |
| - held by the Bank | 1.63 | 2.91 | 6.32 | – | 1.59 | 2.75 | 6.22 | – |
| - pledged under repurchase agreements | 1.48 | 2.94 | – | – | 1.57 | – | 6.60 | – |
| Securities at amortized cost | | | | | | | | |
| - held by the Bank | 3.11 | 7.25 | 6.89 | – | 2.54 | 7.50 | 6.89 | – |
| - pledged under repurchase agreements | 2.55 | 7.75 | – | – | 3.03 | – | – | – |
| Loans and deposits to banks | 1.98 | 3.41 | 7.35 | – | 1.99 | 3.68 | 8.61 | – |
| Loans to corporate customers | 4.03 | 5.42 | 7.73 | 1.39 | 4.13 | 5.38 | 7.13 | 1.40 |
| Consumer lending | 3.00 | – | – | – | 3.00 | – | – | – |
| Interest-bearing liabilities | | | | | | | | |
| Due to credit institutions | 0.77 | 0.68 | 5.38 | 1.56 | 0.21 | 0.71 | 4.32 | 1.41 |
| Correspondent accounts with banks in IBEC member countries and other credit institutions | (0.50) | – | 0.56 | – | (0.50) | – | – | – |
| Due to customers | – | 1.11 | – | – | – | 1.15 | 5.05 | – |
| Debt securities issued | – | – | 7.19 | 1.15 | – | – | 7.19 | – |

(intentionally blank)

(EUR thousand)

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

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

The table below shows the general analysis of the currency risk of the Bank for its financial assets and liabilities as at 30 June 2021:

| | <i>Note</i> | <i>USD</i> | <i>RUB</i> | <i>EUR</i> | <i>Other</i> | <i>Total</i> |
|---|-------------|-----------------|------------------|-----------------|-----------------|-----------------|
| Cash and cash equivalents | | 4,501 | 1,375 | 14,202 | 450 | 20,528 |
| Securities at fair value through profit or loss | | | | | | |
| - held by the Bank | | – | 3,791 | 9,682 | – | 13,473 |
| - pledged under repurchase agreements | | – | – | 2,220 | – | 2,220 |
| Securities at fair value through other comprehensive income | | | | | | |
| - held by the Bank | | 7,802 | 22,914 | 125,768 | – | 156,484 |
| - pledged under repurchase agreements | | 4,132 | – | 30,974 | – | 35,106 |
| Securities at amortized cost | | | | | | |
| - held by the Bank | | 4,195 | 698 | 32,775 | – | 37,668 |
| - pledged under repurchase agreements | | 4,137 | – | 24,925 | – | 29,062 |
| Loans and deposits to banks | | 97,616 | 1,599 | 77,670 | – | 176,885 |
| Loans to corporate customers | | 26,053 | 12,126 | 127,358 | 45,722 | 211,259 |
| Other financial assets | 13 | 151 | 660 | 26,368 | 19 | 27,198 |
| Total financial assets | | 148,587 | 43,163 | 471,942 | 46,191 | 709,883 |
| Due to credit institutions | | 121,403 | 36,707 | 59,772 | 5,477 | 223,359 |
| Due to customers | | 9,051 | 1,124 | 13,088 | 116 | 23,379 |
| Debt securities issued | | – | 140,670 | – | 34,659 | 175,329 |
| Other financial liabilities | 13 | – | 804 | 2,384 | – | 3,188 |
| Total financial liabilities | | 130,454 | 179,305 | 75,244 | 40,252 | 425,255 |
| Net balance sheet position | | 18,133 | (136,142) | 396,698 | 5,939 | 284,628 |
| Net off-balance sheet position | | (18,014) | 132,240 | (99,109) | (39,935) | (24,818) |
| Net balance sheet and off-balance sheet position | | 119 | (3,902) | 297,589 | (33,996) | 259,810 |

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

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(EUR thousand)

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

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

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

As at 30 June 2021 and 31 December 2020, 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 the equity does not differ from the effect on the interim statement of profit or loss and other comprehensive income.

| | 30 June 2021 (unaudited) | 31 December 2020 |
|-------------------------------------|---|-------------------------|
| 20% appreciation of USD against EUR | 24 | (41) |
| 20% appreciation of RUB against EUR | (780) | 1,387 |

A strengthening of the euro against the above currencies as at 30 June 2021 and 31 December 2020 would have had the opposite effect provided that all other variables are held constant.

