Independent auditor's report
on the consolidated financial statements of the
International Investment Bank
and its subsidiary
for 2023

April 2024

Independent auditor's report
on the consolidated financial statements of the
International Investment Bank
and its subsidiary

Contents — Page

NEW CHALLENGES
NEW SOLUTIONS

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Independent auditor's report

To the Board of Governors of
International Investment Bank

Opinion

We have audited the consolidated financial statements of International Investment Bank and its subsidiary (hereinafter, the "Group"), which comprise the consolidated statement of financial position as of 31 December 2023, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2023 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

NEW CHALLENGES
NEW SOLUTIONS

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

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses ("ECL") on loans to banks and loans to customers	
Estimation of the allowance for ECL on loans to banks and loans to customers in accordance with IFRS 9 is a key area of judgment for the Group's management. Identification of factors of significant credit risk increase, considering the change in the risk of default occurring over the remaining life of the financial instrument, estimation of default probability and loss given default involve significant judgments, assumptions and analysis of various factors, including financial and non-financial information by counterparty, macroeconomic projections and estimated future repayment proceeds. The use of different models and assumptions can significantly affect the level of allowance for ECL on loans to banks and loans to customers. Due to the significance of such loans, which account for 42.6% of the total consolidated assets, and the significant use of judgments, the assessment of the allowance for ECL on loans to banks and loans to customers is a key audit matter. The information on ECL on loans to banks and loans to customers is provided in Note 10 Loans to banks, Note 11 Loans to customers, Note 15 Allowances for expected credit losses and Note 26 Risk management to the consolidated financial statements.	We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of loans to banks and loans to customers and controls over ECL calculations including the quality of underlying data and systems. For ECL for loans to banks and loans to customers calculated on an individual basis, we tested the assumptions underlying the impairment identification and quantification focusing on loan cases with the most significant potential impact on the consolidated financial statements. We assessed the Group's assumptions on the expected future cash flows and estimates of recovery on default based on our own understanding and available market information. For ECL for loans to banks and loans to customers calculated on a collective basis we evaluated the methodologies, inputs and assumptions used (probability of default, loss given default, significant changes in credit risk and forward-looking elements). We involved credit risk specialists to review the methodologies and the assumptions used, including model validations. We also assessed the relevant information on ECL on loans to banks and loans to customers disclosed in the consolidated financial statements.

Other information included in the Group's 2023 Issuer's Report

Other information consists of the information included in the Group's 2023 Issuer's Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2023 Issuer's Report is expected to be made available to us after the date of this auditor's report.

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

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

NEW CHALLENGES
NEW SOLUTIONS

Responsibilities of management and the Audit Committee of the Bank for the consolidated financial statements

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

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

The Audit Committee of the Bank is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

NEW CHALLENGES
NEW SOLUTIONS

- We plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units of the group as a basis for forming our opinion on the consolidated financial statements of the group. We are responsible for the direction, supervision and review of audit work performed for group audit purposes. We remain fully responsible for our audit opinion.

We communicate with the Audit Committee of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Bank with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

Shinin Gennady Aleksandrovich,
acting on behalf of TSATR – Audit Services Limited Liability Company
on the basis of power of attorney dated 29 February 2024,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 22006013387)

16 April 2024

Details of the auditor

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

Details of the audited entity

Name: International Investment Bank
International Investment Bank is an international organization established on the basis of the Agreement Establishing the International Investment Bank dated 10 July 1970, registered with the United Nations Secretariat on 1 December 1971 under number 11417.
Address: Russia, 107078, Moscow, Machi Poryvaevoy street, 7.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

(Thousands of euros)

	Note	*31 December 2023*	*31 December 2022*
Assets			
Cash and cash equivalents	5	103,642	163,817
Deposits with banks and other financial institutions	6	149,780	147,844
Derivative financial assets	7	1,216	14,041
Investments at fair value through profit or loss		–	14,219
Securities at fair value through other comprehensive income	8	152,776	156,222
Securities at amortized cost	9	31,947	62,134
Loans to banks	10	98,909	104,005
Loans to customers	11	371,294	543,906
Investment property	12	32,194	33,360
Property, equipment and intangible assets	13	58,369	61,378
Other assets	14	102,771	1,637
Total assets		**1,102,898**	**1,302,563**
Liabilities			
Due to banks and other financial institutions	16	50	1,620
Derivative financial liabilities	7	995	34,095
Current customer accounts		4,016	7,599
Long-term loans of banks	17	43,699	45,611
Debt securities issued	18	641,034	883,266
Other liabilities	14	103,421	2,778
Total liabilities		**793,215**	**974,969**
Equity	20		
Authorized capital		2,000,000	2,000,000
Less: unallocated capital		(1,385,000)	(875,500)
Subscribed capital		**615,000**	**1,124,500**
Less: callable capital		(507,184)	(697,376)
Paid-in capital		**107,816**	**427,124**
Contributions of withdrawn members	20	208,308	–
Subordinated perpetual deposit	19	111,008	–
Revaluation reserve for securities at fair value through other comprehensive income		(2,160)	(31,956)
Revaluation reserve for property and equipment		6,488	7,898
Cash flow hedge reserve	7	(9,085)	(30,882)
Foreign currency translation reserve		(157)	(107)
Retained earnings (accumulated loss) less net loss for the year		(44,483)	67,508
Net loss for the year		(68,052)	(111,991)
Total equity		**309,683**	**327,594**
Total equity and liabilities		**1,102,898**	**1,302,563**

Signed and authorized for release on behalf of the Management Board of the Bank

Georgy Potapov — Chairperson of the Management Board

Demchigjav Molomjamts — Deputy Chairperson of the Management Board

16 April 2024

The accompanying notes 1-33 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2023

(Thousands of euros)

	Note	*2023*	*2022*
Interest income calculated using the EIR method	23	51,926	59,996
Other interest income	23	4,198	17,931
Interest expense calculated using the EIR method	23	(29,265)	(47,966)
Other interest expense	23	(3,006)	(11,345)
Net interest income		**23,853**	**18,616**
Net allowance for credit losses on financial instruments	5-6, 8-11, 14-15, 21	(58,025)	(19,223)
Net interest loss after allowance for loan impairment		**(34,172)**	**(607)**
Fee and commission income		105	1,226
Fee and commission expense		(646)	(401)
Net fee and commission (loss)/income		**(541)**	**825**
Net losses from operations with foreign currencies and derivatives	24	(11,143)	(60,299)
Net (losses)/gains from operations with investments at fair value through profit or loss		(35)	212
Net losses from operations with investments at fair value through other comprehensive income	8, 11	(1,450)	(7,613)
Net losses from operations with investments at amortized cost	9, 11	(8,096)	(3,512)
Income from lease of investment property	12, 22	2,696	3,195
Gains from sale of investment property		–	36
Losses from revaluation of investment property	12	(1,238)	(623)
Other (loss)/income		(166)	2,628
Net non-interest loss		**(19,432)**	**(65,976)**
Operating loss		**(54,145)**	**(65,758)**
General and administrative expenses	25	(15,239)	(18,154)
Net income/(losses) from sale of loans to customers	11	1,471	(27,739)
Other operating expenses on banking operations		(139)	(340)
Operating expenses		**(13,907)**	**(46,233)**
Net loss for the year		**(68,052)**	**(111,991)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

(Thousands of euros)

	Note	*2023*	*2022*
Net loss for the year		**(68,052)**	**(111,991)**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in the fair value of debt instruments at fair value through other comprehensive income	20	11,279	(31,997)
Net unrealized loss on cash flow hedges	7	21,797	(1,090)
Translation differences		(50)	14
Change in the allowance for expected credit losses related to securities at fair value through other comprehensive income	8, 11	18,517	99
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**51,543**	**(32,974)**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment	13	(1,410)	(793)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(1,410)**	**(793)**
Other comprehensive income/(loss)		**50,133**	**(33,767)**
Total comprehensive loss for the year		**(17,919)**	**(145,758)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

(Thousands of euros)

	Authorized capital	*Unallocated capital*	*Callable capital*	*Subordinated perpetual deposit*	*Contributions of withdrawn members*	*Revaluation reserve for securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Cash flow hedge reserve*	*Retained earnings*	*Total equity*
At 1 January 2022	**2,000,000**	**(875,500)**	**(699,631)**	**–**	**–**	**(58)**	**8,691**	**(121)**	**(29,792)**	**67,508**	**471,097**
Loss for the year	–	–	–	–	–	–	–	–	–	(111,991)	**(111,991)**
Other comprehensive loss	–	–	–	–	–	(31,898)	(793)	14	(1,090)	–	**(33,767)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**–**	**(31,898)**	**(793)**	**14**	**(1,090)**	**(111,991)**	**(145,758)**
Contributions to capital (Note 20)	–	–	2,255	–	–	–	–	–	–	–	**2,255**
At 31 December 2022	**2,000,000**	**(875,500)**	**(697,376)**	**–**	**–**	**(31,956)**	**7,898**	**(107)**	**(30,882)**	**(44,483)**	**327,594**
At 1 January 2023	**2,000,000**	**(875,500)**	**(697,376)**	**–**	**–**	**(31,956)**	**7,898**	**(107)**	**(30,882)**	**(44,483)**	**327,594**
Loss for the year	–	–	–	–	–	–	–	–	–	(68,052)	**(68,052)**
Other comprehensive income/(loss)	–	–	–	–	–	29,796	(1,410)	(50)	21,797	–	**50,133**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**–**	**29,796**	**(1,410)**	**(50)**	**21,797**	**(68,052)**	**(17,919)**
Withdrawals from capital (Note 20)	–	–	(319,308)	–	–	–	–	–	–	–	**(319,308)**
Contributions of withdrawn members (Note 20)	–	(509,500)	509,500	–	208,308	–	–	–	–	–	**208,308**
Subordinated perpetual deposit (Note 19)	–	–	–	111,008	–	–	–	–	–	–	**111,008**
At 31 December 2023	**2,000,000**	**(1,385,000)**	**(507,184)**	**111,008**	**208,308**	**(2,160)**	**6,488**	**(157)**	**(9,085)**	**(112,535)**	**309,683**

The accompanying notes 1-33 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

(Thousands of euros)

	Note	*2023*	*2022*
Cash flows from operating activities			
Interest, fees and commissions received		29,693	54,639
Interest, fees and commissions paid		(1,536)	(874)
Realized gains less losses from operations with foreign currencies and derivatives		(27,390)	(35,316)
Cash flows from lease of investment property	22	2,696	3,195
General and administrative expenses		(11,547)	(15,150)
Other operating income on banking operations		574	878
Cash flows from operating activities before changes in operating assets and liabilities		**(7,510)**	**7,372**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		27,272	(125,529)
Loans to banks	10	6,358	23,215
Loans to customers	11	161,374	398,740
Other assets		187	757
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions	16	(38,981)	(18,648)
Current customer accounts		(5,998)	(18,609)
Other liabilities		598	(1,008)
Net cash flows from operating activities		**143,300**	**266,290**
Cash flows from investing activities			
Interest received		1,551	2,354
Purchase of securities at fair value through profit or loss		(361)	(1,711)
Proceeds from sale of securities at fair value through profit or loss		9,353	–
Purchase of securities at fair value through other comprehensive income	8	(62,555)	(63,192)
Proceeds from sale and redemption of securities at fair value through other comprehensive income	8	54,243	101,653
Proceeds from sale of securities at amortized cost	9	23,310	–
Acquisition/(proceeds) from sale of investment property	12	(72)	2,098
Acquisition of property, equipment and intangible assets	13	(477)	(1,083)
Net cash flows from investing activities		**24,992**	**40,119**
Cash flows from financing activities			
Interest paid	31	(14,787)	(35,333)
Long-term interbank financing raised	17	–	3,085
Long-term interbank financing repaid	17	(4,000)	(23,059)
Debt securities issued	18	40,277	57,835
Redemption and repurchase of debt securities	18	(245,077)	(223,626)
Contributions to capital	20	–	2,255
Net cash flows from financing activities		**(223,587)**	**(218,843)**
Effect of exchange rate changes on cash and cash equivalents		(4,365)	(12,913)
Net (decrease)/increase in cash and cash equivalents		**(59,660)**	**74,653**
Cash and cash equivalents, beginning		163,826	89,173
Cash and cash equivalents	5	**104,166**	**163,826**
Less: allowance for impairment cash and cash equivalents		(524)	(9)
Cash and cash equivalents, ending		**103,642**	**163,817**

The accompanying notes 1-33 are an integral part of these consolidated financial statements.

(Thousands of euros)

1. Principal activities

The International Investment Bank (the “Bank” or the “IIB”) was founded in 1970 and has operated since 1 January 1971.

The Bank is an international institution operating on the basis of the intergovernmental agreements: 1) Agreement Establishing the International Investment Bank (the “Agreement on the establishment”) and its Charter; as well as the agreements with host countries: 2) Agreement between the Government of the Russian Federation and IIB regarding the seat of IIB in the Russian Federation of 11 February 2020 (was ratified on 4 February 2021) and 3) Agreement between IIB and the Government of Hungary regarding the Headquarters of IIB in Hungary of 5 February 2019 (entered into force on 28 April 2019). The Agreement on the establishment was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. On 18 August 2018, the revised Agreement on the establishment and Charter, approved by the Protocol Amending the Agreement Establishing the International Investment Bank and its Charter of 8 May 2014, became effective and applicable. The Bank is primarily engaged in lending for national and cross-border investment projects in its member countries and for other purposes defined by Agreement Establishing the IIB and its Charter. The Bank also performs transactions with securities and foreign currencies.

On 12 April 2023 U.S. designated IIB to the OFAC SDN list and imposed blocking sanctions against the Bank. As a result, the Bank has been completely deprived from ability to conduct operations in the territory of the European Union and with European entities:

- Opportunities to work in Europe with accounts in euros and currencies of other participating countries (except Russia) are blocked;
- Due to a unilateral expansive interpretation of restrictions imposed on the Bank, all banks in Europe have closed/blocked IIB’s accounts (Note 6);
- The Bank didn’t pay its bonds denominated in Czech crowns, Hungarian forints, Romanian lei and Euro due to the refusal of the paying agent (Citibank N.A., London) to accept the funds (Note 18) and/or refusal of European financial institutions to execute the Bank`s payment instructions for the purpose of repayment of obligations to IIB`s investors.

Since operations in EU and in European currencies were suspended, in order to ensure financial sustainability of the Bank, Group managed to accumulate a significant RUB-liquidity buffer (Note 26).

Following the withdrawal of five states from the Bank, the Bank is in the process of winding down its operations in connection to those former member countries, to the extent possible under blocking sanctions of the U.S. and unavailability of financial infrastructure in the EU jurisdictions.

Group faced technical difficulties in receipt of funds related to unilateral actions of European financial institutions that stopped providing payment infrastructure. Group issues waivers to clients with prolongation of payments terms on a case-by-case basis when it is technically impossible to effect such payments.

The Group reiterates its commitment to the high international standards on financial markets and confirms firm determination to fulfil its obligations towards investors. After the necessary conditions would appear, the Group intends to fulfill its obligations towards investors, counterparties and stakeholders.

Five European states ceased to be the members of IIB in 2023 (Czech Republic on 27 January 2023, Slovakia on 29 January 2023, Romania on 9 June 2023, Bulgaria on 15 August 2023, Hungary on 19 October 2023), the shares of these states in the paid-up capital of the Bank have been respectively discontinued (Note 20). Following the Resolution of the Board of Governors (30 January 2023) aimed at restructuring of the Bank’s paid-up capital, the Bank converted part of the Russian Federation’s share in the paid-up capital into a subordinated perpetual deposit (Note 19).

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(Thousands of euros)

1. Principal activities (continued)

Member countries of the Bank

The member countries of the Bank include (share in the paid-in capital of the Bank, %):

Member countries	*31 December 2023, %*	*31 December 2022, %*
Russian Federation	84.056	47.205
Republic of Cuba	7.662	1.934
Mongolia	4.879	1.231
Socialist Republic of Vietnam	3.403	0.859
Hungary	–	17.269
Republic of Bulgaria	–	9.881
Czech Republic	–	8.750
Slovak Republic	–	6.759
Romania	–	6.112
	100.000	**100.000**

Conditions of the Bank’s financial and business operations in the member countries

In its member countries, the Bank is not subject to taxation and enjoys all privileges available to diplomatic representations.

The Bank is not subject to regulation by the Central Banks of the member countries, including the country of residence.

Due to the termination of Hungary’s membership in the International Investment Bank, the basis for further operation of the Bank from its headquarters in Budapest and in the European Union has been exhausted. The Bank was compelled to relocate its operations, functions and decision-making activities from Hungary to its Russian office. Hungary will *de jure* remain the host country of the Bank until the required amendment to the Charter of the Bank regarding the change of its seat (the corresponding decision of the Board of Governors of the Bank is subject to the unilateral approval of the Bank’s member states) would start to be provisionally applied or come into force.

Business environment in the member countries

Economic and political development of the Bank’s member countries affects the activities of enterprises operating in these countries. Considering this fact, the Bank performs its operations with reference to the local specifics of its member countries to ensure overall assessment and control of credit and operational risks.

The accompanying consolidated financial statements reflect the management’s assessment of the impact of the member countries’ business environment on the results of operations and financial position of the Group. Future evolution of the conditions in which the Group operates may differ from the assessment made by the management for the purposes of these consolidated financial statements.

2. Basis of preparation

General

These financial statements have been prepared on a consolidated basis in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared to be submitted for review to the Audit Commission and the IIB Board of Governors.

Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgment, management considered the Group’s consolidated financial position, current intentions, profitability of operations and available financial resources. Currently the Group is unable to perform its obligations to European creditors due to technical limitations; however, the Group’s assets in the European Union are sufficient to meet its obligations. The Bank fulfills its obligations in the Russian Federation. The Bank relies on the support of current shareholders.

(Thousands of euros)

2. Basis of preparation (continued)

Subsidiary

As at 31 December 2023, the Bank is a parent company of the Group, which owns JSC IIB Capital (the Bank's 100% subsidiary) established in 2012 to deal with issues related to the IIB activities in Russia, including the provision of trustee services to the Bank. As at 31 December 2023, the authorized capital of the subsidiary amounted to RUB 44.5 thousand (31 December 2022: RUB 44.5 thousand), which is equivalent to EUR 1.1 thousand at the historical exchange rate at the date of establishment.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, financial instruments at fair value through other comprehensive income and buildings in the property, equipment and investment property stated at revalued amounts.

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

The euro ("EUR") is the Group's functional and presentation currency as it reflects the economic substance of the underlying operations conducted by the Group and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Group are denominated in EUR.

These consolidated financial statements are presented in thousands of euro (EUR), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new Standards effective as of 1 January 2023. The nature and the effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new standards, amendments and interpretations became effective on 1 January 2023:

Amendments to IAS 8, IAS 1 and IFRS Practice Statement 2

Amendments to IAS 8 Definition of Accounting Estimates

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

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

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

Foreign currency transactions

The consolidated financial statements are presented in euro, which is the Group's functional and presentation currency. Every currency except euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net losses from operations with foreign currencies and derivatives". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Subsidiaries and associates

Subsidiaries are those entities in which the Group has an interest of more than one-half of the voting rights or equity interest, or otherwise has power to exercise control over their operations. Associates are entities in which the Group generally has between 20% and 50% of the voting rights (interest), or is otherwise able to exercise significant influence, but which it does not control or jointly control. These financial statements of the Group contain no consolidated interests of the Group and no investments recognized under the equity method.