Operational risk

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

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

(EUR thousand)

25. Fair value measurement

Fair value measurements

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

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

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

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

Fair value hierarchy

The Bank uses the following hierarchy for 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 interim condensed financial statements are observable, either directly or indirectly;
- ▶ Level 3: valuation techniques not based on observable market data, which use inputs that have a significant effect on the recorded fair value and that are not based on observable market data. If a fair value measurement uses observable inputs that require significant adjustment, the measurement is a Level 3 measurement. Significance of used inputs is assessed for aggregated fair value measurement.

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

(intentionally blank)

(EUR thousand)

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

The following tables show the analysis of financial instruments presented in the interim condensed financial statements at fair value by level of the fair value hierarchy as at 30 June 2021 and 31 December 2020:

| | Fair value measurement using | | | |
|---|------------------------------|----------------------|----------------------|----------------|
| 30 June 2021 (unaudited) | inputs of Level 1 | inputs of Level 2 | inputs of Level 3 | Total |
| Assets measured at fair value | | | | |
| Securities at fair value through profit or loss held by the Bank | | | | |
| - Eurobonds of IBEC member countries | 4,870 | – | – | 4,870 |
| - corporate Eurobonds | 4,812 | – | – | 4,812 |
| - corporate bonds | 3,791 | – | – | 3,791 |
| Securities at fair value through profit or loss pledged under repurchase agreements | | | | |
| - corporate Eurobonds | 2,220 | – | – | 2,220 |
| Securities at fair value through other comprehensive income held by the Bank | | | | |
| - Eurobonds of IBEC member countries | 42,704 | – | – | 42,704 |
| - corporate Eurobonds | 41,898 | – | – | 41,898 |
| - Eurobonds of international financial institutions | 23,443 | 2,003 | – | 25,446 |
| - corporate bonds | 15,220 | 2,295 | 2,602 | 20,117 |
| - Eurobonds of funds | 11,176 | – | – | 11,176 |
| - Eurobonds of banks | 5,177 | – | – | 5,177 |
| - bonds of banks | 7,572 | 339 | – | 7,911 |
| - bonds of IBEC member countries | 2,055 | – | – | 2,055 |
| Securities at fair value through other comprehensive income pledged under repurchase agreements | | | | |
| - corporate Eurobonds | 16,365 | – | – | 16,365 |
| - Eurobonds of IBEC member countries | 13,985 | – | – | 13,985 |
| - Eurobonds of banks | 3,062 | – | – | 3,062 |
| - bonds of banks | 1,391 | – | – | 1,391 |
| - Eurobonds of international financial institutions | 303 | – | – | 303 |
| Derivative financial assets | – | 16 | – | 16 |
| Property, plant and equipment – buildings | – | – | 49,619 | 49,619 |
| | 200,044 | 4,653 | 52,221 | 256,918 |
| Assets for which fair values are disclosed | | | | |
| Cash and cash equivalents | – | – | 20,528 | 20,528 |
| Securities at amortized cost | – | – | 66,730 | 66,730 |
| Loans and deposits to banks | – | – | 176,885 | 176,885 |
| Loans to corporate customers | – | – | 211,259 | 211,259 |
| | – | – | 475,402 | 475,402 |
| Liabilities measured at fair value | | | | |
| Derivative financial liabilities | – | 24,834 | – | 24,834 |
| Liabilities for which fair values are disclosed | | | | |
| Due to credit institutions | – | – | 223,359 | 223,359 |
| Due to customers | – | – | 23,379 | 23,379 |
| Debt securities issued | – | – | 175,329 | 175,329 |
| | – | – | 422,067 | 422,067 |