Investments in subsidiaries and associates are recognized in the consolidated financial statements at actual acquisition cost. Management regularly measures the recoverable value of such investments and, when necessary, provides for impairment.

Fair value measurement

The Group measures financial instruments at fair value through profit or loss and at fair value through other comprehensive income, and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 27.

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

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

The Group shall have access to the principal or the most advantageous market. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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(Thousands of euros)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing classification (based on the lowest level inputs that are significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the settlement date i.e. the date that the asset is delivered or liability is assumed. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

Classification of financial instruments upon initial recognition depends on contractual terms and the business model used for managing financial instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial instruments are measured at fair value through profit and loss.

Categories of measurement of assets and liabilities

The Group classifies all of its financial assets based on the business model used for asset managing and asset contractual terms as measured at:

- Amortized cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVPL).

The Group classifies and measures the derivatives and instruments held for trading at FVPL. The Group at its discretion may designate the financial instruments as measured at FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Financial liabilities, except for loan commitments, reimbursement obligations, and financial guarantees are measured at amortized cost or at FVPL, if they are held for trading or derivatives, or the entity may designate them as measured at fair value.

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(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Deposits with banks and other financial institutions, loans to banks, loans to customers, securities at amortized cost

The Group measures deposits with banks and other financial institutions, loans to banks, loans to customers, and other financial investments at amortized cost, only when both of the following conditions are met:

- The financial asset is held under a business model designed to hold financial assets in order to collect contractual cash flows; and
- Contractual terms of a financial asset provide for the receipt on specified dates of cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

These terms are detailed below.

Business model assessment

The Group determines the business model at the level that reflects the best way to manage the financial assets arranged in groups to accomplish a certain business objective.

The Group's business model is assessed at the higher level of aggregated portfolio, rather than the consolidated instrument level, and is based on the observable factors, such as:

- The method to assess the business model performance and the profitability of financial assets held within this business model, and the way this information is communicated to the key management personnel of the entity;
- Risks that influence the business model performance (and the profitability of financial assets held within this business model) and, in particular, the way to manage these risks;
- The procedure to reward business managers (for example, whether the remuneration is based on the fair value of the managed assets or on the obtained contractual cash flows);
- The expected frequency, scope and timing of sales are also important factors in assessing the Group's business model.

The business model assessment is based on scenarios, the occurrence of which is reasonably probable, without regard to the so-called worst case or stressed scenarios. If the cash flows following the initial recognition were realized in a way different from the Group's expectations, the Group will not change the classification of the rest of financial assets held within this business model, however, in future the Group will take such information into account when measuring recently created or recently purchased financial assets.

"Solely payments of principal and interest on the principal amount outstanding" test (SPPI test)

During the second stage of classification, the Group assesses contractual terms of a financial asset to determine whether the contractual cash flows of the asset are solely payments of principal and interest on the principal amount outstanding (so-called SPPI test).

For the purpose of this test, principal is the fair value of a financial asset at initial recognition, and it can be changed over the life of this financial asset (for example, if there are payments of principal or the amortization of premium/ discount).

The most significant elements of interest as part of the loan agreement are usually the compensation for the time value of money and the credit risk. To conduct the SPPI test, the Group applies judgments and analyzes relevant factors, for example, the currency, in which the financial asset is denominated, and the period, for which the interest rate is set.

Simultaneously, the contractual terms, which had a negligible effect on risk exposures or volatility of contractual cash flows not related to the base loan agreement, don't give rise to the contractual cash flows, which are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset should be measured at FVPL.

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI, if both of the following conditions are met:

- The instrument is held within a business model which objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Contractual terms of the financial assets comply with the SPPI test.

Debt instruments at FVOCI are subsequently measured at fair value, and gains or losses from changes in the fair value are recognized in OCI. Interest revenue and gains or losses from the change in exchange rates are recognized in profit or loss in the same manner as in the case of financial assets at amortized cost. In the process of derecognition the cumulative gain or loss, previously recognized in OCI, are reclassified from OCI to profit or loss.

ECL on debt instruments at FVOCI will not decrease the carrying amount of these financial assets in the consolidated statement of financial position that continue to be measured at fair value. Instead, the amount equal to the allowance for expected losses that would be created when measuring the asset at amortized cost is recognized in OCI as the cumulative amount of the impairment with the recognition of corresponding amounts in profit or loss. The cumulative amount of losses recognized in OCI is reclassified to profit or loss when the asset is derecognized.

Equity instruments at FVOCI

The Group sometimes at initial recognition of some investments in equity instruments makes an irrevocable decision to classify investments in equity instruments at FVOCI if they meet the definition of an equity instrument according to IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification decision is adopted for each instrument consolidatedly.

Gains and losses from such equity instruments are never reclassified to profit or loss. Dividends are recognized in profit or loss as other income, when the right for dividends is established, except where the Group obtains benefits from such receipts as the partial reimbursement of the instrument cost. In such case, the profit is recognized in OCI. Equity instruments at FVOCI are not tested for impairment. When such instruments are disposed, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and loan commitments

The Group issues guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value in the amount of the premium received. Subsequent to initial recognition, the Group measures its liability under each guarantee at the higher of the initially recognized amount less accumulated amortization recognized in the consolidated income statement and an ECL provision.

Commitments to extend credit and letters of credit are contractual commitments, pursuant to which over the life of the commitment the Group undertakes to issue a loan to the client on previously specified terms. Similar to financial guarantees contracts, these contracts are in the scope of the ECL requirements.

Performance guarantees

Performance guarantees are agreements providing for a compensation if the other party to the agreement fails to fulfill its contractual liability. Performance guarantees do not transfer credit risk. Risk under the contract with a performance guarantee is the possibility that the other party fails to fulfill its contractual liability. Accordingly, performance guarantees are not financial instruments and, therefore, are outside the scope of IFRS 9.

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(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Reclassification of financial assets and liabilities

The Group does not reclassify financial assets after the initial recognition, apart from exceptional cases, when the Group changes the business model for managing the financial assets. Financial liabilities are never reclassified. In 2022, the Group did not reclassify financial assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and in case the transferee has the right by contract or custom to sell or repledge them, reclassified as investment securities pledged under sale and repurchase agreements. The corresponding liabilities are presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash equivalents, deposits with banks and other financial institutions as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses from operations with these instruments are included in the consolidated income statement as "Net losses from operations with foreign currencies and derivatives".

Embedded derivative is a part of a hybrid contract that also includes a non-derivative host contract, as a result of which some cash flows from the combined instrument change in the same manner as in the case of a consolidated derivative. An embedded derivative determines the change of some or all cash flows, which otherwise would have been determined by the contract, pursuant to the negotiated interest rate, financial instrument price, price of goods, foreign currency exchange rate, price or interest rate index, credit rating or credit index or other variables, provided that in case of a non-financial variable, such non-financial variable does not specifically relate to any of the contractual parties. A derivative, which is linked to the financial instrument, however, pursuant to contract can be transferred regardless of such instrument or entered into with another counterparty, is not embedded, but a consolidated financial instrument.

Derivatives embedded in financial assets, liabilities and non-financial host contracts, were carried separately and recognized at fair value, if they met the definition of a derivative financial instrument (see above), their risks and economic characteristics were not closely linked to those of the host contracts and the host contracts were not held for sale and were not measured at FVPL. The embedded derivatives Consolidated from the host contract were carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated income statement.

Financial assets are classified on the basis of the business model and SPPI test assessment.

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(Thousands of euros)

3. Summary of accounting policies (continued)

Hedge accounting

To manage the risks associated with fluctuations in cash flows from receipt and payment of interest, as well as with fluctuations in the fair value of certain items, the Group uses derivative financial instruments. As a result, the Group applies hedge accounting for transactions that meet specified criteria.

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

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was highly effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken both at inception and at each quarter end on an ongoing basis.

The hedging relationship is considered to be effective if the following hedge effectiveness requirements are met:

i. There is an economic relationship between the hedged item and the hedging instrument;

ii. The effect of credit risk does not dominate the value changes that result from that economic relationship; and

iii. The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The Group applies hedge accounting in accordance with IFRS 9.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the consolidated income statement in "Net losses from operations with foreign currencies and derivatives". Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as an adjustment of the carrying value of the hedged item in the consolidated income statement in "Net losses from operations with foreign currencies and derivatives".

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, using the effective interest rate method, when the hedge ceases, the adjustment of the carrying amount of the hedged financial instrument is amortized over the remaining period until date of maturity of the hedged financial instrument. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized in consolidated other comprehensive income and is recorded through other comprehensive income. An ineffective portion of the gain or loss on the hedging instrument is recognized in the consolidated income statement.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, the total amount of income or expense accumulated at that time in equity is transferred from equity and recognized in the consolidated income statement in the same period or periods during which hedged projected cash flows affect profit or loss.

When a forecasted transaction is no longer expected, the cumulative gain or loss recognized in equity is immediately transferred to the consolidated income statement.

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(Thousands of euros)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to banks and other financial institutions, long-term loans of banks and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of offsetting must not be contingent on a future event and should be legally enforceable in all the following circumstances:

- In the normal course of business;
- In case of default; and
- In the event of insolvency or bankruptcy of the entity or any of its counterparties.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Group derecognizes a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference in gains or losses arising from derecognition before impairment loss is recognized. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing, whether the loan to customer should be derecognized, the Group considers the following:

- The change in the currency of a loan;
- Quantitative 10% NPV test;
- Change of interest rate from fix to floating or vice versa;
- Increase of loan principal was accompanied by debt transfer from one borrower to another (debt consolidation);
- The change of a counterparty;
- Whether the modification results in the non-compliance of the instrument to the SPPI test criteria.

If the modification does not imply a substantial change in cash flows, such modification does not result in a derecognition. Based on the changes in cash flows discounted at the original EIR, the Group recognizes gains or losses from the modification that are recorded within interest income calculated using the effective interest rate method in the consolidated income statement before impairment loss is recognized.

If the modification does not result in derecognition, the Group also reassesses the significant increase in credit risk or the need to classify assets as credit-impaired. After the designation of an asset as credit-impaired as a result of modification, it remains within Stage 3 for a probation period of at least 6 months. To transfer a renegotiated loan from Stage 3, regular payments of principal or interest are needed during at least half of the probation period in accordance with the modified payment schedule.

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(Thousands of euros)

3. Summary of accounting policies (continued)

Renegotiated loans (continued)

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns PDs to the individual grades;
- The Group's internal LGD model for different types of counterparties;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic data, such as unemployment levels and collateral values, etc., and the effect on PDs;
- Selection of forward-looking macroeconomic scenarios and their weightings, to derive the economic inputs into the ECL models.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement.
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. The extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off in part or in full, only when the Group does not expect to recover their value. If the amount to be written off is higher than the accumulated allowance for impairment, the difference is at first recorded as the increase in the allowance that is subsequently applied to the gross carrying amount. All the subsequent reversals are recognized as credit loss expenses. The write-off relates to the derecognition event.

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(Thousands of euros)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as consolidated items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is recognized in other comprehensive income, except to the extent that it reverses a revaluation deficit of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the consolidated income statement. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset’s residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

The Group presents PPE that are not yet put into operation within the asset class “Capital expenditures”. Capital expenditures are measured at cost less accumulated impairment.

(Thousands of euros)

3. Summary of accounting policies (continued)

Investment property

Investment property includes a part of buildings held to earn rental income or for capital appreciation and which are not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the consolidated income statement within "Income from lease of investment property". Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated income statement and presented within "Gains/losses from revaluation of investment property".

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Group and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

The useful lives of intangible assets are assessed to be finite and include capitalized computer software. Intangible assets that have been acquired and recorded are capitalized based on costs incurred to acquire and bring to use these intangible assets. Following initial recognition, intangible assets are carried at acquisition cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is calculated on a straight-line basis over the following estimated useful lives:

	Years
Automated banking system	20
Other computer software	1-5

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

(Thousands of euros)

3. Summary of accounting policies (continued)

Equity

In accordance with amendments to IAS 32 *Financial Instruments: Presentation*, and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, issued in February 2008, participants' shares are recognized in equity and not in liabilities.

The Bank's authorized charter capital comprise the quotas allocated among the Bank's members and, where applicable, the unallocated charter capital. The Bank's authorized charter capital consist of paid-up charter capital and unpaid charter capital. The unpaid portion of the quotas allocated among members of the Bank shall constitute callable capital, which may be used to increase the paid-up charter capital.

Fiduciary assets

Fiduciary assets are not reported in the consolidated financial statements, as they are not assets of the Group. The Group does not provide fiduciary services to customers.

Segment reporting

The reportable segments of the Group comprise the following operating segments: Credit and Investment Activity, Treasury, Other Activities.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position, but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position, but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

The Group calculates the interest revenue on debt financial assets at amortized cost or at FVOCI, applying the effective interest rate to the gross carrying amount of financial assets, except for credit-impaired assets. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expenses.

In case of a credit-impaired financial asset, the Group calculates the interest revenue, applying the effective interest rate to the net amortized cost of this asset. If the default on the financial asset is liquidated, and it is no longer a credit-impaired asset, the Group proceeds to calculate the income revenue on the basis of the gross carrying amount.

The interest revenue for all financial assets at FVPL is recognized with the use of a contractual interest rate in "Other interest income" in the consolidated income statement.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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(Thousands of euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Other fee and commission income

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expense comprises commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as FVPL are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

Standards issued but not yet effective

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

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

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. In June 2022, the IASB decided to finalise the proposed amendments to IAS 1, published in an exposure draft Non-current Liabilities with Covenants with some modifications (the 2022 Amendments).

The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification;
- That an entity shall disclose additional information if it classifies liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months.

The amendments are effective for annual periods beginning on or after 1 January 2024 with earlier application permitted. The Group is currently assessing the impact the amendments will have on the current practice, whether existing loan agreements may require renegotiation and the possibility of early application.

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(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 16 Leases

On 22 September 2022, the IASB issued amendments to IFRS 16 *Leases*, adding guidance on the subsequent measurement of assets and liabilities in sale and leaseback transactions that meet the criteria for a transfer of control of an asset in IFRS 15 *Revenue from Contracts with Customers*.

The amendments require a seller-lessee to measure the lease liability arising from a leaseback in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

Entities should use IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop an accounting policy for determining how to measure lease payments for such transactions.

The amendments shall be applied retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application of the amendments.

A seller-lessee shall apply the amendments for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

The Group is currently assessing the impact the amendments will have on the current measurement of lease payments for such transactions and the possibility of early application.

Amendments to IAS 21 Lack of Exchangeability

On 20 August 2023, the IASB issued amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*, which introduce the definition of an 'exchangeable currency' and provide explanations.

The amendments explain the following:

- A currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.
- An entity assesses whether a currency is exchangeable into another currency at a measurement date and for a specified purpose. If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.
- The guidance relating to the situation when several exchange rates are available remained the same, but the requirement to use the first subsequent rate at which exchanges could be made if exchangeability between two currencies is temporarily lacking was removed. An entity shall estimate a spot exchange rate.

Some new disclosure requirements were added. An entity shall disclose information about:

- The nature and financial effects of the currency not being exchangeable into the other currency;
- The spot exchange rate(s) used;
- The estimation process; and
- The risks to which the entity is exposed because of the currency not being exchangeable into the other currency.

An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted.

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(Thousands of euros)

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Group's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed on the basis of management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

When measuring expected credit losses, the Group considers reasonable and supportable information on current and expected future economic conditions. As such, the Group regularly updates macroeconomic scenarios and models used to measure key components, which are considered when determining expected credit losses. The Group revised its macroeconomic projections in the models of macroeconomic adjustments while estimating the expected credit losses. The Group prepared forecasts for each macroeconomic region up to 2-years into the future considering two different scenarios. Expected credit losses were estimated considering the availability of state reserves to support economic measures, differentiated effect of changes on various industries and specifics of the bank's assets subject to provisioning in accordance with IFRS 9. The specified changes resulted in adjusted provisions.

The measurement of expected credit loss allowance for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Several significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The Group makes estimates and judgments, which are constantly analyzed based on statistical data, actual and forecast information, as well as management experience, including expectations regarding future events that are reasonable in current circumstances.

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is presented in the following notes:

- Note 7 – Derivative financial instruments;
- Note 8 – Securities at fair value through other comprehensive income;
- Note 10 – Loans to banks;
- Note 11 – Loans to customers;
- Note 12 – Investment property;
- Note 13 – Property, equipment and intangible assets;
- Note 21 – Commitments and contingencies.

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(Thousands of euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2023	*31 December 2022*
Cash on hand	**578**	**459**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	–	103,229
Credit rating from BBB- to BBB+	–	13,781
Credit rating from BB- to BB+	–	2,096
Credit rating from CC	12	30,520
Without credit ratings	50,244	–
Total nostro accounts with banks and other financial institutions	**50,256**	**149,626**
Short-term deposits with banks		
Credit rating from A- to A+	–	7,045
Credit rating from BBB- to BBB+	–	6,489
Credit rating from CC	52	207
Without credit ratings	53,280	–
Total short-term deposits with banks	**53,332**	**13,741**
Less: allowance for impairment cash and cash equivalents	(524)	(9)
Cash and cash equivalents	**103,642**	**163,817**

Nostro accounts without international credit ratings is cash on account in bank in Russian Federation.

Cash and cash equivalents are neither impaired, nor past due.

An analysis of changes in the ECL allowances during the year ended 31 December 2023 and 31 December 2022 are as follows:

Allowance for ECL at 1 January 2023	**9**
New purchased or originated assets	1,857
Assets derecognized or redeemed	(1,340)
Foreign exchange differences	(2)
At 31 December 2023	**524**
Allowance for ECL at 1 January 2022	**2**
New purchased or originated assets	123
Assets derecognized or redeemed	(117)
Changes to inputs used for ECL calculations	1
At 31 December 2022	**9**

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(Thousands of euros)

6. Deposits with banks and other financial institutions

Deposits with banks and other financal institutions are presented based on contractual terms and include the following items:

	31 December 2023	*31 December 2022*
Restricted cash		
Credit rating from BBB- to BBB+	30,343	–
Credit rating CC	43,328	72,098
Without credit ratings	96,818	–
Total restricted cash	**170,489**	**72,098**
Term deposits up to 1 year		
Credit rating BBB+	–	610
Total term deposits up to 1 year	**–**	**610**
Term deposits over 1 year		
Credit rating from AA- to AA+	2,240	7,010
Credit rating from A- to A+	–	13,530
Credit rating from BBB- to BBB+	–	21,116
Credit rating from BB- to BB+	–	32,756
Credit rating CC	–	766
Total term deposits over 1 year	**2,240**	**75,178**
Less: allowance for impairment deposits with banks and other financial institutions	(22,949)	(42)
Deposits with banks and other financial institutions	**149,780**	**147,844**

Restricted cash is cash held on accounts in the Group's depositary partner and restricted for use by Euroclear (the payment agent OJSK Rosbank) and other companies. As of 31 December 2023 the Group created provision in amount of EUR 22,949 thousand (31 December 2022: EUR 18 thousand).

Movements in the gross carrying amount and relevant ECL related to deposits with banks and other financial institutions for the year ended 31 December 2023 are as follows:

Deposits with banks and other financial institutions	*Stage 1*	*Stage 2*	*Total*
Carrying amount at 1 January 2023, gross	**147,886**	**–**	**147,886**
New purchased or originated assets	204,026	14,050	**218,076**
Assets derecognized or redeemed (excluding write-offs)	(174,692)	–	**(174,692)**
Transfers to Stage 2	(160,607)	160,607	**–**
Foreign exchange differences	(16,613)	(1,928)	**(18,541)**
At 31 December 2023, gross	**–**	**172,729**	**172,729**

	Stage 1	*Stage 2*	*Total*
Allowance for ECL at 1 January 2023	**42**	**–**	**42**
New purchased or originated assets	7,148	1,734	**8,882**
Assets derecognized or redeemed	(1,776)	–	**(1,776)**
Transfers to Stage 2	(13,506)	13,506	**–**
Changes to inputs used for ECL calculations	8,060	8,034	**16,094**
Foreign exchange differences	32	(325)	**(293)**
At 31 December 2023	**–**	**22,949**	**22,949**

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(Thousands of euros)

6. Deposits with banks and other financial institutions (continued)

Movements in the gross carrying amount and relevant ECL related to deposits with banks and other financial institutions for the year ended 31 December 2022 are as follows:

Deposits with banks and other financial institutions	*Stage 1*	*Total*
Carrying amount at 1 January 2022, gross	**58,961**	**58,961**
New purchased or originated assets	486,389	**486,389**
Assets derecognized or redeemed (excluding write-offs)	(393,587)	**(393,587)**
Foreign exchange differences	(3,877)	**(3,877)**
At 31 December 2022, gross	**147,886**	**147,886**

Allowance for ECL at 1 January 2022	**–**
New purchased or originated assets	159
Assets derecognized or redeemed	(147)
Changes to inputs used for ECL calculations	32
Foreign exchange differences	(2)
At 31 December 2022	**42**

As at 31 December 2023, in addition to term deposits above EUR 34,967 thousand (31 December 2022: EUR 34,967 thousand) were due to the Group from the Central Bank of Cuba. This amount was fully provisioned (31 December 2022: EUR 34,967 thousand).

Concentration of deposits with banks and other financial institutions

As at 31 December 2023, besides deposits with the Central Bank of Cuba, the Group had deposit of single counterparty (31 December 2022: three counterparties) accounting for over 10% of the Group's total deposits with banks and other financial institutions and amounting to EUR 2,240 thousand in total (31 December 2022: EUR 67,401 thousand).

7. Derivative financial instruments

The table below shows the fair value of derivative financial instruments as at 31 December 2023 and 31 December 2022 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	31 December 2023				
	Nominal amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	EUR 13,881 thousand	USD 16,500 thousand	1.19	–	995
	EUR 11,074 thousand	RUB 1,000,000 thousand	90.30	1,216	–
Total derivative financial assets and liabilities at fair value through profit or loss				**1,216**	**995**
Derivative financial instruments				**1,216**	**995**

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(Thousands of euros)

7. Derivative financial instruments (continued)

	31 December 2022				
	Nominal amount		Weighted average	Fair value	
	Purchase	Sale	exchange rate	Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	EUR 45,624 thousand	HUF 16,414,000 thousand	359.77	7,228	–
	USD 10,000 thousand	EUR 8,440 thousand	1.18	1,191	–
	EUR 155,442 thousand	USD 176,710 thousand	1.14	–	11,089
	RUB 3,600,000 thousand	RUB 3,600,000 thousand	1.00	–	1,265
	EUR 22,436 thousand	RUB 2,000,000 thousand	89.14	456	904
	RON 105,000 thousand	EUR 21,236 thousand	4.94	–	401
	CZK 900,000 thousand	EUR 36,856 thousand	24.42	–	16
Total derivative financial assets and liabilities at fair value through profit or loss				**8,875**	**13,675**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	HUF 23,500,000 thousand	EUR 64,898 thousand	362.11	–	10,388
	RUB 4,000,000 thousand	EUR 49,751 thousand	80.40	–	8,802
	CZK 1,872,000 thousand	EUR 71,843 thousand	26.06	5,166	–
	RON 455,000 thousand	EUR 92,753 thousand	4.91	–	1,230
Total derivative financial assets and liabilities designated as hedging instruments				**5,166**	**20,420**
Derivative financial instruments				**14,041**	**34,095**

Micro-cash flow hedges

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

To test the hedge effectiveness, the Group compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or interest rate risk) as represented by a hypothetical derivative. The hypothetical derivative method involves establishing a notional derivative that would be the ideal hedging instrument for the hedged exposure.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation; and
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items.

Considering the structure of hedge used by the Group, the main source of ineffectiveness from the described above are differences in timing of cash flows.

In March 2022 net present values of derivatives hugely declined due to sharp drop of RUB/EUR rate. This situation lead to the necessity to provide additional collateral. In order to keep acceptable level of liquidity the Group accepted initiative of two counterparties to discontinue derivative deals. In April 2023, the Group accepted the initiative of five more counterparties.

During 2023, hedge accounting of the following bond issues was early discontinued:

- In Romanian lei (RON) placed on 19 October 2021,
- In Hungarian forint (HUF) placed on 28 September 2020 and 18 March 2021,
- In Russian ruble (RUB) placed on 29 April 2020,
- In Czech korunas (CZK) placed on 19 May 2020 and 27 September 2021.

During 2023, hedge accounting of the bond issue in Romanian lei (RON) placed on 7 October 2020 was discontinued due to maturity.

(Thousands of euros)

7. Derivative financial instruments (continued)

Micro-cash flow hedges (continued)

The below table sets out the outcome of the Group's hedging strategy, in particular, changes in fair values of hedged items and hedging instruments and change in cash flow hedge reserve separately showing the effective and ineffective portions:

	31 December 2023				
			Changes in fair value of hedging instruments used for ineffectiveness measurement		*Hedge ineffectiveness identified*
	Change in fair value of hypothetical derivative used for ineffectiveness measurement	*Net interest income/(expense)*	*Change in fair value excluding net interest income/(expense)*	*Effective portion of change in fair value excluding net interest income/(expense)*	*recognized in the income statement in Net losses from operations with foreign currencies and derivatives*
Micro-cash flow hedges					
Fixed rate HUF bonds	4,623	282	5,213	5,213	–
Fixed rate RON bonds	711	1,676	1,003	887	116
Fixed rate RUB bonds	(5,694)	535	(4,872)	(4,872)	–
Fixed rate CZK bonds	1,893	241	1,865	1,721	144
Floating rate CZK bonds	821	391	773	773	–
	2,354	**3,125**	**3,982**	**3,722**	**260**

	31 December 2022				
			Changes in fair value of hedging instruments used for ineffectiveness measurement		*Hedge ineffectiveness identified*
	Change in fair value of hypothetical derivative used for ineffectiveness measurement	*Net interest income/(expense)*	*Change in fair value excluding net interest income/(expense)*	*Effective portion of change in fair value excluding net interest income/(expense)*	*recognized in the income statement in Net losses from operations with foreign currencies and derivatives*
Micro-cash flow hedges					
Fixed rate HUF bonds	(5,714)	1,021	(5,952)	(5,952)	–
Fixed rate RON bonds	2,677	5,968	4,268	4,320	(52)
Fixed rate RUB bonds	(72,638)	4,610	(84,539)	(80,042)	(4,497)
Fixed rate CZK bonds	3,855	1,100	4,064	3,389	675
Floating rate CZK bonds	942	1,341	721	721	–
Floating rate RON bonds	(216)	284	(68)	(68)	–
	(71,094)	**14,324**	**(81,506)**	**(77,632)**	**(3,874)**

In April 2023 the Group accepted initiative of several counterparties to terminate derivative deals prematurely. Thus, hedge accounting of the following bond issues was early discontinued:

- In Romanian lei (RON) placed on 19 October 2021;
- In Hungarian forint (HUF) placed on 28 September 2020 and 18 March 2021;
- In Russian ruble (RUB) placed on 29 April 2020;
- In Czech korunas (CZK) placed on 19 May 2020 and 27 September 2021.

Hedge accounting of the bond issue in Romanian lei (RON) placed on 7 October 2020 was discontinued due to maturity.

As at 31 December 2023, all remaining amount of cash flow hedge reserve refers to a hedge relationship that has been early discontinued. This amount will be written off linearly until the initial maturity date of the hedged item. Reserves on all other hedge relationships were written off during the reporting period.

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(Thousands of euros)

7. Derivative financial instruments (continued)

Micro-cash flow hedges (continued)

The breakdown of cash flow hedge reserve movements during the period as follows:

	31 December 2023				
	Opening balance of cash flow hedge reserve as at 1 January 2023	*Foreign currency revaluation of hedged item*	*Change in fair value of hedging instruments excluding net interest income/(expense)*	*Write-off of cash flow hedge reserve on discontinued hedge relationships*	*Closing balance of cash flow hedge reserve as at 31 December 2023*
Fixed rate HUF bonds	(3,888)	(4,059)	5,213	2,734	–
Fixed rate RON bonds	(670)	146	887	(363)	–
Fixed rate RUB bonds	(22,891)	6,311	(4,872)	12,367	(9,085)
Fixed rate CZK bonds	(3,326)	(1,665)	1,721	3,270	–
Floating rate CZK bonds	(49)	(776)	773	52	–
Floating rate RON bonds	(58)	–	–	58	–
	(30,882)	**(43)**	**3,722**	**18,118**	**(9,085)**

	31 December 2022				
	Opening balance of cash flow hedge reserve as at 1 January 2022	*Foreign currency revaluation of hedged item*	*Change in fair value of hedging instruments excluding net interest income/(expense)*	*Write-off of cash flow hedge reserve on discontinued hedge relationships*	*Closing balance of cash flow hedge reserve as at 31 December 2022*
Fixed rate HUF bonds	(5,571)	5,463	(5,952)	2,172	(3,888)
Fixed rate RON bonds	(3,244)	(1,714)	4,320	(32)	(670)
Fixed rate RUB bonds	(13,711)	49,982	(80,042)	20,881	(22,890)
Fixed rate CZK bonds	(7,014)	(1,454)	3,389	1,753	(3,326)
Floating rate CZK bonds	(66)	(704)	721	–	(49)
Floating rate RON bonds	(186)	(14)	(68)	209	(59)
	(29,792)	**51,559**	**(77,632)**	**24,983**	**(30,882)**

As at 31 December 2023 change in fair value of hypothetical derivatives for the reporting period used for ineffectiveness measurement was EUR 2,536 thousand (31 December 2022: EUR (71,094) thousand), change in fair value of hedging instruments used for ineffectiveness measurement was EUR 3,722 thousand (31 December 2022: EUR (77,632) thousand) and was presented in OCI in “Net unrealized losses on cash flow hedges”. During 2023 change in fair value of hedged item of EUR (43) thousand (2022: EUR 51,559 thousand) was reclassified from “Net unrealized losses on cash flow hedges” into “Net losses from operations with foreign currencies and derivatives”. Loss on write-off of cash flow hedge reserve on early discontinued hedging relationships of EUR (18,118) was presented in “Net losses from operations with foreign currencies and derivatives” (2022: EUR (24,983) thousand).

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(Thousands of euros)

8. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	31 December 2023	*31 December 2022*
Owned by the Group		
Listed debt securities at fair value through other comprehensive income		
Government bonds of member countries		
Credit rating from BBB- to BBB+	–	3,504
Without credit ratings	9,391	–
Government bonds of non-member countries		
Credit rating from AA- to AA+	–	9,016
Credit rating from A- to A+	13,794	13,256
Credit rating from BBB- to BBB+	4,103	2,357
Credit rating from BB- to BB+	16,938	14,375
Government bonds	**44,226**	**42,508**
Corporate bonds		
Credit rating AAA	14,087	28,193
Credit rating from AA- to AA+	11,177	26,804
Credit rating from A- to A+	12,823	12,589
Credit rating from BBB- to BBB+	36,986	36,123
Credit rating from BB- to BB+	10,006	10,005
Without credit ratings	23,471	–
Corporate bonds	**108,550**	**113,714**
Total listed debt securities at fair value through other comprehensive income	**152,776**	**156,222**
Securities at fair value through other comprehensive income	**152,776**	**156,222**

Securities at fair value through other comprehensive in the amount EUR-equivalent 119,913 thousand (31 December 2022: the amount EUR-equivalent 153,865 thousand) are held on accounts in the Group's depositary partner and restricted for use by Euroclear and other foreign depositaries. As of 31 December 2023 the Group created provision in amount of EUR 12,938 thousand (31 December 2022: EUR 126 thousand).

In the 2023 in order to cover urgent liquidity needs, the Group had to sell securities in the amount EUR-equivalent 24,133 thousand and incurred a loss of EUR 1,410 thousand (2022: the amount EUR-equivalent 61,110 thousand with a loss of EUR 516 thousand).

Movements in the gross carrying amount and relevant ECL related to securities at fair value through other comprehensive income for the year ended 31 December 2023 are as follows:

Securities at fair value through other comprehensive income	*Stage 1*	*Stage 2*	*Total*
Carrying amount at 1 January 2023	**156,222**	**–**	**156,222**
New purchased or originated assets and change in fair value	79,399	3,494	**82,893**
Assets derecognized or redeemed (excluding write-offs) and change in fair value	(78,080)	(2,663)	**(80,743)**
Transfers to Stage 2	(120,229)	120,229	**–**
Foreign exchange differences	(4,449)	(1,147)	**(5,596)**
At 31 December 2023, gross	**32,863**	**119,913**	**152,776**

	Stage 1	*Stage 2*	*Total*
Allowance for ECL at 1 January 2023	**131**	**–**	**131**
New purchased or originated assets	2,487	377	**2,864**
Assets derecognized or redeemed	(2,527)	(291)	**(2,818)**
Transfers to Stage 2	(12,334)	12,334	**–**
Changes to inputs used for ECL calculations	13,238	729	**13,967**
Foreign exchange differences	10	(211)	**(201)**
At 31 December 2023	**1,005**	**12,938**	**13,943**

(Thousands of euros)

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

Movements in the gross carrying amount and relevant ECL related to securities at fair value through other comprehensive income for the year ended 31 December 2022 are as follows:

Securities at fair value through other comprehensive income	***Stage 1***	***Total***
Carrying amount at 1 January 2022	**236,054**	**236,054**
New purchased or originated assets and change in fair value	97,190	**97,190**
Assets derecognized or redeemed (excluding write-offs) and change in fair value	(183,629)	**(183,629)**
Foreign exchange differences	6,607	**6,607**
At 31 December 2022	**156,222**	**156,222**
Allowance for ECL at 1 January 2022		**123**
New purchased or originated assets		72
Assets derecognized or redeemed		(135)
Changes to inputs used for ECL calculations		56
Foreign exchange differences		15
Allowance for ECL at 31 December 2022		**131**

Government bonds comprise EUR- and RUB- denominated securities issued and guaranteed by the Ministries of Finance of the countries. The bonds mature in 2025-2030 (31 December 2022: maturing in 2024-2030). The annual coupon rate for these bonds varies from 0.1% to 7.2% (31 December 2022: from 0.1% to 7.5%).

Corporate bonds comprise bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Bank. The bonds mature in 2024-2033 (31 December 2022: maturing in 2023-2028). The annual coupon rate for these bonds varies from 0.5% to 17.3% (31 December 2022: from 0.3% to 6.5%).

9. Securities at amortized cost

Securities at amortized cost comprise:

	31 December 2023	***31 December 2022***
Corporate bonds		
Credit rating AAA	15,039	23,322
Credit rating AA	–	19,098
Credit rating C	–	20,620
Without credit ratings	20,542	–
Corporate bonds	**35,581**	**63,040**
Less: allowance for impairment securities at amortized cost	(3,634)	(906)
Listed debt securities at amortized cost	**31,947**	**62,134**

Securities at amortized cost are held on accounts in the Group's depositary partner and restricted for use by Euroclear and other foreign depositaries.

In the 2023 to support liquidity position the Group disposed securities in the amount of EUR 23,310 thousand with a loss of EUR 3,284 thousand (2022: the amount of EUR 25,060 thousand with a loss of EUR 1,855 thousand).

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(Thousands of euros)

9. Securities at amortized cost (continued)

Movements in the gross carrying amount and relevant ECL related to securities at amortized cost for the year ended 31 December 2023 are as follows:

Securities at amortized cost	***Stage 1***	***Stage 2***	***Total***
Carrying amount at 1 January 2023, gross	**63,040**	**–**	**63,040**
New purchased or originated assets	529	131	**660**
Assets derecognized or redeemed (excluding write-offs)	(27,315)	(164)	**(27,479)**
Transfers to Stage 2	(15,346)	15,346	**–**
Foreign exchange differences	(366)	(274)	**(640)**
At 31 December 2023, gross	**20,542**	**15,039**	**35,581**

	Stage 1	***Stage 2***	***Total***
Allowance for ECL at 1 January 2023	**906**	**–**	**906**
New purchased or originated assets	3	16	**19**
Assets derecognized or redeemed	(74)	(20)	**(94)**
Transfers to Stage 2	(1,628)	1,628	**–**
Changes to inputs used for ECL calculations	2,600	231	**2,831**
Foreign exchange differences	13	(41)	**(28)**
At 31 December 2023	**1,820**	**1,814**	**3,634**

Movements in the gross carrying amount and relevant ECL related to securities at amortized cost for the year ended 31 December 2022 are as follows:

Securities at amortized cost	***Stage 1***	***Total***
Carrying amount at 1 January 2022, gross	**86,840**	**86,840**
New purchased or originated assets	934	**934**
Assets derecognized or redeemed (excluding write-offs)	(26,115)	**(26,115)**
Foreign exchange differences	1,381	**1,381**
At 31 December 2022, gross	**63,040**	**63,040**
Allowance for ECL at 1 January 2022		**59**
New purchased or originated assets		30
Assets derecognized or redeemed		(252)
Changes to inputs used for ECL calculations		1,069
At 31 December 2022		**906**

Corporate bonds comprise investment grade bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Bank. The bonds mature in 2025-2027 (31 December 2022: 2025-2029). The coupon rate for these bonds varies from 2.1% to 2.2% (31 December 2022: 0.6% to 2.2%).