(intentionally blank)

(EUR thousand)

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

| | Fair value measurement using | | | |
|---|------------------------------|----------------------|----------------------|---------|
| 31 December 2020 | inputs of Level 1 | inputs of Level 2 | inputs of Level 3 | Total |
| Assets measured at fair value | | | | |
| Securities at fair value through profit or loss held by the Bank | | | | |
| - corporate bonds | 1,119 | – | – | 1,119 |
| Securities at fair value through other comprehensive income held by the Bank | | | | |
| - corporate Eurobonds | 66,866 | 2,010 | – | 68,876 |
| - Eurobonds of IBEC member countries | 51,882 | – | – | 51,882 |
| - Eurobonds of international financial institutions | 26,681 | – | – | 26,681 |
| - corporate bonds | 17,007 | 5,244 | – | 22,251 |
| - Eurobonds of funds | 14,350 | – | – | 14,350 |
| - bonds of IBEC member countries | 7,151 | – | – | 7,151 |
| - Eurobonds of banks | 2,088 | – | – | 2,088 |
| - bonds of other countries | 838 | – | – | 838 |
| - bonds of banks | 327 | – | – | 327 |
| Securities at fair value through other comprehensive income pledged under repurchase agreements | | | | |
| - Eurobonds of IBEC member countries | 47,692 | – | – | 47,692 |
| - corporate Eurobonds | 36,805 | – | – | 36,805 |
| - Eurobonds of other countries | 4,961 | – | – | 4,961 |
| - Eurobonds of international financial institutions | 1,267 | – | – | 1,267 |
| - bonds of IBEC member countries | 1,137 | – | – | 1,137 |
| Derivative financial assets | – | 375 | – | 375 |
| Property, plant and equipment – buildings | – | – | 50,078 | 50,078 |
| | 280,171 | 7,629 | 50,078 | 337,878 |
| Assets for which fair values are disclosed | | | | |
| Cash and cash equivalents | – | – | 17,589 | 17,589 |
| Securities at amortized cost | – | – | 64,596 | 64,596 |
| Loans and deposits to banks | – | – | 165,276 | 165,276 |
| Loans to corporate customers | – | – | 199,043 | 199,043 |
| | – | – | 446,504 | 446,504 |
| Liabilities measured at fair value | | | | |
| Derivative financial liabilities | – | 26,020 | – | 26,020 |
| Liabilities for which fair values are disclosed | | | | |
| Due to credit institutions | – | – | 286,507 | 286,507 |
| Due to customers | – | – | 47,235 | 47,235 |
| Debt securities issued | – | – | 133,694 | 133,694 |
| | – | – | 467,436 | 467,436 |

Derivative financial instruments

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

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

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

(EUR thousand)

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

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

Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured at fair value for the six months ended 30 June 2021:

| | <i>Transfers from Level 1 to Level 2</i> |
|--|---|
| Financial assets | |
| Securities at fair value through other comprehensive income held by the Bank | |
| - Eurobonds of international financial institutions | 2,003 |
| - bonds of banks | 339 |
| | 2,342 |

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured at fair value for the six months ended 30 June 2020:

| | <i>Transfers from Level 1 to Level 2</i> |
|--|---|
| Financial assets | |
| Securities at fair value through other comprehensive income held by the Bank | |
| - corporate bonds | 6,726 |
| - bonds of banks | 321 |
| | 7,047 |

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

The following table shows transfers between Level 2 and Level 1 of the fair value hierarchy for financial assets measured at fair value for the six months ended 30 June 2021:

| | <i>Transfers from Level 2 to Level 1</i> |
|--|---|
| Financial assets | |
| Securities at fair value through other comprehensive income held by the Bank | |
| - corporate Eurobonds | 1,010 |
| | 1,010 |

During the six months ended 30 June 2020, there were no transfers from Level 2 to Level 1.