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(Thousands of euros)

10. Loans to banks

In 2023 and year 2022, the Group provided long-term loans to borrowers operating in the following countries (all relates to 1st stage):

	31 December 2023	*31 December 2022*
Long-term loans to banks		
Republic of Cuba	50,069	50,149
Mongolia	30,371	34,685
Socialist Republic of Vietnam	19,477	21,652
Long-term loans to banks	**99,917**	**106,486**
Less: allowance for impairment of loans to banks	(1,008)	(2,481)
Loans to banks	**98,909**	**104,005**

Movements in the gross carrying amount and respective ECL related to long-term loans to banks for the year ended 31 December 2023 are as follows:

Long-term loans to banks	*Stage 1*	*Total*
Carrying amount at 1 January 2023, gross	**106,486**	**106,486**
New purchased or originated assets	8,348	**8,348**
Assets derecognized or redeemed (excluding write-offs)	(12,810)	**(12,810)**
Foreign exchange differences	(2,107)	**(2,107)**
At 31 December 2023, gross	**99,917**	**99,917**

Long-term loans to banks	*Stage 1*	*Total*
Allowance for ECL at 1 January 2023	**2,481**	**2,481**
New purchased or originated assets	41	**41**
Assets derecognized or redeemed (excluding write-offs)	(217)	**(217)**
Changes to inputs used for ECL calculations	(1,265)	**(1,265)**
Foreign exchange differences	(32)	**(32)**
At 31 December 2023	**1,008**	**1,008**

Movements in the gross carrying amount and respective ECL related to long-term loans to banks for the year ended 31 December 2022 are as follows:

Long-term loans to banks	*Stage 1*	*Total*
Carrying amount at 1 January 2022, gross	**119,641**	**119,641**
New purchased or originated assets	8,048	**8,048**
Assets derecognized or redeemed (excluding write-offs)	(25,613)	**(25,613)**
Foreign exchange differences	4,410	**4,410**
At 31 December 2022, gross	**106,486**	**106,486**

Long-term loans to banks	*Stage 1*	*Total*
Allowance for ECL at 1 January 2022	**3,118**	**3,118**
New purchased or originated assets	83	**83**
Assets derecognized or redeemed (excluding write-offs)	(1,138)	**(1,138)**
Changes to inputs used for ECL calculations	306	**306**
Foreign exchange differences	112	**112**
At 31 December 2022	**2,481**	**2,481**

As at 31 December 2023, there were no overdue loans to banks (31 December 2022: no overdue).

(Thousands of euros)

10. Loans to banks (continued)

Modified and restructured loans to banks

For the 2023, there were no modifications of a loan agreement to bank (in 2022: no modifications).

Allowance for impairment of loans to banks

A reconciliation of the allowance for ECL related to the impairment of loans to banks by country for the year ended 31 December 2023 and year ended 31 December 2022 are as follows:

	Mongolia	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Total*
Allowance for ECL at 1 January 2023	**973**	**159**	**1,349**	**2,481**
Net reversal of impairment allowance for ECL during the period	(303)	55	(1,193)	**(1,441)**
Foreign exchange differences	(27)	(5)	–	**(32)**
At 31 December 2023	**643**	**209**	**156**	**1,008**

	Mongolia	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Total*
Allowance for ECL at 1 January 2022	**1,022**	**537**	**1,586**	**3,145**
Net reversal of impairment allowance for ECL during the year	(123)	(417)	(237)	**(777)**
Foreign exchange differences	74	39	–	**113**
At 31 December 2022	**973**	**159**	**1,349**	**2,481**

Analysis of collateral for loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 31 December 2023 and 31 December 2022.

	31 December 2023		*31 December 2022*	
	Loans to banks, net of allowance for impairment	*Share in the total loans, %*	*Loans to banks, net of allowance for impairment*	*Share in the total loans, %*
State guarantees	49,913	50.5	48,800	46.9
Uncollateralized part of the loans	48,996	49.5	55,205	53.1
Loans to banks	**98,909**	**100.0**	**104,005**	**100.0**

The amounts shown in the table above represent the carrying amount of the portfolio of long-term loans to banks and do not necessarily represent the fair value of the collateral.

Concentration of long-term loans to banks

As at 31 December 2023, long-term loans to three banks (31 December 2022: five banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group’s consolidated statement of financial position. As at 31 December 2023, the total amount of such major loans was EUR 75,208 thousand (31 December 2022: EUR 95,696 thousand) and allowances of EUR 598 thousand (31 December 2022: EUR 2,212 thousand) were made for them.

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(Thousands of euros)

11. Loans to customers

The Group issued loans to customers domiciled in the following countries:

	31 December 2023	*31 December 2022*
Owned by the Group		
Loans to customers at amortized cost		
Russian Federation	73,745	218,512
Romania	54,734	82,326
Hungary	51,673	49,584
Republic of Bulgaria	46,569	58,533
Mongolia	30,505	29,070
Republic of Ecuador	25,965	25,610
Republic of Italy	15,765	15,174
Czech Republic	15,545	15,093
Cayman Islands / Cyprus	12,997	12,899
Kingdom of the Netherlands	6,861	6,875
Socialist Republic of Vietnam	3,039	4,121
Slovak Republic	296	295
Total loans to customers at amortized cost	**337,694**	**518,092**
Loans to customers at fair value through other comprehensive income		
Republic of Bulgaria	22,041	19,513
Romania	19,432	19,307
Republic of Ireland	12,610	13,255
Total loans to customers at fair value through other comprehensive income	**54,083**	**52,075**
Less: allowance for impairment of loans to customers	(20,483)	(26,261)
Loans to customers	**371,294**	**543,906**

All the borrowers domiciled in the European countries have no technical ability to fulfil obligations towards the Group. The Group issues waivers to customers with prolongation of terms of payments.

In 2023 year in order to cover urgent liquidity needs, the Group had to sell loans to customers at amortized cost in the amount of EUR-equivalent 93,117 thousand with a loss of EUR 3,342 thousand (2022: loans to customers at amortized cost in the amount of EUR-equivalent 384,391 thousand with a loss of EUR 27,739 thousand and loans to customers at fair value through other comprehensive income in the amount of EUR-equivalent 76,066 thousand with a loss of EUR 9,481 thousand).

Movements in the gross carrying amount and respective ECL related to loans to customers at amortized cost for the year ended 31 December 2023 are as follows:

Loans to customers at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Carrying amount at 1 January 2023, gross	**465,092**	**295**	**52,705**	**518,092**
New purchased or originated assets	16,779	7,247	1,619	**25,645**
Assets derecognized or redeemed (excluding write-offs)	(106,257)	(36,884)	–	**(143,141)**
Transfers to Stage 2	(225,064)	225,064	–	**–**
Sale of loan	–	–	(54,018)	**(54,018)**
Foreign exchange differences	(7,338)	(1,240)	(306)	**(8,884)**
At 31 December 2023, gross	**143,212**	**194,482**	**–**	**337,694**

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(Thousands of euros)

11. Loans to customers (continued)

Loans to customers at amortized cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2023	**7,519**	**295**	**18,447**	**26,261**
New purchased or originated assets	773	517	564	**1,854**
Assets derecognized or redeemed (excluding write-offs)	(6,477)	(1,560)	–	**(8,037)**
Transfers to Stage 2	(9,272)	9,272	–	**–**
Changes to inputs used for ECL calculations	14,378	5,566	–	**19,944**
Sale of loan	–	–	(18,902)	**(18,902)**
Foreign exchange differences	(322)	(206)	(109)	**(637)**
At 31 December 2023	**6,599**	**13,884**	**–**	**20,483**

Movements in the gross carrying amount and respective ECL related to loans to customers at amortized cost for the year ended 31 December 2022 are as follows:

Loans to customers at amortized cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Carrying amount at 1 January 2022, gross	**889,354**	**43,650**	**28,031**	**961,035**
New purchased or originated assets	191,705	6,136	3,451	**201,292**
Assets derecognized or redeemed (excluding write-offs)	(278,082)	–	(32,273)	**(310,355)**
Transfers to Stage 3	–	(66,205)	66,205	**–**
Changes to contractual cash flows due to modifications not resulting in derecognition	(13)	–	–	**(13)**
Amounts written off	(351,506)	–	(1,138)	**(352,644)**
Foreign exchange differences	13,634	16,714	(11,571)	**18,777**
At 31 December 2022, gross	**465,092**	**295**	**52,705**	**518,092**

Loans to customers at amortized cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2022	**3,023**	**1,142**	**5,267**	**9,432**
New purchased or originated assets	7,844	7,855	1,397	**17,096**
Assets derecognized or redeemed (excluding write-offs)	(6,909)	(623)	(30,218)	**(37,750)**
Transfers to Stage 3	–	(12,108)	12,108	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	21,652	**21,652**
Changes to contractual cash flows due to modifications not resulting in derecognition	141	–	–	**141**
Changes to inputs used for ECL calculations	3,281	–	15,200	**18,481**
Amounts written off (against the allowance)	–	–	(1,138)	**(1,138)**
Foreign exchange differences	139	4,029	(5,821)	**(1,653)**
At 31 December 2022	**7,519**	**295**	**18,447**	**26,261**

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(Thousands of euros)

11. Loans to customers (continued)

Movements in the gross carrying amount and respective ECL related to loans to customers at fair value through other comprehensive income for the year ended 31 December 2023 are as follows:

Loans to customers at fair value through other comprehensive income	*Stage 1*	*Stage 2*	*Total*
Carrying amount at 1 January 2023, gross	**52,075**	**–**	**52,075**
New purchased or originated assets and change in fair value	6,480	3,026	**9,506**
Assets derecognized or redeemed (excluding write-offs)	(5,027)	(1,959)	**(6,986)**
Transfers to Stage 2	(53,229)	53,229	**–**
Foreign exchange differences	(299)	(213)	**(512)**
At 31 December 2023, gross	**–**	**54,083**	**54,083**

Loans to customers at fair value through other comprehensive income	*Stage 1*	*Stage 2*	*Total*
Allowance for ECL at 1 January 2023	**490**	**–**	**490**
New purchased or originated assets	–	122	**122**
Assets derecognized or redeemed (excluding write-offs)	(52)	–	**(52)**
Transfers to Stage 2	(5,013)	5,013	**–**
Changes to inputs used for ECL calculations	4,575	95	**4,670**
Foreign exchange differences	–	(35)	**(35)**
At 31 December 2023	**–**	**5,195**	**5,195**

Movements in the gross carrying amount and respective ECL related to loans to customers at fair value through other comprehensive income for the year ended 31 December 2022 are as follows:

Loans to customers at fair value through other comprehensive income	*Stage 1*	*Total*
Carrying amount at 1 January 2022, gross	**122,672**	**122,672**
New purchased or originated assets and change in fair value	24,801	**24,801**
Assets derecognized or redeemed (excluding write-offs)	(96,455)	**(96,455)**
Foreign exchange differences	1,057	**1,057**
At 31 December 2022, gross	**52,075**	**52,075**

Loans to customers at fair value through other comprehensive income	*Stage 1*	*Total*
Allowance for ECL at 1 January 2022	**397**	**397**
New purchased or originated assets	133	**133**
Assets derecognized or redeemed (excluding write-offs)	(229)	**(229)**
Changes to models and inputs used for ECL calculations	179	**179**
Foreign exchange differences	10	**10**
At 31 December 2022	**490**	**490**

As at 31 December 2023, there were no overdue loans to customers (31 December 2022: no overdue).

Modified and restructured loans to customers

For the 2023 year, the Group has modified the terms and conditions of several loans to customers however effect from these modifications was insignificant (2022: several modifications have been performed however effect from these modifications was insignificant).

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(Thousands of euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for ECL related to the impairment of loans to customers by country for the year ended 31 December 2023 and for the year ended 31 December 2022 are as follows:

	Russian Federation	*Mongolia*	*Socialist Republic of Vietnam*	*Other*	*Total*
Allowance for ECL at 1 January 2023	**23,846**	**896**	**36**	**1,483**	**26,261**
Net (reversal)/charge of impairment allowance for ECL during the year	(85)	79	331	13,436	**13,761**
Sale of loan	(18,902)	–	–	–	**(18,902)**
Foreign exchange differences	(493)	–	(1)	(143)	**(637)**
At 31 December 2023	**4,366**	**975**	**366**	**14,776**	**20,483**

	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Czech Republic*	*Mongolia*	*Socialist Republic of Vietnam*	*Other*	*Total*
Allowance for ECL at 1 January 2022	**1,394**	**78**	**196**	**294**	**96**	**13**	**999**	**454**	**5,908**	**9,432**
Net (reversal)/charge of impairment allowance for ECL during the year	25,857	(31)	125	1	179	14	(106)	(444)	(5,976)	**19,619**
Write off against previously accrued allowance	–	–	–	–	–	–	–	–	(1,138)	**(1,138)**
Foreign exchange differences	(3,405)	–	(1)	–	(5)	–	3	26	1,730	**(1,652)**
At 31 December 2022	**23,846**	**47**	**320**	**295**	**270**	**27**	**896**	**36**	**524**	**26,261**

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(Thousands of euros)

11. Loans to customers (continued)

Analysis of collateral for loans to customers

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2023 and 31 December 2022:

	31 December 2023		*31 December 2022*	
	Loans to customers less impairment allowance	*Share in the total loans, %*	*Loans to customers less impairment allowance*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	69,872	18.8	96,863	17.8
State guarantees	25,953	7.0	25,601	4.7
Pledge of equipment and goods in turnover	21,652	5.8	25,157	4.6
Pledge of rights of claim	13,901	3.7	15,456	2.8
Pledge of shares	2,842	0.8	33,168	6.1
Pledge of vehicles	–	–	4,898	0.9
Corporate guarantees	–	–	22,294	4.1
Uncollateralized part of the loans	237,074	63.9	320,469	59.0
Loans to customers	**371,294**	**100.0**	**543,906**	**100.0**

The collateral of loans to customers by country as at 31 December 2023 is as follows:

	31 December 2023			
	Russian Federation	*Mongolia*	*Other*	*Total*
Pledge of real property (mortgage) and title	25,395	6,431	38,046	**69,872**
Pledge of shares	–	370	2,472	**2,842**
State guarantees	–	–	25,953	**25,953**
Pledge of equipment and goods in turnover	–	12,772	8,880	**21,652**
Pledge of rights of claim	597	–	13,304	**13,901**
Loans to customers	**25,992**	**19,573**	**88,655**	**134,220**

The amounts shown in the table above represent the carrying amount of the customer loan portfolio and do not necessarily represent the fair value of the collateral. As at 31 December 2023, the Group has not recognized a loss allowance of one loan (31 December 2022: four borrowers) because of the collateral. This loan comprised EUR 14,040 thousand (31 December 2022: EUR 27,112 thousand).

Concentration of loans to customers

As at 31 December 2023, the Group has one loan to customer (31 December 2022: one loans with a total amount exceeding 10% of total loans to customers were recorded on the Group's consolidated statement of financial position. The total amount of such major loan was EUR 61,118 thousand (31 December 2022: EUR 79,478 thousand and allowances of EUR 3,797 thousand (31 December 2022: EUR 2,063 thousand were made for them.

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(Thousands of euros)

11. Loans to customers (continued)

Analysis of loans to customers by industry

The Group issued loans to borrowers operating in the following industries:

	31 December 2023	*31 December 2022*
Production and transmission of electricity and gas	82,822	144,218
Leasing	78,864	138,627
Financial services	45,256	70,114
Food and beverage	40,006	39,514
Real estate	32,191	30,478
Textile manufacture	23,151	22,036
Production of vehicles	15,765	15,174
Manufacturing of electrical equipment	15,545	15,093
Agriculture	14,040	13,968
Software engineering	12,997	12,899
Communications	12,785	12,374
Metallurgic industry	7,354	16,244
Postal activities	5,080	4,844
Manufacturing of paper and paper products	3,348	3,083
Water collection, treatment and supply	2,573	4,147
Retail	–	27,354
	391,777	**570,167**
Less: allowance for impairment of loans to customers	(20,483)	(26,261)
Loans to customers	**371,294**	**543,906**

The borrowers operating in the financial services industry are represented by special purposes entities financing and developing projects on the territories of other countries.

12. Investment property

In 2023 and 2022, the following changes occurred in the cost of investment property under operating lease:

	2023	*2022*
At 1 January	**33,360**	**32,311**
Transfers from property and equipment (Note 13)	72	3,770
Inseparable improvements	–	38
Disposals	–	(2,136)
Effect of revaluation	(1,238)	(623)
Carrying amount at 31 December	**32,194**	**33,360**

The Group leases out investment properties under operating lease agreements. In 2023, the Group's income from lease of investment property amounted to EUR 2,696 thousand (2022: EUR 3,195 thousand).

The Group regularly reassess the fair value of its investment property to ensure that the current value of the investment property does not significantly differ from its fair value. As at 31 December 2023, investment properties were measured at fair value based on the results of the valuation performed by independent companies of professional appraisers that have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. For further details on the fair value of investment property, refer to Note 27.

The Group has neither restrictions on sale of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

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(Thousands of euros)

13. Property, equipment and intangible assets

Movements in property, equipment and intangible assets for the years 2023 and 2022 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Intangible assets*	*Other*	*Capital expenditure*	*Total*
Cost or revalued amount									
At 1 January 2023	**56,579**	**7,015**	**2,866**	**515**	**955**	**5,323**	**141**	**1**	**73,395**
Additions	–	–	–	–	–	–	–	215	**215**
Transfers	126	30	35	–	–	17	7	(215)	**–**
Disposals	–	(19)	(74)	(18)	(388)	(2)	–	–	**(501)**
Recovery of accumulated depreciation and amortization upon revaluation	(866)	–	–	–	–	–	–	–	**(866)**
Effect of revaluation	(1,410)	–	–	–	–	–	–	–	**(1,410)**
At 31 December 2023	**54,429**	**7,026**	**2,827**	**497**	**567**	**5,338**	**148**	**1**	**70,833**
Accumulated depreciation and amortization									
At 1 January 2023	**–**	**(5,953)**	**(2,583)**	**(300)**	**(740)**	**(2,328)**	**(113)**	**–**	**(12,017)**
Charge for the period	(866)	(289)	(166)	(33)	(67)	(383)	(2)	–	**(1,806)**
Disposals	–	19	70	14	388	–	2	–	**493**
Recovery of accumulated depreciation and amortization upon revaluation	866	–	–	–	–	–	–	–	**866**
At 31 December 2023	**–**	**(6,223)**	**(2,679)**	**(319)**	**(419)**	**(2,711)**	**(113)**	**–**	**(12,464)**
Net book value									
At 31 December 2022	**56,579**	**1,062**	**283**	**215**	**215**	**2,995**	**28**	**1**	**61,378**
At 31 December 2023	**54,429**	**803**	**148**	**178**	**148**	**2,627**	**35**	**1**	**58,369**

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(Thousands of euros)

13. Property, equipment and intangible assets (continued)

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Intangible assets*	*Other*	*Capital expenditure*	*Total*
Cost or revalued amount									
At 1 January 2022	**62,138**	**6,911**	**2,918**	**515**	**1,006**	**4,980**	**141**	**–**	**78,609**
Additions	–	–	–	–	–	–	–	787	**787**
Transfers	205	138	89	11	–	343	–	(786)	**–**
Disposals	–	(34)	(141)	(11)	(51)	–	–	–	**(237)**
Transfers to investment property (Note 12)	(3,770)	–	–	–	–	–	–	–	**(3,770)**
Recovery of accumulated depreciation and amortization upon revaluation	(1,201)	–	–	–	–	–	–	–	**(1,201)**
Effect of revaluation	(793)	–	–	–	–	–	–	–	**(793)**
At 31 December 2022	**56,579**	**7,015**	**2,866**	**515**	**955**	**5,323**	**141**	**1**	**73,395**
Accumulated depreciation and amortization									
At 1 January 2022	**(256)**	**(5,608)**	**(2,489)**	**(275)**	**(723)**	**(1,960)**	**(110)**	**–**	**(11,421)**
Charge for the period	(945)	(376)	(235)	(36)	(68)	(368)	(3)	–	**(2,031)**
Disposals	–	31	141	11	51	–	–	–	**234**
Recovery of accumulated depreciation and amortization upon revaluation	1,201	–	–	–	–	–	–	–	**1,201**
At 31 December 2022	**–**	**(5,953)**	**(2,583)**	**(300)**	**(740)**	**(2,328)**	**(113)**	**–**	**(12,017)**
Net book value									
At 31 December 2021	**61,882**	**1,303**	**429**	**240**	**283**	**3,020**	**31**	**–**	**67,188**
At 31 December 2022	**56,579**	**1,062**	**283**	**215**	**215**	**2,995**	**28**	**1**	**61,378**

As at 31 December 2023, the cost of fully depreciated property and equipment still used by the Group was EUR 7,131 thousand (31 December 2022: EUR 7,338 thousand).