Movements in Level 3 financial instruments measured at fair value

During the six months ended 30 June 2021, the Bank transferred a portion of corporate bonds from Level 2 to Level 3 of the fair value hierarchy. The carrying amount of transferred assets totaled EUR 2,602 thousand. The reason for the transfer from Level 2 to Level 3 is that the market for some securities has become inactive, which has led to a change in the method used to determine fair value. During the six months ended 30 June 2020, there were no transfers from Level 2 to Level 3.

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

As at 30 June 2021 and 31 December 2020, the fair value of financial assets and liabilities not carried at fair value in the interim statement of financial position did not differ significantly from their carrying amount. Financial assets and liabilities not recorded at fair value in the interim statement of financial position include loans and deposits to banks, loans to corporate customers, due to credit institutions, due to customers, debt securities issued and securities at amortized cost.

(EUR thousand)

26. Segment reporting

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

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

Management monitors operating results of each segment separately to make decisions on allocation of resources and to access their operating performance. Segment performance is measured on the basis of operating profit or loss, which is calculated differently from operating profit or loss recorded in the interim condensed financial statements, as indicated in the table below.

Income and expense by segment and profit for the six months ended 30 June 2021 and 30 June 2020, respectively, are shown in the table below:

| Six months ended 30 June 2021 (unaudited) | Development portfolio | Other banking activities | Other activities | Total |
|---|----------------------------------|-------------------------------------|-----------------------------|----------------|
| Interest income calculated using the EIR method | 8,059 | 1,878 | 6 | 9,943 |
| Other interest income | 92 | 76 | – | 168 |
| Interest expense | (2,252) | (526) | (21) | (2,799) |
| Net interest income (expense) | 5,899 | 1,428 | (15) | 7,312 |
| Allowance for expected credit losses from financial assets | 117 | (393) | – | (276) |
| Net interest income (expense) after allowance for expected credit losses | 6,016 | 1,035 | (15) | 7,036 |
| Net fee and commission income (expense) | 605 | 52 | – | 657 |
| Net (losses) gains from operations with securities at fair value through profit or loss | 66 | (140) | – | (74) |
| Net gains from operations with securities at fair value through other comprehensive income | 3,128 | 853 | – | 3,981 |
| Net (losses) gains from operations with derivative financial instruments and foreign currency | 2,817 | (3,393) | (46) | (622) |
| Lease income | – | – | 930 | 930 |
| Other banking income | – | 17 | 235 | 252 |
| Other provisions | – | – | (116) | (116) |
| Other banking expenses | (37) | (14) | – | (51) |
| Segment profit | 12,595 | (1,590) | 988 | 11,993 |

(intentionally blank)

(EUR thousand)

26. Segment reporting (continued)

| <i>Six months ended 30 June 2020 (unaudited)</i> | <i>Development portfolio</i> | <i>Other banking activities</i> | <i>Other activities</i> | <i>Total</i> |
|---|----------------------------------|-------------------------------------|-----------------------------|----------------|
| Interest income calculated using the EIR method | 6,204 | 2,534 | 5 | 8,743 |
| Other interest income | 94 | 123 | – | 217 |
| Interest expense | (3,339) | (277) | (19) | (3,635) |
| Net interest income (expense) | 2,959 | 2,380 | (14) | 5,325 |
| Allowance for expected credit losses from financial assets | (1,633) | (633) | – | (2,266) |
| Net interest income (expense) after allowance for expected credit losses | 1,326 | 1,747 | (14) | 3,059 |
| Net fee and commission income (expense) | 302 | (27) | – | 275 |
| Net gains from operations with securities at fair value through profit or loss | 630 | 559 | – | 1,189 |
| Net gains from operations with securities at fair value through other comprehensive income | 2,403 | 1,934 | – | 4,337 |
| Net (losses) gains from operations with derivative financial instruments and foreign currency | (326) | (535) | 11 | (850) |
| Lease income | – | – | 785 | 785 |
| Other banking income | 1 | 4,074 | 192 | 4,267 |
| Other provisions | – | – | (35) | (35) |
| Other banking expenses | (92) | (20) | (1) | (113) |
| Segment profit | 4,244 | 7,732 | 938 | 12,914 |