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(Thousands of euros)

13. Property, equipment and intangible assets (continued)

The fair value is determined by reference to market-based evidence and ability to generate income. For further details on the fair value of property and equipment, refer to Note 27.

The Group regularly performs revaluation of the fair value of its buildings to ensure that the current book value of buildings owned by the Group does not differ significantly from their fair value. As at 31 December 2023, buildings owned by the Group were measured at fair value based on the results of the valuation performed by independent companies of professional appraisers that have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. For further details on the fair value of buildings owned by the Group, refer to Note 27.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2023 and 31 December 2022 would be as follows:

	2023	*2022*
Cost	**60,754**	**64,176**
Additions	126	205
Transfers from/(to) investment property	–	(3,422)
Accumulated depreciation	(19,590)	(18,985)
Net book value	**41,290**	**41,974**

14. Other assets and liabilities

Other assets comprise:

	31 December 2023	*31 December 2022*
Financial assets		
Settlements on bank transactions	102,176	328
Accounts receivable on business operations	278	318
Guarantee payments	–	4
Other financial assets	91	141
	102,545	**791**
Less allowance for impairment of financial assets	(343)	(276)
Total financial assets	**102,202**	**515**
Non-financial assets		
Total non-financial assets	**569**	**1,122**
Other assets	**102,771**	**1,637**

An analysis of changes in the ECL allowances during the year ended 31 December 2023 and 31 December 2022 are as follows:

Financial assets	*Total*
Allowance for ECL at 1 January 2023	**276**
New purchased or originated assets	154
Assets derecognized or redeemed (excluding write-offs)	(61)
Foreign exchange differences	(26)
At 31 December 2023	**343**

Financial assets	*Total*
Allowance for ECL at 1 January 2022	**234**
New purchased or originated assets	62
Assets derecognized or redeemed (excluding write-offs)	(28)
Foreign exchange differences	8
At 31 December 2022	**276**

(Thousands of euros)

14. Other assets and liabilities (continued)

Other liabilities comprise:

	31 December 2023	*31 December 2022*
Financial liabilities		
Other accounts payable on business operations	1,484	1,001
Settlements on bank transactions	100,138	–
Other accounts payable on bank transactions	232	248
Total financial liabilities	**101,854**	**1,249**
Non-financial liabilities		
Settlements with employees	841	1,165
Allowance for ECL on credit-related commitments	714	328
1Other non-financial liabilities	12	36
Total non-financial liabilities	**1,567**	**1,529**
Other liabilities	**103,421**	**2,778**

15. Allowances for expected credit losses

The table below shows increase/(decrease) of allowances for ECL on financial instruments recorded in profit or loss for the year ended 31 December 2023 and year ended 31 December 2022.

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	517	–	–	**517**
Deposits with banks and other financial institutions	6	13,432	9,768	–	**23,200**
Securities at fair value through other comprehensive income	8	13,198	815	–	**14,013**
Securities at amortized cost	9	2,529	227	–	**2,756**
Loans to banks	10	(1,441)	–	–	**(1,441)**
Loans to customers	11	13,197	4,740	564	**18,501**
Financial assets	14	(1)	120	(26)	**93**
Non-financial liabilities (allowance for ECL on credit-related commitments)	14, 21	386	–	–	**386**
Total allowance for ECL for the 2023 year		**41,817**	**15,670**	**538**	**58,025**

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	7	–	–	**7**
Deposits with banks and other financial institutions	6	44	–	–	**44**
Securities at fair value through other comprehensive income	8	(7)	–	–	**(7)**
Securities at amortized cost	9	847	–	–	**847**
Loans to banks	10	(777)	–	–	**(777)**
Loans to customers	11	4,440	7,232	8,031	**19,703**
Financial assets	14	–	4	30	**34**
Non-financial liabilities (allowance for ECL on credit-related commitments)	14, 21	(628)	–	–	**(628)**
Total allowance for ECL for the 2022 year		**3,926**	**7,236**	**8,061**	**19,223**

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(Thousands of euros)

15. Allowances for expected credit losses (continued)

Movements in allowances for ECL on financial instruments for the year ended 31 December 2023 and 31 December 2022 were as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2023	**11,910**	**295**	**53,665**	**65,870**
New purchased or originated assets	12,449	2,821	564	**15,834**
Assets derecognized or redeemed (excluding write-offs)	(12,817)	(1,873)	(26)	**(14,716)**
Transfers to Stage 2	(41,818)	41,818	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	(2)	2	–	**–**
Changes to inputs used for ECL calculations	42,252	14,655	–	**56,907**
Sale of loan	–	–	(18,902)	**(18,902)**
Translation differences	(301)	(818)	(114)	**(1,233)**
At 31 December 2023	**11,673**	**56,900**	**35,187**	**103,760**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2022	7,658	1,142	40,442	**49,242**
New purchased or originated assets	9,062	7,859	1,427	**18,348**
Assets derecognized or redeemed (excluding write-offs)	(10,280)	(623)	(30,218)	**(41,121)**
Transfers to Stage 3	–	(12,112)	12,112	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	21,652	**21,652**
Changes to contractual cash flows due to modifications not resulting in derecognition	141	–	–	**141**
Changes to inputs used for ECL calculations	5,003	–	15,200	**20,203**
Amounts written off (against the allowance)	–	–	(1,138)	**(1,138)**
Translation differences	326	4,029	(5,812)	**(1,457)**
At 31 December 2022	**11,910**	**295**	**53,665**	**65,870**

16. Due to banks and other financial institutions

Due to banks and other financial institutions are presented based on contractual terms and include the following items:

	31 December 2023	*31 December 2022*
Due to banks less than 1 year		
Term deposits of banks and other financial institutions	50	–
Due to banks over 1 year		
Term deposits of banks and other financial institutions	–	1,620
Due to banks and other financial institutions	**50**	**1,620**

Concentration of deposits from banks and other financial institutions

As at 31 December 2023 total deposits from banks and other financial institutions were placed by a single counterparty (31 December 2022: single counterparty).

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(Thousands of euros)

17. Long-term loans of banks

On 31 December 2023, the Group had long-term loan from the BRICS New Development Bank in the amount of USD 42,379 thousand (EUR 38,131 thousand) (31 December 2022: EUR 40,843 thousand) and from the KDB Bank in the amount of HUF 2,133 million (EUR 5,568 thousand) (31 December 2022: EUR 4,768 thousand). In 2023 year the Group repaid the part of long-term loan from the BRICS New Development Bank in amount of USD 3.1 million (EUR 2,866 thousand).

18. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*31 December 2023*	*31 December 2022*
CZK-denominated bonds	1.50-4.00	2023-2027	218,177	220,331
RUB-denominated bonds	0.01-7.75	2024-2027	120,957	328,485
RON-denominated bonds	4.95	2023-2025	134,466	170,447
EUR-denominated bonds	0.12-0.95	2023-2041	104,888	104,821
HUF-denominated bonds	1.90	2023-2024	62,546	59,182
Debt securities issued			**641,034**	**883,266**

As the Group was deprived of the technical ability to work and fulfill its obligations in Europe due to unilateral actions of European financial institutions, US sanctions and the designation of the Group to the US OFAC SDN list:

On 19 October 2023, the Group was unable to repay bonds and coupon in amount RON 207,800 thousand (EUR 41,794 thousand); on 16 October 2023, the Group was unable to repay bonds in amount EUR 50,000 thousand; on 7 October 2023, the Group was unable to repay bonds and coupon in amount RON 351,536 thousand (EUR 70,810 thousand); on 28 September 2023, the Group was unable to repay bonds and coupon in amount HUF 15,337 million (EUR 39,241 thousand); on 26 May 2023, the Group was unable to repay bonds in amount CZK 621,000 thousand (EUR 26,227 thousand); on 26 April 2023, the Group was unable to repay coupon in amount CZK 56,250 thousand (EUR 2,278 thousand).

On 16 May 2023, the Group repaid bonds in amount RUB 7,000 million (EUR 83,391 thousand).

On 5 April 2023, the Group issued bonds in amount RUB 3,500 million (EUR 40,277 thousand) with the maturity of 3 years, coupon of 9.45% p.a. On 3 May 2023, the Group repaid bonds in amount RUB 3,500 million (EUR 39,513 thousand).

On 10 March 2023, the Group repaid bonds in amount RUB 6,698 million (EUR 83,429 thousand).

On 24 March 2023, the Group repaid bonds in amount RON 190,531 thousand (EUR 38,485 thousand).

On 2 November 2022, the Group repaid RON denominated bonds in the amount of RON 500 million (EUR 102,103 thousand).

On 18 October 2022, the Group repaid HUF denominated bonds in the amount of HUF 10,835 million (EUR 25,934 thousand).

On 12 May 2022, under put option the Group bought back HUF denominated bonds in the amount of HUF 11,082 million (EUR 29,194 thousand).

On 22 March 2022, the Group repaid bonds in amount HUF 24,700 million (EUR 66,130 thousand).

On 27 January 2022, the Group issued CZK 900 million (EUR 36,581 thousand) under MTN Programme with the maturity of 5 years, coupon of 4% p.a. Bonds were listed on the Euronext Dublin.

On 27 January 2022, the Group issued RON 105 million (EUR 21,170 thousand) under MTN Programme with 3-year maturity, coupon of 4.95% p.a. Bonds were listed on the Euronext Dublin.

(Thousands of euros)

18. Debt securities issued (continued)

At the issue dates of the non-EUR-denominated bonds, the Group entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7) and exchanging interest expense from debt securities issued, denominated in RON to the currency required by the Group (EUR) to finance credit projects in the required currency. The Group hedge accounting for the forward foreign exchange risk of the bond issue in Romanian lei (RON) placed on 7 October 2020.

The cash-flows of the fixed rate securities issued by the Group are exposed to the change in the EUR/RON spot and forward foreign exchange rates. The forward foreign exchange risk related to these securities are hedged with cross-currency interest rate swap ("CCIRS") transactions, resulting in a decrease in forward foreign exchange exposure of issued securities. The effects of using cross-currency interest rate swaps are disclosed in Notes 23 and 24.

The Group primarily used the proceeds from issuance of debt instruments and placement of bonds to expand its loan portfolio and establish additional liquidity buffers.

19. Subordinated perpetual deposit

Subordinated perpetual deposit consisted of the following:

	31 December 2023	*31 December 2022*
Subordinated perpetual deposit	111,008	–
Subordinated perpetual deposit	**111,008**	**–**

As at 31 December 2023, the Board of Governors approved restructuring of the Bank's paid-in capital. Following this decision, the Group converted part of the Russian Federation's share into a subordinated perpetual deposit of EUR 111,000 thousand with an interest rate of 0.01% p.a.

20. Equity

Subscribed and paid-in capital

On 18 August 2018, new statutory documents of the International Investment Bank entered into force. Pursuant to the amended statutory documents, the Bank's authorized capital amounts to EUR 2,000,000 thousand (31 December 2022: EUR 2,000,000 thousand), which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

The Czech Republic and the Slovak Republic officially withdrew from the Bank on 27 January 2023 and 29 January 2023, the Romania on 9 June 2023, the Republic of Bulgaria on 15 August 2023 and the Hungary on 19 October 2023. In January 2023 the Board of Governors approved governing principles for settlement of mutual obligations between the Bank and the withdrawing members. Each settlement with each of the withdrawing members shall be conducted in form of an international treaty signed between the Bank and each of the withdrawing members. The Bank continues to account contributions of withdrawn members in capital, since at the reporting date no agreements have been signed and the amount of liabilities has not been determined.

As at 31 December 2023, the unpaid portion of the Bank's authorized capital consists of the callable capital (contributions that have not been made yet by the Bank's member countries) in the amount of EUR 507,184 thousand (31 December 2022: EUR 697,376 thousand) and the amount of unallocated equity contributions (quotas that are available to new or existing Member countries) totaling EUR 1,385,000 thousand (31 December 2022: EUR 875,500 thousand).

The paid-in capital of the International Investment Bank totaled EUR 107,816 thousand (31 December 2022: EUR 427,124 thousand).

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(Thousands of euros)

20. Equity (continued)

Revaluation reserve for securities at fair value through other comprehensive income, cash flow hedge reserve and revaluation reserve for property and equipment

Changes in the revaluation reserve for securities at FVOCI and cash flow hedge reserve, and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for securities	*Cash flow hedge reserve*	*Revaluation reserve for property and equipment*
At 1 January 2022	**(58)**	**(29,792)**	**8,691**
Net change in the fair value of securities at FVOCI	(39,610)	–	–
Change in the allowance for ECL on securities at FVOCI	99	–	–
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the consolidated income statement	7,613	–	–
Revaluation of buildings	–	–	(793)
Effective portion of changes in fair value arising from CCIRS	–	(77,632)	–
Net amount reclassified to net losses from operations with foreign currencies and derivatives	–	76,542	–
At 31 December 2022	**(31,956)**	**(30,882)**	**7,898**
At 1 January 2023	**(31,956)**	**(30,882)**	**7,898**
Net change in the fair value of securities at FVOCI	9,829	–	–
Change in the allowance for ECL on securities at FVOCI	18,517	–	–
Reclassification of accumulated losses from disposal of debt securities at fair value through other comprehensive income to the consolidated income statement	1,450	–	–
Revaluation of buildings	–	–	(1,410)
Effective portion of changes in fair value arising from CCIRS	–	3,722	–
Net amount reclassified to net losses from operations with foreign currencies and derivatives	–	18,075	–
At 31 December 2023	**(2,160)**	**(9,085)**	**6,488**

Revaluation reserve for securities

The revaluation reserve for securities records fair value changes of financial assets at FVOCI.

Revaluation reserve for property and equipment

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

Cash flow hedge reserve

Cash flow hedge reserve is used to record the portion of the cumulative gain or loss on a hedging instrument that is determined to be an effective hedge. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in Net losses from operations with foreign currencies and derivatives in the Income statement.

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(Thousands of euros)

21. Commitments and contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group. In accordance with the Agreement on the Establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

The Group takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights. When the estimated amount of costs resulting from the Group's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Group holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

Insurance

The Group obtained insurance coverage for a group of buildings, equipment and car park as well as liability insurance against damages caused by operating assets of a hazardous nature. However, the Group did not obtain insurance coverage related to temporarily discontinued operations or the Group's obligations to third parties.

Taxation

The IIB is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statute that constitutes an integral part of the Agreement. Pursuant to the Agreement, the Bank and its Branch are exempt from any national or local direct taxes or duties effective in the territories of its member states.

Credit-related commitments

At any time the Group may have outstanding commitments to extend loans. These commitments take the form of approved loan agreements. As at 31 December 2023, credit-related commitments of the Group comprised credit-related commitments such as undrawn loan facilities.

The primary purpose of credit-related commitments is to ensure that funds are available to customers as required. Guarantees issued, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Undrawn loan facilities represent unused portions of funds to be issued as loans.

Credit-related commitments are presented in the table below as at 31 December 2023 and 31 December 2022:

	31 December 2023	***31 December 2022***
Undrawn loan facilities	15,440	36,002
Guarantees issued	–	8,875
	15,440	**44,877**
Less: allowance for impairment of credit-related commitments	(714)	(328)
Credit-related commitments	**14,726**	**44,549**

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(Thousands of euros)

21. Commitments and contingencies (continued)

Credit-related commitments (continued)

Movements in the gross carrying amount and respective ECL related to undrawn loan facilities for the year ended 31 December 2023 are as follows:

Undrawn loan facilities	*Stage 1*	*Total*
Carrying amount at 1 January 2023, gross	**36,002**	**36,002**
New purchased or originated credit-related commitments	13,235	**13,235**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(33,779)	**(33,779)**
Translation differences	(18)	**(18)**
At 31 December 2023, gross	**15,440**	**15,440**

Undrawn loan facilities	*Stage 1*	*Total*
Allowance for ECL at 1 January 2023	**300**	**300**
New purchased or originated credit-related commitments	29	**29**
Assets derecognized or redeemed (excluding write-offs)	(278)	**(278)**
Changes to inputs used for ECL calculations	663	**663**
At 31 December 2023	**714**	**714**

Movements in the gross carrying amount and respective ECL related to undrawn loan facilities for the year ended 31 December 2022 are as follows:

Undrawn loan facilities	*Stage 1*	*Total*
Carrying amount at 1 January 2022, gross	**104,627**	**104,627**
New purchased or originated credit-related commitments	198,690	**198,690**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(265,889)	**(265,889)**
Translation differences	(1,426)	**(1,426)**
At 31 December 2022, gross	**36,002**	**36,002**

Undrawn loan facilities	*Stage 1*	*Total*
Allowance for ECL at 1 January 2022	**304**	**304**
New purchased or originated credit-related commitments	444	**444**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(528)	**(528)**
Changes to inputs used for ECL calculations	79	**79**
Translation differences	1	**1**
At 31 December 2022	**300**	**300**

Movements in the gross carrying amount and respective ECL related to guarantees issued for the year ended 31 December 2023 are as follows:

Guarantees issued	*Stage 1*	*Total*
Carrying amount at 1 January 2023, gross	**8,875**	**8,875**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(9,235)	**(9,235)**
Translation differences	360	**360**
At 31 December 2023, gross	**–**	**–**

Guarantees issued	*Stage 1*	*Total*
Allowance for ECL at 1 January 2023	**28**	**28**
New purchased or originated credit-related commitments	12	**12**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(43)	**(43)**
Changes to inputs used for ECL calculations	3	**3**
At 31 December 2023	**–**	**–**

(Thousands of euros)

21. Commitments and contingencies (continued)

Credit-related commitments (continued)

Movements in the gross carrying amount and respective ECL related to guarantees issued for the year ended 31 December 2022 are as follows:

Guarantees issued	***Stage 1***	***Total***
Carrying amount at 1 January 2022, gross	**70,498**	**70,498**
New purchased or originated credit-related commitments	1,233	**1,233**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(69,850)	**(69,850)**
Translation differences	6,994	**6,994**
At 31 December 2022, gross	**8,875**	**8,875**

Guarantees issued	***Stage 1***	***Total***
Allowance for ECL at 1 January 2022	**601**	**601**
New purchased or originated credit-related commitments	118	**118**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(741)	**(741)**
Translation differences	50	**50**
At 31 December 2022	**28**	**28**

22. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 31 December 2023, the Group's non-cancelable operating lease rentals amount to EUR 668 thousand and will be settled within 1 month – 1 year (31 December 2022: EUR 1,000 thousand and will be settled within 1 month – 1 year and 1-2 years EUR 130 thousand).

23. Interest income and interest expenses

Net interest income comprises:

	2023	***2022***
Interest income		
Interest income calculated using the EIR method		
Loans to customers	27,232	46,291
Deposits with banks and other financial institutions, including cash and cash equivalents	11,875	3,360
Loans to banks	7,699	5,868
Securities at fair value through other comprehensive income	4,293	3,461
Securities at amortized cost	660	934
Other	167	82
Other interest income		
Cross-currency interest rate swaps covering long-term currency risks	4,105	16,800
Investments at fair value through profit or loss	93	1,131
Total interest income	**56,124**	**77,927**
Interest expenses		
Interest expenses calculated using the EIR method		
Debt securities issued	(25,334)	(45,316)
Long-term loans of banks	(3,786)	(2,071)
Current customer accounts	(106)	(153)
Subordinated perpetual deposit	(8)	–
Due to banks and other financial institutions	–	(266)
Other	(31)	(160)
Other interest expenses		
Cross-currency interest rate swaps covering long-term currency risks	(3,006)	(11,345)
Total interest expenses	**(32,271)**	**(59,311)**
Net interest income	**23,853**	**18,616**

(Thousands of euros)

24. Net losses from operations with foreign currencies and derivatives

Net losses from operations with foreign currencies and derivatives comprise:

	2023	*2022*
Derivative financial instruments and operations with foreign currencies		
Net losses from operations with foreign currencies and derivatives	(16,039)	(95,107)
Net losses from revaluation of derivative financial instruments	(2,663)	89,139
Total derivative financial instruments and operations with foreign currencies	**(18,702)**	**(5,968)**
Translation differences		
Net gains/(losses) from revaluation of assets and liabilities in foreign currencies	7,559	(54,331)
Net losses from operations in foreign currencies and with derivatives	**(11,143)**	**(60,299)**

25. General and administrative expenses

General and administrative expenses comprise:

	2023	*2022*
Employee compensations and employment taxes	10,316	12,269
IT expenses, inventory and occupancy expenses	2,167	2,737
Depreciation and disposal of property, equipment and intangible assets	1,810	2,031
Professional services	424	447
Expenses related to business travel, representative and accommodation expenses	92	249
Other	430	421
General and administrative expenses	**15,239**	**18,154**

26. Risk management

Risk management framework

The Group's risk management policy is based on the conservative assessment approach and is mainly aimed at the mitigation of the adverse impact of risks on the Group's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The conservative assessment approach assumes that the Group does not enter into potential transactions with a high or undeterminable risk level, regardless of profitability.

The Group's risk management activities are intended to:

- Identify, analyze and manage risks faced by the Group;
- Establish ratios and limits that restrict the level of the appropriate types of risks;
- Monitor the level of the risk and its compliance with established limits;
- Develop and implement regulative and methodological documents as well as software applications that ensure professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing circumstances on global financial markets.

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(Thousands of euros)

26. Risk management (continued)

Risk management system

Integrated into the whole vertical organizational structure of the Group and all areas of the Group's activities, the risk management system makes it possible to identify in a timely manner and effectively manage different types of risks.

Risk management involves all of the Group's divisions in evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st line of defense): the Group's divisions directly preparing and conducting transactions are involved in the identification, assessment, and monitoring of risks and comply with internal regulations on risk management, as well as give due consideration to the risk level in the preparation of transactions.
- Risk management (2nd line of defense): the division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements.
- Internal audit (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

The Group's operations are managed taking into account the level of the risk appetite approved by the Board of Directors and its integration into a system of limits and restrictions ensuring the acceptable level of risk for aggregated positions, transparent distribution of the total risk limit among the activities of the Group.

The Board of Governors, the Board of Directors, the Audit Commission, the Management Board, the Finance Committee, the Credit Committee and the Risk Management Department are responsible for managing the Group's risks.

The Board of Governors, within its powers, decides on lending transactions.

The Board of Directors, within its powers, decides on lending transactions, is responsible for the general control over the risk management system, determines its development strategy and risk profile, and sets strategic limits and risk appetite.

The Audit Commission appointed by the Board of Governors audits the Group's activities with all risk factors taken into account.

The Management Board is the executive body of the Group, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Board of Directors. The Board ensures co-operation among all divisions and committees of the Group.

In 2022 the Anti-Crisis Committee under the Management Board was established within the Group to develop and implement measures aimed at ensuring the financial stability and minimization of Group's risks in the face of increased geopolitical tensions and economic challenges.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs its qualitative and quantitative assessment, prepares recommendations for the Management Board and committees of the Group to mitigate risk impact on the Group's performance. To assess the impact on the financial stability of the Group of low probable but possible adverse events, The Risk Management Department regularly conducts stress testing, the results of which are reported to management.

The Group has developed the Early Warning System for credit and liquidity risks to identify the early signals of deterioration of counterparties creditworthiness and economic weaknesses and vulnerabilities among markets and ultimately anticipate such events.

In compliance with the existing procedures, the Group annually reviews limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, the Group continuously monitors the level of its loan assets risk.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Group's limits applied to transactions on money, currency and equity markets. In addition, the Group's management receives regular reports on the status of risks within the Group.

(Thousands of euros)

26. Risk management (continued)

Risk management system (continued)

Risk appetite

The risk appetite is the aggregate amount of risk taken by the Group to achieve its strategic goals and objectives. By approving the level of risk appetite, the Bank's Board of Directors determines the willingness to accept a risk or the amount of equity and liquidity that the Group is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

- The allocation of capital and liquidity (if necessary);
- Target allocation of capital across the main types of risk;
- The level of risk and target risk appetite in the context of the main performance indicators of the Group and risks significant for the Group;
- Determining levels of tolerance.

The procedure for determining the Group's risk appetite is defined by the Risk Management Department and submitted for review by the Management Board and approval by the Board of Directors of the Bank.

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group's exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase in the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis in the course of funds placement, the Risk Management Department monitors financial and non-financial risks affecting the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of the Finance Committee and, if necessary, also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

Risk assessment, management and control

The Group's risk exposure is primarily reduced by means of collective decision-making. Strict allocation of responsibilities between divisions and officers of the Group, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and, if necessary, updated by the Group in order to reflect changed market conditions and improve the risk management methodology.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment;
- Exercising control over the Group's exposure by means of compliance with the established limits, regular assessment of the Group's risk exposure and internal audit of risk management systems.

The Group identifies the following major risks inherent in its various activities:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

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(Thousands of euros)

26. Risk management (continued)

Risk management response to external shocks

Facing the unprecedented accumulation of geopolitical tensions and external shocks (the RF-UA conflict, members' withdrawal announcements, etc.), the Risk Department (here and after – RD) has managed to tailor its activities in line with the rapidly changing environment:

- ► At the outset of the tensions, the RD swiftly modified the cash flow model with a higher granularity of predictions to provide comprehensive operational visibility on the Group's liquidity situation.
- ► Following the colossal exchange rates volatility, RD enhanced assessing the sensitivity of the Group's derivative portfolio, enriched it with the concept of the maximum expected margin calls outflow (under the specific stress scenarios applied to respective yield curves and exchange rates), and relevant trigger values.
- ► RD elaborated and calibrated a new macroeconomic model for IFRS 9 provisioning, which considers the latest macroeconomic forecasts from reputable sources.
- ► RD amplified the counterparty monitoring process that resulted in limit modifications, reductions, and freezes reflecting on the recent developments in the sanctioned area and adapted business needs.
- ► RD provides for the management consideration regular and ad-hoc forecasts and performs "what if" analysis of the full spectrum of risk indicators.
- ► RD continues to operate early warning systems, for market and credit risks, in close cooperation with other Group's departments looking for early recognition of additional weak points, their classification, and subsequent analysis to prepare recommendations on specific risk elimination.

Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Group, or discharges them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of potential credit risk exposures such as individual borrower or counterparty default risk.

System of credit risk management

The Group's regulatory documents establish the following:

- ► Procedures to review and approve loan/credit applications;
- ► Methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies;
- ► Requirements to the credit documentation;
- ► Procedures for the ongoing monitoring of loans and other credit exposures.

To mitigate credit risk, the Group limits concentrations of exposure by individual customer, counterparty and issuer, group of related customers, counterparties and issuers, as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness of the borrowers and their ability to repay interest and principal, and on correspondent limits modification (if necessary).

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer's most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower's internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including state, corporate and personal guarantees, as well as monitoring availability and value of collateral.

(Thousands of euros)

26. Risk management (continued)

Credit risk (continued)

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- State, corporate and personal guarantees and suretyship agreements;
- Pledge of real estate (mortgage) and ownership title;
- Pledge of equipment and goods in stock;
- Pledge of receivables over construction investment agreements / bank accounts / insurance agreements / etc.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over interbank loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of a borrower's default considering the time needed for such sale, litigation and other costs.

Current market value of collateral, if necessary, is assessed by accredited independent appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including the adjustment coefficient (discount). Where the market value of collateral is assessed as impaired, borrowers are usually required to provide additional collateral.

Collateral portfolio is a collection of various types of property accepted by the Group to ensure fulfillment of obligations on credit products.

The collateral portfolio is formed taking into account the development strategy of the Group, the target segment of the borrowers and pledgers, the assumptions and limiting conditions of the Group's loan and pledge policy.

Accounting of concluded pledge agreements is carried out in the he Group's automated accounting system.

The Group's portfolio of loans to banks and customers (less allowance for impairment) by type of collateral is analyzed in Notes 10 and 11.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where the financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum credit risk exposure that could arise in the future as a result of changes in values.

Analysis of credit risk concentration by customers' industry is presented in Note 11.

Maximum credit risk exposure by credit related commitments represents the whole amount of these commitments (Note 21).

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

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(Thousands of euros)

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The Group assesses credit quality of financial instruments in accordance with IFRS 9 and based on 3 quality categories: quality category I – standard financial instruments, quality category II – financial instruments with significant increase in credit risk, quality category III – impaired financial instruments. The credit quality is based on the assessment of the customer's financial position, payment discipline, credit history, compliance with its business plan and production discipline, additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, industry specifics and country rating, and other available information.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

Impairment assessment

The allowance for expected credit loss ("ECL") is based on credit losses expected to be incurred over the life of the underlying asset (lifetime ECL), if there has been a significant increase in credit risk on this asset since the date of initial recognition. Otherwise, the allowance for ECL is based on 12-month expected credit losses. 12-month ECL are part of lifetime ECL and represent ECL arising from defaults on a financial instrument expected to occur within 12 months after the reporting date.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above, the Group classifies financial instruments exposed to credit risk as follows:

- Stage 1. At initial recognition of a financial instrument, the Group recognizes an impairment allowance in the amount equal to 12-month ECL. Stage 1 also includes loans and other financial instruments for which credit risk decreased to the extent that they have been reclassified from Stage 2.
- Stage 2. If there has been a significant increase in credit risk for the financial instrument since its initial recognition, the Group recognizes an impairment allowance in the amount equal to lifetime ECL. Financial instruments overdue more than 30 calendar days are always included in Stage 2 or Stage 3, unless the Group has reasonable and supportable information not to consider this delay a significant deterioration in the counterparty's credit quality. Stage 2 also includes loans and other credit facilities for which credit risk decreased to the extent that they have been reclassified from Stage 3.
- Stage 3. Credit-impaired financial instruments. The Group recognizes an impairment allowance in the amount equal to lifetime ECL. If the Group does not have reasonable expectations regarding recoverability of the financial asset in full or in part, the gross carrying amount of the asset should be decreased. Such a decrease is considered (partial) derecognition of the financial asset. Financial instruments overdue more than 90 calendar days are always included in Stage 3, unless the Group has reasonable and supportable information not to consider this delay a significant deterioration in the counterparty's credit quality. The loan overdue less than 90 days can be included in Stage 3, if the Group has reasonable and supportable information that this loan will not be repaid and there is significant indicators of the decrease in the counterparty's credit quality.

Key inputs required for ECL calculation are as follows:

- Probability of default (PD) is an estimate of the probability of default within a specified period. Default may occur only at a certain point in time within the stated period unless the asset was derecognized or excluded from the portfolio.
- Exposure at default (EAD) is an estimate of the exposure at default at a certain future date, adjusted to reflect its changes expected after the reporting date, including payments of interest or the principal amount due under a contract or otherwise, as well as repayment of loans issued and interest accrued on overdue payments.
- Loss given default (LGD) is an estimate of losses arising on default at a certain point of time. This estimate is usually expressed as a percentage of EAD.

(Thousands of euros)

26. Risk management (continued)

Credit risk (continued)

To calculate the macroeconomic adjustment for ECL the Group uses a wide range of forecast information as economic inputs for its models, including but not limited to:

- GDP growth rates;
- Debt to GDP ratio;
- Unemployment rate;
- Inflation rate;
- Base rates;
- Exchange rates.

The macroeconomic adjustment is calculated using developed and tested macroeconomic models (functions) and two macroeconomic annual forecasts of the corresponding parameters (optimistic and pessimistic scenarios). Forecast data on parameters are taken from open sources.

Impairment losses and their reversal are accounted for and disclosed separately from gain or loss from modification recognized as an adjustment to the gross carrying amount of financial assets. The Group believes an increase in the credit risk related to a financial asset since the date of its initial recognition to be significant, if credit quality of a counterparty has deteriorated significantly and there are grounds to believe that this deterioration can adversely affect the counterparty's ability to meet its liabilities to the Group. In addition, the Group applies a qualitative method to identify a significant increase in credit risk associated with an asset, e.g. a list of non-performing customers / instruments or asset restructuring. Regardless of changes in ratings, an increase in credit risk since the date of initial recognition is considered significant, if contractual payments are over 30 days past due.

For ECL calculation purposes, the Group considers the financial instrument to be in default and, therefore, includes it in Stage 3 (credit-impaired assets) whenever a borrower is 90 days late with contractual payments. In case of treasury or interbank transactions, the Group considers that there is a default and takes prompt remedy measures whenever the counterparty fails to make intraday payments required by specific agreements before the end of an operating day and the Group has no grounds to believe that this non-payment was a technical delay. The Group estimates ECL on all assets included in Stage 3 on an individual basis.

The Group creates an allowance for a financial instrument in accordance with IFRS 9 that represents its estimates of losses on such a financial instrument. A financial instrument can be written off against the related allowance for expected credit losses only upon permission of the IIB's Board of Governors and where the financial instrument is determined as uncollectable and all necessary steps to collect the financial instrument are completed. Such decision is made after consideration of the information on significant changes in counterparty's financial position such as inability to repay the financial instrument and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

The total amount of the impairment allowance is approved by the Management Board on a monthly basis.

The tables below provide an analysis of the Group's internal expected credit loss rating scale as of 31 December 2023 and how it correspond to the external ratings of the S&P credit rating service.

Internal assessment	*External ratings equivalent*	*Internal ratings equivalent*
Excellent	AAA-AA-	A1-A3
Very strong	A+-A-	A4-A6
Strong	BBB+-BBB-	A7-A9
Good	BB+-BB-	B1-B3
Fair	B+-B-	B4-B6
Special attention	CCC+-CCC-	C1-C3
Expected loss	CC-D	SD-D

(Thousands of euros)

26. Risk management (continued)

Credit risk (continued)

The table provides overview of the exposure amount and allowance for credit losses by long-term loans to banks (Note 10) and loans to customers (Note 11) class broken down into stages as per IFRS 9 requirements as at 31 December 2023 and 31 December 2022:

31 December 2023	*Amount*				*Allowance for impairment*			
Internal risk rating category	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Long-term loans to banks								
Good	11,157	–	–	**11,157**	137	–	–	**137**
Fair	38,691	–	–	**38,691**	714	–	–	**714**
Special attention	50,069	–	–	**50,069**	157	–	–	**157**
Loans to customers at amortized cost								
Strong	–	47,439	–	**47,439**	–	7,055	–	**7,055**
Good	–	70,508	–	**70,508**	–	1,629	–	**1,629**
Fair	48,889	71,159	–	**120,048**	1,547	2,363	–	**3,910**
Special attention	94,323	5,080	–	**99,403**	5,052	2,541	–	**7,593**
Expected loss	–	296	–	**296**	–	296	–	**296**
Loans to customers at fair value through other comprehensive income								
Good	–	41,473	–	**41,473**	–	3,674	–	**3,674**
Fair	–	12,610	–	**12,610**	–	1,521	–	**1,521**
	243,129	**248,565**	**–**	**491,694**	**7,607**	**19,079**	**–**	**26,686**

31 December 2022	*Amount*				*Allowance for impairment*			
Internal risk rating category	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Long-term loans to banks								
Good	10,701	–	–	**10,701**	60	–	–	**60**
Fair	45,636	–	–	**45,636**	1,072	–	–	**1,072**
Special attention	50,149	–	–	**50,149**	1,349	–	–	**1,349**
Loans to customers at amortized cost								
Strong	45,275	–	–	**45,275**	74	–	–	**74**
Good	82,404	–	–	**82,404**	244	–	–	**244**
Fair	211,835	–	–	**211,835**	1,950	–	–	**1,950**
Special attention	125,578	–	52,705	**178,283**	5,251	–	18,447	**23,698**
Expected loss	–	295	–	**295**	–	295	–	**295**
Loans to customers at fair value through other comprehensive income								
Good	26,305	–	–	**26,305**	60	–	–	**60**
Fair	25,770	–	–	**25,770**	430	–	–	**430**
	623,653	**295**	**52,705**	**676,653**	**10,490**	**295**	**18,447**	**29,232**

Liquidity risk

Liquidity risk is the risk of loss resulting from the Group's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from an improper balance between the Group's financial assets and financial liabilities by period and amount (including due to untimely discharge of its financial obligations by one or several counterparties of the Group) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

Liquidity management is an integral part of the general policy for the Group's assets and liabilities management (ALM) and operates within the established limits and restrictions related to the management of risks (liquidity, interest rate and currency risk) and the Group's balance sheet items, and in accordance with the documents of planning.

(Thousands of euros)

26. Risk management (continued)

Liquidity risk (continued)

Procedures for the Group's liquidity position management, ensuring the Group's ability to meet its obligations in full and on a timely basis and efficient resources management, are stipulated in the Regulations for IIB's Liquidity Position Management that enables the development of the liquidity position management function provided for by IIB's Assets and Liabilities Management Policy, as an integral part of the general function of the Group's management.

The Group manages its liquidity position in accordance with planning horizons (up to 12 months) and possible scenarios of movements in the liquidity position (stable, stressed).

The main instrument of liquidity position management under the stable scenario is a Plan of Cash Flows defining the cash flow by balance sheet product/instrument and taking into account the plan of future financial operations. The Group determines the balance sheet gaps, payment schedule and need for financing of future operations based on the Plan of Cash Flows.