The reconciliation of total of the segments' profit to the Bank's profit is as follows:

| | <i>For the six months ended 30 June (unaudited)</i> | |
|------------------------------|---|--------------|
| | <i>2021</i> | <i>2020</i> |
| Total segment profit | 11,993 | 12,914 |
| Other unallocated expenses | (6,589) | (6,277) |
| Profit for the period | 5,404 | 6,637 |

Assets and liabilities of the Bank's operating segments are presented below:

| | <i>Development portfolio</i> | <i>Other banking activities</i> | <i>Other activities</i> | <i>Total</i> |
|-----------------------------------|----------------------------------|-------------------------------------|-----------------------------|----------------|
| Segment assets | | | | |
| 30 June 2021 (unaudited) | 506,608 | 202,344 | 53,538 | 762,490 |
| 31 December 2020 | 513,329 | 247,869 | 53,931 | 815,129 |
| Segment liabilities | | | | |
| 30 June 2021 (unaudited) | 331,963 | 110,833 | 7,866 | 450,662 |
| 31 December 2020 | 320,712 | 168,945 | 8,362 | 498,019 |
| Credit-related commitments | | | | |
| 30 June 2021 (unaudited) | 95,400 | 66,316 | – | 161,716 |
| 31 December 2020 | 69,898 | 69,974 | – | 139,872 |

During the six months ended 30 June 2021, the Bank's revenue from lease operations with two external counterparties (30 June 2020: two external counterparties) exceeded 20% of the Bank's income for six months ended 30 June 2021: EUR 671 thousand (30 June 2020: EUR 725 thousand).

(EUR thousand)

26. Segment reporting (continued)

Segment revenue from contracts with external customers that are within the scope of IFRS 15 for the six months ended 30 June 2021 and 30 June 2020 is as follows:

| Six months ended 30 June 2021 (unaudited) | Development portfolio | Other banking activities | Other activities | Total |
|--|----------------------------------|-------------------------------------|-----------------------------|---------------|
| Interest income | 8,151 | 1,954 | 6 | 10,111 |
| Fee and commission income | 724 | 108 | – | 832 |
| - documentary operations | 553 | – | – | 553 |
| - fee for servicing a loan/credit facility | 121 | – | – | 121 |
| - fiduciary operations | – | 101 | – | 101 |
| - cash and settlement operations | 25 | 3 | – | 28 |
| - accounts maintenance | 17 | 4 | – | 21 |
| - currency control | 8 | – | – | 8 |
| Lease income | – | – | 930 | 930 |
| Total revenue from contracts with customers | 8,875 | 2,062 | 936 | 11,873 |

| Six months ended 30 June 2020 (unaudited) | Development portfolio | Other banking activities | Other activities | Total |
|--|----------------------------------|-------------------------------------|-----------------------------|---------------|
| Interest income | 6,298 | 2,657 | 5 | 8,960 |
| Fee and commission income | 365 | 15 | – | 380 |
| - documentary operations | 280 | – | – | 280 |
| - cash and settlement operations | 32 | 8 | – | 40 |
| - accounts maintenance | 20 | 5 | – | 25 |
| - currency control | 18 | 2 | – | 20 |
| - fee for servicing a loan/credit facility | 15 | – | – | 15 |
| Lease income | – | – | 785 | 785 |
| Total revenue from contracts with customers | 6,663 | 2,672 | 790 | 10,125 |

27. Related party transactions

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

Transactions with the Bank's key management personnel

During the six months ended 30 June 2021, remuneration to the key management personnel of the Bank amounted to EUR 956 thousand (30 June 2020: EUR 840 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 23 thousand (30 June 2020: EUR 18 thousand), the pension funds in IBEC member countries in the amount of EUR 5 thousand (30 June 2020: EUR 6 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 11 thousand (30 June 2020: EUR 8 thousand).