The Group has implemented a liquidity buffer to manage the Group's liquidity under the stressed scenario. Application of the liquidity buffer enables the Group to promptly monitor the sustainability and stability of the Group's balance sheet structure in case of a liquidity shortage that is critical to the Group's solvency.

The liquidity buffer is formed primarily of liquidity reserves, namely nostro accounts and deposits with banks and other financial institutions. The Group calculates its liquidity reserves as at the reporting date and for the next twelve monthly reporting dates (forecast). The liquidity buffer may be used to close the negative net position. As at 31 December 2023, the liquidity buffer amounts to EUR 136.8 million (31 December 2022: EUR 202.9 million).

Credit-related commitments of the Group are stated in accordance with contractual maturities in the table presented below. Where there is no contractual schedule of credit-related commitments, these obligations are included into the earliest date on which the client can demand their execution. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	31 December 2023	***31 December 2022***
1 to 3 months	–	4,037
3 months to 1 year	–	18,175
1 to 5 years	14,726	13,490
Credit-related commitments	**14,726**	**35,702**

On 31 December 2023 credit-related commitment in the amount of EUR 14,726 thousand is included in the term of 1 to 5 years, however the Group is deprived of the technical ability to work and fulfill its commitments to European counterparties (31 December 2022: EUR 13,490 thousand is included in the term of 1 to 5 years based on professional judgment and experience of relationship with the counterparty).

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(Thousands of euros)

26. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of financial assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. As at 31 December 2023 quoted debt securities at fair value through other comprehensive income, issued by Russian issuers, were included in the "Less than 1 month" (31 December 2022: "3 months to 1 year" "Less than 1 month") category as they are highly liquid securities, shares and depositary receipts which the Group may sell in the short term on the arm-length basis. Securities at fair value through other comprehensive income 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 Group.

	31 December 2023						*31 December 2022*						
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Not stated maturity*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Not stated maturity*	*Total*
Financial assets													
Cash and cash equivalents	83,838	19,804	–	–	–	**103,642**	163,689	128	–	–	–	–	**163,817**
Deposits with banks and other financial institutions	–	–	–	–	149,780	**149,780**	–	53,848	6,587	15,330	–	72,079	**147,844**
Derivative financial assets	–	–	–	–	1,216	**1,216**	–	–	7,185	6,856	–	–	**14,041**
Investments at fair value through profit or loss	–	–	–	–	–	**–**	14,219	–	–	–	–	–	**14,219**
Securities at fair value through other comprehensive income	32,863	–	–	–	119,913	**152,776**	252	301	155,669	–	–	–	**156,222**
Securities at amortized cost	–	–	243	18,479	13,225	**31,947**	–	160	319	42,676	18,979	–	**62,134**
Loans to banks	3,268	3,899	22,317	66,788	2,637	**98,909**	7,099	898	13,079	34,307	48,622	–	**104,005**
Loans to customers	3,873	10,351	23,821	60,864	272,385	**371,294**	18,907	13,884	71,435	332,630	107,050	–	**543,906**
Other financial assets	55	–	29	13	102,105	**102,202**	332	181	2	–	–	–	**515**
Total financial assets	**123,897**	**34,054**	**46,410**	**146,144**	**661,261**	**1,011,766**	**204,498**	**69,400**	**254,276**	**431,799**	**174,651**	**72,079**	**1,206,703**
Financial liabilities													
Due to banks and other financial institutions	–	–	–	–	(50)	**(50)**	–	–	–	(1,620)	–	–	**(1,620)**
Derivative financial liabilities	–	–	–	–	(995)	**(995)**	(446)	(2,757)	(13,314)	(17,578)	–	–	**(34,095)**
Current customer accounts	(4,016)	–	–	–	–	**(4,016)**	(7,599)	–	–	–	–	–	**(7,599)**
Long-term loans of banks	–	–	–	–	(43,699)	**(43,699)**	–	(3,337)	(2,885)	(27,847)	(11,542)	–	**(45,611)**
Debt securities issued	–	–	(1,698)	(119,258)	(520,078)	**(641,034)**	(2,616)	(124,973)	(315,696)	(410,403)	(29,578)	–	**(883,266)**
Other financial liabilities	(261)	(21)	(390)	(626)	(100,556)	**(101,854)**	(261)	(872)	(11)	(105)	–	–	**(1,249)**
Total financial liabilities	**(4,277)**	**(21)**	**(2,088)**	**(119,884)**	**(665,378)**	**(791,648)**	**(10,922)**	**(131,939)**	**(331,906)**	**(457,553)**	**(41,120)**	**–**	**(973,440)**
Net position	**119,620**	**34,033**	**44,322**	**26,260**	**(4,117)**	**220,118**	**193,576**	**(62,539)**	**(77,630)**	**(25,754)**	**133,531**	**72,079**	**233,263**
Accumulated net position	**119,620**	**153,653**	**197,975**	**224,235**	**220,118**		**193,576**	**131,037**	**53,407**	**27,653**	**161,184**	**233,263**	

* The assets and liabilities from the liquidity risk analysis with not stated maturity include financial instruments with no technical ability to receive and make payments due to US sanctions and the designation of IIB to the US OFAC SDN list.

(Thousands of euros)

26. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2023 and 31 December 2022 based on contractual undiscounted repayment obligations except for gross settled derivatives that are shown by contractual maturity. Debt securities issued with put options (offers) are presented as if investors will exercise their options at the earliest possible date. The Group assumes that it will have to make payment on current bond offers.

At 31 December 2023	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Not stated maturity*	*Total*
Financial liabilities						
Due to banks and other financial institutions	–	–	–	–	50	**50**
Current customer accounts	4,016	–	–	–	–	**4,016**
Gross settled derivative financial instruments:						
- Contractual amounts payable	–	–	–	–	25,159	**25,159**
- Contractual amounts receivable	–	–	–	–	(25,168)	**(25,168)**
Long-term loans of banks	–	–	–	–	52,001	**52,001**
Debt securities issued	–	–	9,223	124,006	532,079	**665,308**
Other financial liabilities	261	21	390	626	100,556	**101,854**
Total undiscounted financial liabilities	**4,277**	**21**	**9,613**	**124,632**	**684,677**	**823,220**

* The liabilities with not stated maturity include financial instruments with no technical ability to receive and make payments due to US sanctions and the designation of IIB to the US OFAC SDN list.

At 31 December 2022	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities						
Due to banks and other financial institutions	–	–	–	1,620	–	**1,620**
Current customer accounts	7,599	–	–	–	–	**7,599**
Net settled derivative financial instruments	–	–	(1,265)	–	–	**(1,265)**
Gross settled derivative financial instruments:						
- Contractual amounts payable	9,845	64,727	226,921	294,066	–	**595,559**
- Contractual amounts receivable	(11,535)	(60,949)	(227,476)	(300,283)	–	**(600,243)**
Long-term loans of banks	–	4,140	4,728	35,234	12,651	**56,753**
Debt securities issued	2,823	127,735	331,741	441,318	33,900	**937,517**
Other financial liabilities	261	872	11	105	–	**1,249**
Total undiscounted financial liabilities	**8,993**	**136,525**	**334,660**	**472,060**	**46,551**	**998,789**

Market risk

Market risk is the risk that the Group may incur losses due to adverse fluctuations in the market rate of financial instruments, interest rates, foreign exchanges, and securities' prices. Market risk includes equity risk on securities, interest rate risk and currency risk.

The Group is exposed to market risk due to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

The Management Board of the Group performs overall management of market risk.

The Treasury Department performs day-to-day management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits.

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(Thousands of euros)

26. Risk management (continued)

Market risk (continued)

Currency risk and price risk

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies. Price risk is the risk that the fair values of securities decrease as a result of changes in the levels of indices and the value of individual securities.

The Group applies a VaR methodology to assess currency and equity risks. VaR is a method used in measuring maximum risk of the Group, i.e. the level of losses on a certain position in relation to a financial instrument / currency / precious metal or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group uses an assumption that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days. The assessment of value at risk in relation to the currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

In estimating value at risk, the Group uses a parameter method, which allows assessing the volatility of yield on the basis of the most current market data.

The choice of a respective approach to value at risk estimation is made on the basis of data on statistical analysis of changes in fair values of financial instruments and exchange rates.

The selection period used by the Group for modeling purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of the above-mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of the risk assessment model with the actual market situation.

As at 31 December 2023 and 31 December 2022, final data on the value at risk (VaR) assessment in relation to currency and price risks assumed by the Group are represented as follows:

	2023	***2022***
Fixed income securities price risk	498	5,082
Currency risk	8,304	18,842

Despite the fact that measurement of value at risk is a standard industry method for risk assessment, this method has a number of limitations:

- ► Analysis based on the value at risk assessment is correct in case current market conditions remain unchanged.
- ► Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data.
- ► If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account.
- ► The 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. The results of the value at risk assessment may be incorrect in case of market liquidity deterioration.

Fluctuations that may occur in the course of the day are not taken into account at calculating value at risk on the basis of the results of a business day.

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(Thousands of euros)

26. Risk management (continued)

Market risk (continued)

The Group has assets and liabilities denominated in several foreign currencies. The financial position and the cash flows are exposed to the effects of fluctuations in foreign currency exchange rates. Non-monetary financial instruments and financial instruments denominated in functional currency are not exposed to currency risk. The Group's exposure to currency risk as at 31 December 2023 and 31 December 2022 are presented below:

	31 December 2023						
	EUR	***USD***	***RUB***	***HUF***	***RON***	***Other currencies***	***Total***
Non-derivative financial assets							
Cash and cash equivalents	3	8	103,631	–	–	–	**103,642**
Deposits with banks and other financial institutions	40,609	55,078	–	17,812	35,608	673	**149,780**
Securities at fair value through other comprehensive income	65,310	51,348	36,118	–	–	–	**152,776**
Securities at amortized cost	18,722	13,225	–	–	–	–	**31,947**
Long-term loans to banks	49,913	48,996	–	–	–	–	**98,909**
Loans to customers	250,055	41,235	35,730	28,968	15,306	–	**371,294**
Other financial assets	36,335	9,319	81	3,532	52,935	–	**102,202**
Total non-derivative financial assets	**460,947**	**219,209**	**175,560**	**50,312**	**103,849**	**673**	**1,010,550**
Non-derivative financial liabilities							
Due to banks and other financial institutions	(50)	–	–	–	–	–	**(50)**
Current customer accounts	(4,014)	(2)	–	–	–	–	**(4,016)**
Long-term loans of banks	–	(38,131)	–	(5,568)	–	–	**(43,699)**
Debt securities issued	(104,888)	–	(120,957)	(62,546)	(134,466)	(218,177)	**(641,034)**
Other financial liabilities	(61,791)	(38,449)	(1,222)	(392)	–	–	**(101,854)**
Total non-derivative financial liabilities	**(170,743)**	**(76,582)**	**(122,179)**	**(68,506)**	**(134,466)**	**(218,177)**	**(790,653)**
Net balance sheet position (excluding derivative financial instruments)	**290,204**	**142,627**	**53,381**	**(18,194)**	**(30,617)**	**(217,504)**	**219,897**
Derivative financial instruments							
Claims	24,936	–	–	–	–	–	**24,936**
Liabilities	–	(14,865)	(9,850)	–	–	–	**(24,715)**
Net balance sheet position, including derivative financial instruments	**315,140**	**127,762**	**43,531**	**(18,194)**	**(30,617)**	**(217,504)**	**220,118**

(Thousands of euros)

26. Risk management (continued)

Market risk (continued)

	31 December 2022						
	EUR	***USD***	***RUB***	***HUF***	***RON***	***Other currencies***	***Total***
Non-derivative financial assets							
Cash and cash equivalents	103,745	7,197	37,655	12,679	2,051	490	**163,817**
Deposits with banks and other financial institutions	33,439	47,662	33,156	852	32,735	–	**147,844**
Investments at fair value through profit or loss	5,069	–	9,150	–	–	–	**14,219**
Securities at fair value through other comprehensive income	61,154	89,117	5,951	–	–	–	**156,222**
Securities at amortized cost	38,823	23,311	–	–	–	–	**62,134**
Long-term loans to banks	48,800	55,205	–	–	–	–	**104,005**
Loans to customers	272,442	46,557	145,804	33,155	45,948	–	**543,906**
Other financial assets	211	39	91	174	–	–	**515**
Total non-derivative financial assets	**563,683**	**269,088**	**231,807**	**46,860**	**80,734**	**490**	**1,192,662**
Non-derivative financial liabilities							
Due to banks and other financial institutions	(1,620)	–	–	–	–	–	**(1,620)**
Current customer accounts	(7,596)	(3)	–	–	–	–	**(7,599)**
Long-term loans of banks	–	(40,843)	–	(4,768)	–	–	**(45,611)**
Debt securities issued	(104,821)	–	(328,485)	(59,182)	(170,447)	(220,331)	**(883,266)**
Other financial liabilities	(270)	(1)	(754)	(224)	–	–	**(1,249)**
Total non-derivative financial liabilities	**(114,307)**	**(40,847)**	**(329,239)**	**(64,174)**	**(170,447)**	**(220,331)**	**(939,345)**
Net balance sheet position (excluding derivative financial instruments)	**449,376**	**228,241**	**(97,432)**	**(17,314)**	**(89,713)**	**(219,841)**	**253,317**
Derivative financial instruments							
Claims	223,033	9,551	40,185	53,964	110,633	111,717	**549,083**
Liabilities	(340,530)	(166,128)	(24,131)	(38,348)	–	–	**(569,137)**
Net balance sheet position, including derivative financial instruments	**331,879**	**71,664**	**(81,378)**	**(1,698)**	**20,920**	**(108,124)**	**233,263**

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(Thousands of euros)

26. Risk management (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to interest rate risk of the Banking Book (IRRBB). Interest rate risk – the risk of financial loss due to adverse movement in interest rate curve corresponding to assets, liabilities, and off-balance sheet claims sensitive to interest rate changes. The Group measures and manages interest rate risk by estimating the sensitivity of the economic value of its balance sheet to up and down parallel interest rate shifts. The calculation assumes that the Group's equity is invested in all non-financial non-interest-bearing assets and high-quality investment-grade securities. These assets are excluded from the sensitivity calculation.

The sensitivity is measured by means of basis point value (BPV), quantifying the impact of an interest rate change of one basis point on the present value of interest-bearing assets and liabilities. The Group estimates the effect of a 1 b.p. change in interest rates over the lifetime of interest-bearing assets and liabilities due to mismatches in terms of re-pricing periods and volumes.

The Group's sensitivity by currency as of 31 December 2023 and 31 December 2022 are presented below:

	2023		***2022***	
	1-scenario: Parallel shock up (+1 b.p.)	***2-scenario: Parallel shock down (-1 b.p.)***	***1-scenario: Parallel shock up (+1 b.p.)***	***2-scenario: Parallel shock down (-1 b.p.)***
EUR	(34)	34	(41)	41
USD	(17)	17	3	(3)
RUB	8	(8)	5	(5)
HUF	(18)	18	(11)	11
RON	2	(2)	1	(1)
CZK	18	(18)	12	(12)

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Group's property.

Generally, the Management Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Management Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Group continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

27. Fair value measurements

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, professional judgment is necessarily required to interpret market data to determine the fair value. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

(Thousands of euros)

27. Fair value measurements (continued)

Fair value hierarchy

The Group 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: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs which have a significant effect on the recognized fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy. The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2023 and 31 December 2022:

	Level 1 31 December 2023	*Level 2 31 December 2023*	*Level 3 31 December 2023*	*Total 31 December 2023*
Assets measured at fair value				
Derivative financial assets	–	1,216	–	**1,216**
Government bonds at fair value through other comprehensive income	44,226	–	–	**44,226**
Corporate bonds at fair value through other comprehensive income	53,766	54,784	–	**108,550**
Loans to customers at fair value through other comprehensive income	54,083	–	–	**54,083**
Investment property	–	–	32,194	**32,194**
Property and equipment – buildings	–	–	54,429	**54,429**
Liabilities measured at fair value				
Derivative financial liabilities	–	995	–	**995**
Assets for which fair values are disclosed				
Cash and cash equivalents	578	103,064	–	**103,642**
Deposits with banks and other financial institutions	–	–	149,780	**149,780**
Securities at amortized cost	26,607	–	–	**26,607**
Loans to banks at amortized cost	–	–	108,796	**108,796**
Loans to customers at amortized cost	55,990	–	226,734	**282,724**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	50	**50**
Current customer accounts	–	–	4,016	**4,016**
Long-term loans of banks	–	–	43,699	**43,699**
Debt securities issued	–	106,859	520,794	**627,653**

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(Thousands of euros)

27. Fair value measurements (continued)

Fair value hierarchy (continued)

	Level 1 31 December 2022	*Level 2 31 December 2022*	*Level 3 31 December 2022*	*Total 31 December 2022*
Assets measured at fair value				
Derivative financial assets	–	14,041	–	**14,041**
Corporate bonds at fair value through profit or loss	9,150	–	–	**9,150**
Investments at fair value through profit or loss	–	5,069	–	**5,069**
Government bonds at fair value through other comprehensive income	42,508	–	–	**42,508**
Corporate bonds at fair value through other comprehensive income	51,925	61,789	–	**113,714**
Loans to customers at fair value through other comprehensive income	52,075	–	–	**52,075**
Investment property	–	–	33,360	**33,360**
Property and equipment – buildings	–	–	56,579	**56,579**
Liabilities measured at fair value				
Derivative financial liabilities	–	34,095	–	**34,095**
Assets for which fair values are disclosed				
Cash and cash equivalents	459	163,358	–	**163,817**
Deposits with banks and other financial institutions	–	43,936	103,908	**147,844**
Securities at amortized cost	43,677	–	–	**43,677**
Loans to banks at amortized cost	–	–	102,520	**102,520**
Loans to customers at amortized cost	115,212	–	356,948	**472,160**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	1,620	**1,620**
Current customer accounts	–	–	7,599	**7,599**
Long-term loans of banks	–	–	45,611	**45,611**
Debt securities issued	–	840,505	–	**840,505**

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(Thousands of euros)

27. Fair value measurements (continued)

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

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are recorded in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 31 December 2023	*Fair value 31 December 2023*	*Unrecognized gain/(loss) 31 December 2023*	*Carrying amount 31 December 2022*	*Fair value 31 December 2022*	*Unrecognized gain/(loss) 31 December 2022*
Financial assets						
Cash and cash equivalents	103,642	103,642	–	163,817	163,817	–
Deposits with banks and other financial institutions	149,780	149,780	–	147,844	147,844	–
Securities at amortized cost	31,947	26,607	(5,340)	62,134	43,677	(18,457)
Loans to banks at amortized cost	98,909	108,796	9,887	104,005	102,520	(1,485)
Loans to customers at amortized cost	317,211	282,724	(34,487)	491,831	472,160	(19,671)
Financial liabilities						
Due to banks and other financial institutions	50	50	–	1,620	1,620	–
Current customer accounts	4,016	4,016	–	7,599	7,599	–
Long-term loans of banks	43,699	43,699	–	45,611	45,611	–
Debt securities issued	641,034	627,653	13,381	883,266	840,505	42,761
Total unrecognized change in unrealized fair value			**(16,559)**			**3,148**

Fair value measurements

The Group determines the policies and procedures for both recurring fair value measurement, such as unlisted derivatives, investment property and buildings, and for non-recurring measurement, such as inventories. Unlisted derivatives are measured by the Finance Department.