As at 30 June 2021 and 31 December 2020, balances on the accounts of the Bank's key management personnel were as follows:

| | 30 June 2021 (unaudited) | 31 December 2020 |
|------------------|-------------------------------------|-------------------------|
| Current accounts | 1,216 | 1,166 |

Transactions with government-related companies

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

(EUR thousand)

27. Related party transactions (continued)**Transactions with government-related companies (continued)**

The table below discloses significant transactions with government-related companies:

| <i>Interim statement of financial position</i> | <i>30 June 2021 (unaudited)</i> | <i>31 December 2020</i> |
|---|--|--------------------------------|
| Assets | | |
| Cash and cash equivalents | 1,570 | 3,434 |
| Securities at fair value through profit or loss | 13,684 | 1,119 |
| Securities at fair value through other comprehensive income | 93,359 | 168,605 |
| Securities at amortized cost | 42,269 | 45,135 |
| Loans and deposits to banks | 23,865 | 50,893 |
| Loans to corporate customers | 106,165 | 107,563 |
| Derivative financial assets | 2 | 19 |
| Other assets | 6,821 | 7,072 |
| Liabilities | | |
| Due to credit institutions | 91,953 | 101,433 |
| Due to customers | 14,858 | 38,603 |
| Derivative financial liabilities | 8,061 | 8,318 |
| Other liabilities | 319 | 378 |
| Off-balance sheet commitments | | |
| Credit-related commitments | 13,088 | 18,741 |

Amounts included in the interim statement of profit or loss and other comprehensive income for transactions with government-related companies for the six months ended 30 June 2021 and 30 June 2020 are as follows:

| <i>Interim statement of profit or loss and other comprehensive income</i> | <i>30 June 2021 (unaudited)</i> | <i>30 June 2020 (unaudited)</i> |
|---|--|--|
| Interest income calculated using the EIR method | 5,062 | 4,108 |
| Other interest income | 165 | 159 |
| Interest expense | (796) | (1,856) |
| Allowance for expected credit losses from financial assets | 272 | (511) |
| Fee and commission income | 42 | 7 |
| Fee and commission expense | (13) | (7) |
| Net (losses) gains from operations with securities at fair value through profit or loss | (168) | 1,313 |
| Net gains from operations with securities at fair value through other comprehensive income | 1,780 | 2,478 |
| Net (losses) gains from operations with derivative financial instruments and foreign currency | 662 | (4,188) |
| Lease income | 890 | 766 |
| Other banking income | 47 | 96 |
| Administrative and management expenses | (164) | (148) |
| Other banking expenses | – | (13) |

28. Capital adequacy

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

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

The Bank's capital adequacy ratio approved by the Council of the Bank is established at not less than 25%. At the same time, the capital adequacy limit was approved by the IBEC Council at 35% with a trigger at 40% within the IBEC risk appetite for 2021 and the next strategic cycle.

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

The Bank's capital adequacy ratio as at 30 June 2021 and 31 December 2020 comprised 43.9% and 43.7%, respectively. This indicates that the Bank maintains the requisite level of capital adequacy.

*(EUR thousand)***28. Capital adequacy (continued)**

The table below shows the composition of the Bank's capital computed in accordance with the Basel Accord (Basel II) as at 30 June 2021 and 31 December 2020.

| | 30 June 2021 (unaudited) | 31 December 2020 |
|-----------------------------------|-------------------------------------|-------------------------|
| Capital | 311,828 | 317,110 |
| Total capital | 311,828 | 317,110 |
| Risk-weighted assets | | |
| Credit risk | 629,872 | 617,878 |
| Market risk | 72,532 | 99,893 |
| Operational risk | 8,577 | 8,577 |
| Total risk-weighted assets | 710,981 | 726,348 |