External appraisers are involved for valuation of significant assets, such as buildings and real estate. Involvement of external appraisers is decided upon by the Bank's Finance Department.

Selection criteria include market knowledge, reputation, independence and compliance with professional standards.

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of assets and liabilities recorded at fair value in the consolidated financial statements and of those items that are not measured at fair value in the consolidated statement of financial position, but their fair value is disclosed.

Assets for which fair value approximates their carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that as at 31 December 2023 and 31 December 2022 the fair value of deposits with banks and other financial institutions, and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the existing practice of renegotiating interest rates to reflect current market conditions, and, therefore, the majority of balances carries interest at rates approximating market interest rates.

(Thousands of euros)

27. Fair value measurements (continued)

Methodologies and assumptions (continued)

Financial instruments with fixed and floating rates

The fair value of instruments with floating interest rates is approximately equal to their carrying amount. In case of significant changes of the market situation interest rates on loans to customers and banks, and long-term loans of banks at a fixed interest rate may be revised. Consequently, interest rates on the financial instruments issued or received shortly before the balance sheet date are not significantly different from the current interest rates for new instruments with a similar credit risk and a similar maturity. If the Group determines that the rates for loans issued or borrowings are significantly different from the current market rates, the Group determines the fair value of such loans issued and borrowings. The valuation is based on the discounted cash flow method using current market interest rates for new financial instruments with a similar credit risk and a similar maturity. The discount rates depend on the currency, the maturity of the instrument and the credit risk of the counterparty. Management determines that the fair value of amounts due to banks and long-term loans of banks did not differ significantly from their carrying amounts as at 31 December 2023 and 31 December 2022.

Investment property

According to management, at 31 December 2023, fair values of investment properties were determined using the market approach and the discounted cash flow method.

Under the market approach, measurements are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of a specific property. Under the discounted cash flow method, the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Property and equipment – buildings

Fair values of real estate properties are determined using the market approach. This means that valuations are based on market transaction prices, significantly adjusted for differences in the nature, location or condition of a specific property. As at the date of revaluation the property's fair value is based on valuations performed by an accredited independent valuer.

Significant unobservable inputs in determining the fair value of real estate properties

As at the valuation date (31 December 2023), the significant unobservable inputs used in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 2,136 per sq.m. (range minimum) to EUR 3,088 per sq.m. (range maximum), and lease rates ranging from EUR 241 per sq.m. a year (minimum) to EUR 329 per sq.m. a year (maximum).

Transfers between the levels of the fair value hierarchy are deemed to have made as at the end of the reporting period. There were no transfers of financial instruments between Level 1 and Level 2 in the year ended 31 December 2023 and 2022.

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(Thousands of euros)

27. Fair value measurements (continued)

Changes in Level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 assets and liabilities that are recorded at fair value:

	At 1 January 2023	*Losses recorded in profit or loss / other comprehensive income*	*Additions/ (disposals)*	*At 31 December 2023*
Assets				
Property and equipment – buildings	56,579	(2,276)	126	54,429
Investment property	33,360	(1,238)	72	32,194
Total	**89,939**	**(3,514)**	**198**	**86,623**

	At 1 January 2022	*Losses recorded in profit or loss / other comprehensive income*	*Additions/ (disposals)*	*Transfer from property and equipment*	*At 31 December 2022*
Assets					
Property and equipment – buildings	61,882	(1,738)	205	(3,770)	56,579
Investment property	32,311	(623)	(2,098)	3,770	33,360
Total	**94,193**	**(2,361)**	**(1,893)**	**–**	**89,939**

28. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 31 December 2023 and 31 December 2022:

			Related amounts not set off in the statement of financial position		
2023	*Gross amount of recognized financial assets*	*Net amount of financial assets presented in the statement of financial position*	*Financial instruments*	*Cash collateral received*	*Net amount*
Financial assets					
Settlements on bank transactions	98,009	98,009	–	–	98,009
Total	**98,009**	**98,009**	**–**	**–**	**98,009**
Financial liabilities					
Settlements on bank transactions	100,051	100,051	(2,042)	–	98,009
Total	**100,051**	**100,051**	**(2,042)**	**–**	**98,009**

			Related amounts not set off in the statement of financial position		
2022	*Gross amount of recognized financial assets*	*Net amount of financial assets presented in the statement of financial position*	*Financial instruments*	*Cash collateral received*	*Net amount*
Financial assets					
Deposits with banks and other financial institutions	14,140	14,140	–	(14,140)	–
Derivative financial assets	5,262	5,262	(10,082)	–	5,262
Total	**19,402**	**19,402**	**(10,082)**	**(14,140)**	**5,262**
Financial liabilities					
Derivative financial liabilities	24,222	24,222	(10,082)	(14,140)	–
Total	**24,222**	**24,222**	**(10,082)**	**(14,140)**	**–**

(Thousands of euros)

29. Segment information

For management purposes, the Group identifies the following three operating segments based on its lines of services:

Credit investment activity	Investment banking services, including long-term corporate and interbank financing.
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments and foreign currency, and liquidity management.
Other operations	Operational leasing services, other operations.

Management monitors the operating results of its business separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. The following table presents income, profit, assets and liabilities of the Group's operating segments:

31 December 2023	***Credit investment activity***	***Treasury***	***Other operations***	***Total***
Income				
External customers				
Interest income calculated using the EIR method	34,931	16,967	28	**51,926**
Other interest income	–	4,198	–	**4,198**
Fee and commission income	105	–	–	**105**
Income from lease of investment property	–	–	2,696	**2,696**
Net income from sale of loans to customers	1,471	–	–	**1,471**
Other segment income/(expense)	(72)	(386)	292	**(166)**
Total income	**36,435**	**20,779**	**3,016**	**60,230**
Interest expenses calculated using the EIR method	(15,357)	(13,908)	–	**(29,265)**
Other interest expenses	–	(3,006)	–	**(3,006)**
Net allowance for credit losses on financial instruments	(5,923)	(52,009)	(93)	**(58,025)**
Fee and commission expense	(5)	(504)	(137)	**(646)**
Net losses from operations with foreign currencies and derivatives	–	(11,071)	(72)	**(11,143)**
Net losses from operations with investments at fair value through profit or loss	–	(35)	–	**(35)**
Net losses from operations with investments at fair value through other comprehensive income	–	(1,450)	–	**(1,450)**
Net losses from operations with investments amortized cost	(4,813)	(3,283)	–	**(8,096)**
Losses from revaluation of investment property	–	–	(1,238)	**(1,238)**
Other segment expenses	(10)	–	(129)	**(139)**
Segment results	**10,327**	**(64,487)**	**1,347**	**(52,813)**
Other unallocated expenses				**(15,239)**
Losses for the period				**(68,052)**
Total segment assets	**470,297**	**443,106**	**189,495**	**1,102,898**
Total segment liabilities	**361,734**	**328,861**	**102,620**	**793,215**

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(Thousands of euros)

29. Segment information (continued)

31 December 2022	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income calculated using the EIR method	52,159	7,800	37	**59,996**
Other interest income	–	17,931	–	**17,931**
Fee and commission income	1,226	–	–	**1,226**
Net gains from operations with investments at fair value through profit or loss	–	212	–	**212**
Income from lease of investment property	–	–	3,195	**3,195**
Gains from sale of investment property	–	–	36	**36**
Other segment income/(expense)	1,209	582	837	**2,628**
Total income	**54,594**	**26,525**	**4,105**	**85,224**
Interest expenses calculated using the EIR method	(29,196)	(18,770)	–	**(47,966)**
Other interest expenses	–	(11,345)	–	**(11,345)**
Net allowance for credit losses on financial instruments	(15,534)	(3,654)	(35)	**(19,223)**
Fee and commission expense	(13)	(383)	(5)	**(401)**
Net losses from operations with foreign currencies and derivatives	–	(60,296)	(3)	**(60,299)**
Net gains/(losses) from operations with investments at fair value through other comprehensive income	(7,824)	211	–	**(7,613)**
Net losses from operations with investments amortized cost	(1,657)	(1,855)	–	**(3,512)**
Losses from revaluation of investment property	–	–	(623)	**(623)**
Net losses from sale of loans to customers	(27,739)	–	–	**(27,739)**
Other segment expenses	(89)	(48)	(203)	**(340)**
Segment results	**(27,458)**	**(69,615)**	**3,236**	**(93,837)**
Other unallocated expenses				**(18,154)**
Losses for the period				**(111,991)**
Development portfolio	648,024	113,350	–	**761,374**
Other segment assets	–	444,735	96,454	**541,189**
Total segment assets	**648,024**	**558,085**	**96,454**	**1,302,563**
Total segment liabilities	**572,613**	**399,909**	**2,447**	**974,969**
Other segment information				
Capital expenditures	–	–	2	**2**

The Group's management separately the "Development portfolio" assets allocated within operating segments. The criterion for the separation is whether the investment corresponds the Bank's mission. The "Development portfolio" includes loans to banks and loans to customers excluding impaired loan projects and investments in debt securities purchased upon the initial placement by the issuer.

In 2023, the Group's revenue from lease operations with two external counterparties (31 December 2022: three external counterparties) exceeded 20% of the Group's total revenue (2023: EUR 1,597 thousand; 2022: EUR 2,408 thousand).

Geographical information

Allocation of the Group's revenue from transactions with external customers based on the location of these customers for the year ended 31 December 2023 and 31 December 2022 is presented in the table below:

	31 December 2023			*31 December 2022*		
	Member countries	*Other countries*	*Total*	*Member countries*	*Other countries*	*Total*
Interest income calculated using the EIR method	26,983	24,943	**51,926**	49,074	10,922	**59,996**
Other interest income	93	4,105	**4,198**	3,107	14,824	**17,931**
Income from lease of investment property	2,696	–	**2,696**	3,195	–	**3,195**

In 2023 interest income calculated using the EIR method of member countries include revenue from transactions with customers from Russian Federation EUR 17,594 thousand (2022: Russian Federation EUR 23,342 thousand and Romania EUR 8,523 thousand). Non-current assets of the Group are located in member countries.

(Thousands of euros)

29. Segment information (continued)

Geographical information (continued)

Information on risk concentration by geographical region is based on the geographical location of the Group's counterparties. The geographical concentration of the Group's financial assets and liabilities as at 31 December 2023 and 31 December 2022 are presented below:

	31 December 2023						
	Russian Federation	*Mongolia*	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Withdrawn members*	*Other European and other countries*	*Total*
Financial assets							
Cash and cash equivalents	103,065	–	–	–	577	–	**103,642**
Deposits with banks and other financial institutions	80,360	–	–	–	61,474	7,946	**149,780**
Derivative financial assets	–	–	–	–	–	1,216	**1,216**
Securities at fair value through other comprehensive income	32,863	–	–	–	14,109	105,804	**152,776**
Securities at amortized cost	18,722	–	–	–	–	13,225	**31,947**
Long-term loans to banks	–	29,728	19,268	49,913	–	–	**98,909**
Loans to customers	69,379	29,530	2,673	–	197,855	71,857	**371,294**
Other financial assets	44	15	4	–	4,161	97,978	**102,202**
Financial assets	**304,433**	**59,273**	**21,945**	**49,913**	**278,176**	**298,026**	**1,011,766**
Financial liabilities							
Due to banks and other financial institutions	–	–	–	–	–	(50)	**(50)**
Derivative financial liabilities	–	–	–	–	–	(995)	**(995)**
Long-term loans of banks	–	–	–	–	(5,568)	(38,131)	**(43,699)**
Debt securities issued	(120,957)	–	–	–	(520,077)	–	**(641,034)**
Other financial liabilities	(420)	–	–	–	(1,378)	(100,056)	**(101,854)**
Financial liabilities	**(121,377)**	**–**	**–**	**–**	**(527,023)**	**(139,232)**	**(787,632)**

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(Thousands of euros)

29. Segment information (continued)

Geographical information (continued)

	31 December 2022									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Republic of Cuba*	*Other countries*	*Total*
Financial assets										
Cash and cash equivalents	30,893	1,102	2,051	13,136	–	–	–	–	116,635	**163,817**
Deposits with banks and other financial institutions	72,846	–	32,735	–	–	–	–	–	42,263	**147,844**
Derivative financial assets	–	–	–	781	–	–	–	–	13,260	**14,041**
Investments at fair value through profit or loss	9,150	–	–	–	–	–	–	–	5,069	**14,219**
Securities at fair value through other comprehensive income	–	–	13,509	–	–	–	–	–	142,713	**156,222**
Securities at amortized cost	19,736	–	–	–	–	–	–	–	42,398	**62,134**
Long-term loans to banks	–	–	–	–	33,712	21,493	–	48,800	–	**104,005**
Loans to customers	194,666	77,999	101,313	49,314	28,174	4,085	15,066	–	73,289	**543,906**
Other financial assets	76	–	–	319	39	–	–	–	81	**515**
Financial assets	**327,367**	**79,101**	**149,608**	**63,550**	**61,925**	**25,578**	**15,066**	**48,800**	**435,708**	**1,206,703**
Financial liabilities										
Due to banks and other financial institutions	–	–	–	–	–	–	–	–	(1,620)	**(1,620)**
Derivative financial liabilities	(1,265)	–	–	–	–	–	–	–	(32,830)	**(34,095)**
Long-term loans of banks	–	–	–	(4,768)	–	–	–	–	(40,843)	**(45,611)**
Debt securities issued	(328,485)	–	(170,447)	(164,003)	–	–	(220,331)	–	–	**(883,266)**
Other financial liabilities	(405)	–	–	(839)	–	–	–	–	(5)	**(1,249)**
Financial liabilities	**(330,155)**	**–**	**(170,447)**	**(169,610)**	**–**	**–**	**(220,331)**	**–**	**(75,298)**	**(965,841)**

Other countries include non-member countries.

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(Thousands of euros)

30. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making 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 and settlements with related parties were carried out on conditions similar to those which prevail in transactions between independent parties.

Volumes of related party transactions, outstanding balances at 31 December 2023 and 31 December 2022, and related expenses and income for the year ended 31 December 2023 and 31 December 2022 are as follows:

	Related party	***31 December 2023 Carrying amount***	***31 December 2022 Carrying amount***
Consolidated statement of financial position			
Current customer accounts	Key management personnel	1,959	641
Other liabilities	Key management personnel	172	249

	Related party	***2023 Expense***	***2022 Expense***
Consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(38)	(16)
Net interest expense after allowance for loan impairment		**(38)**	**(16)**
Expenses from operating activities		**(38)**	**(16)**
Employee benefits	Key management personnel	(1,076)	(985)
Compensation for travel expenses and medical insurance	Key management personnel	(135)	(75)
Operating expenses		**(1,211)**	**(1,060)**
Net expense for the period		**(1,249)**	**(1,076)**

In the ordinary course of business, the Group mainly carries out transactions with entities from the Bank member countries. In the ordinary course of business, the Group also engages into contractual relationships with government-related organizations. Balances and income from operations with government and government-related organizations are as follows:

	31 December 2023	***31 December 2022***
Consolidated of financial position		
Investments at fair value through profit or loss	–	9,150
Securities at fair value through other comprehensive income	26,001	3,503
Securities at amortized cost	18,722	19,736
Loans to banks	49,913	49,821
Loans to customers	57,321	145,333
Commitment and contingencies		
Undrawn loan facilities	–	4,395
Consolidated income statement		
Interest income calculated using the EIR method	11,191	15,087
Fee and commission income	–	1
Net gains from operations with investments at fair value through profit or loss	(123)	106
Net gains from operations with securities at fair value through other comprehensive income	72	–
Net (losses)/gains from operations with investments at amortized cost	–	(689)
Net losses from sale of loans to customers	–	(15,447)
Other income/(expenses)	8	(2)

(Thousands of euros)

31. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Long-term loans of banks*	*Total liabilities arising from financing activities*
Carrying amount at 31 December 2021		**1,033,939**	**62,783**	**1,096,722**
Additions	17	57,835	3,085	**60,920**
Repayment	18	(223,626)	(23,059)	**(246,685)**
Interest paid		(43,185)	(1,779)	**(44,964)**
Translation differences		12,987	2,510	**15,497**
Interest accrued		45,316	2,071	**47,387**
Carrying amount at 31 December 2022		**883,266**	**45,611**	**928,877**
Additions	17	40,277	–	**40,277**
Repayment	18	(245,077)	(4,000)	**(249,077)**
Interest paid		(18,886)	(261)	**(19,147)**
Translation differences		(43,880)	(1,437)	**(45,317)**
Interest accrued		25,334	3,786	**29,120**
Carrying amount at 31 December 2023		**641,034**	**43,699**	**684,733**

Translation differences represent a daily revaluation of liabilities denominated in a currency other than the euro. The Group used derivatives to mitigate currency risks (Note 7). As at 31 December 2023, interest of EUR 4,360 thousand (31 December 2022: EUR 9,631 thousand) received under cross-currency interest rate swap agreements, shifting interest expenses on issued debt securities denominated in currencies other than the euro, is recorded in the "Interest paid" line of the consolidated statement of cash flows.

32. Capital adequacy

The capital adequacy ratio is the most important financial indicator characterizing the credibility of credit institutions and is estimated as the ratio of the capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the exclusive competency of the IIB's Board of Governors.

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 31 December 2023, this minimum level was 8% (31 December 2022: 8%).

Besides, taking into account the Bank's status as a multilateral development institution and the structure of the Bank's member countries, the IIB's Board of Governors set the capital adequacy ratio at the level of not less than 25% as at 31 December 2023 (31 December 2022: 25%).

The following table shows the composition of the Bank's capital position calculated in accordance with the Basel Accord (Basel II) as at 31 December 2023 and 31 December 2022.

	31 December 2023	*31 December 2022*
Capital		
Tier 1 capital	203,232	354,673
Tier 2 capital	115,414	–
Total regulatory capital	**318,646**	**354,673**
Risk-weighted assets		
Credit risk	667,693	785,163
Market risk	370,960	298,584
Operational risk	53,888	53,566
Total risk-weighted assets	**1,092,541**	**1,137,313**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	29.17%	31.19%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	18.60%	31.19%

(Thousands of euros)

33. Events after the reporting period

As the Group was deprived of the technical ability to work and fulfill its obligations in Europe due to unilateral actions of European financial institutions, US sanctions and the designation of the Bank to the US OFAC SDN list:

On 25 January 2024, the Group was unable to repay coupon in amount EUR 285 thousand.

On 27 January 2024, the Group was unable to repay coupon in amount CZK 36,000 thousand (EUR 1,455 thousand).

On 27 January 2024, the Group was unable to repay coupon in amount RON 5,198 thousand (EUR 1,044 thousand).

On 2 February 2024, the Group was unable to repay bonds and coupon in amount EUR 25,030 thousand.

On 18 March 2024, the Group was unable to repay bonds and coupon in amount HUF 8,662 million (EUR 22,028 thousand).

On 9 April 2024, provisional application of the Amendment to Article 2 of the Charter of IIB, establishing the seat of the Bank in Moscow, Russian Federation, started.

(End).