Independent auditor's report
on the consolidated financial statements of
the International Investment Bank
and its subsidiary
for 2018

February 2019

Contents

Совершенствуя бизнес,
улучшаем мир

Ernst & Young Vneshaudit LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг Внешаудит»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОГРН: 1167746123478
ИНН: 9705059497

Independent auditor's report

To the Board of Governors of
the International Investment Bank

Opinion

We have audited the consolidated financial statements of the International Investment Bank (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on loans to banks and loans to customers	
Estimation of the allowance for expected credit losses 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 use of 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 expected credit losses on loans to banks and loans to customers. Due to the significance of such loans, which account for 63% of the total assets, and the significant use of judgments, the assessment of the allowance for expected credit losses is a key audit matter. The information on expected credit losses 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 credit losses, other impairment losses and provisions and Note 25 Risk management to the consolidated financial statements.	Our audit procedures included an analysis of the methodology for assessing the allowance, a review of the financial and non-financial information by counterparty, debt servicing, internal credit ratings of counterparties and an assessment of default probability based on the Bank's methodology, monitoring reports and risk ratings, an analysis of macroeconomic projections, an estimation of future repayment proceeds on a sample basis, and analytical procedures with respect to the credit portfolio. We have also analyzed information related to the allowance for expected credit losses on loans to banks and loans to customers disclosed in the notes to the consolidated financial statements of the Group.

Совершенствуя бизнес, улучшаем мир

Other information included in the Annual report of the Group for 2018

Other information comprises information included in the Annual report of the Group for 2018, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report of the Group for 2018 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 when it is provided to us 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.

Responsibilities of management and the Board of Governors of the International Investment Bank for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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 Board of Governors of the International Investment 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 International Standards on Auditing 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 that are taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, 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 audit 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Governors of the International Investment Bank regarding, among other things, 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 Board of Governors of the International Investment Bank with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Совершенствуя бизнес,
улучшаем мир

From the matters communicated with the Board of Governors of the International Investment 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 O.V. Youshenkov.

O.V. Youshenkov
Partner
Ernst & Young Vneshaudit LLC

14 February 2019

Details of the audited entity

Name: International Investment Bank
The Bank operates on the basis of the Agreement on the Establishment of the International Investment Bank dated 10 July 1970, registered in the UN Secretariat on 1 December 1971 under No. 11417.
Address: Russia 107078, Moscow, Mashi Poryvaevoy str., 7.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC
Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia, 115035 Moscow, Sadovnicheskaya nab., 77, building 1.
Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of Auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Thousands of euros)

	Notes	*31 December 2018*	*31 December 2017*
Assets			
Cash and cash equivalents	5	49,240	66,097
Deposits with banks and other financial institutions	6	47,396	45,889
Derivative financial assets	7	3,720	7,761
Securities at fair value through other comprehensive income	8	204,332	–
Available-for-sale investment securities		–	138,704
Available-for-sale investment securities pledged under repurchase agreements		–	76,723
Securities at amortized cost	9	41,465	–
Loans to banks	10	176,632	201,635
Loans to customers	11	576,203	462,514
Investment property	12	20,788	21,853
Property, equipment and intangible assets	13	71,266	72,388
Other assets	14	3,315	2,476
Total assets		**1,194,357**	**1,096,040**
Liabilities			
Due to banks and other financial institutions	16	67,872	65,511
Derivative financial liabilities	7	50,943	15,073
Current customer accounts		9,716	8,593
Long-term loans of banks	17	57,553	95,592
Debt securities issued	18	623,454	509,213
Other liabilities	14	8,820	6,396
Total liabilities		**818,358**	**700,378**
Equity	19		
Statutory capital		2,000,000	1,300,000
Unpaid capital		(1,674,038)	(985,038)
Paid-in capital		**325,962**	**314,962**
Revaluation reserve for securities at fair value through other comprehensive income (2017: Revaluation reserve for available-for-sale securities)		(7,366)	240
Revaluation reserve for property and equipment		13,748	13,748
Foreign currency translation reserve		(104)	(76)
Retained earnings less net income for the year		38,137	65,783
Net income for the year		5,622	1,005
Total equity		**375,999**	**395,662**
Total equity and liabilities		**1,194,357**	**1,096,040**

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

Nikolay Kosov — Chairperson of the Management Board

Elena Minduksheva — Deputy Director of the Finance Department

14 February 2019

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

(Thousands of euros)

	Notes	*2018*	*2017*
Interest income calculated using the EIR method	22	45,929	35,963
Other interest income	22	16,874	19,932
Interest expenses calculated using the EIR method	22	(36,144)	(32,566)
Other interest expenses	22	(3,047)	(1,542)
Net interest income		**23,612**	**21,787**
Net allowance for credit losses on financial instruments	5-6, 8, 10-11, 14-15, 20	(161)	(12,136)
Net interest income after allowance for loan impairment		**23,451**	**9,651**
Fee and commission income		1,779	1,763
Fee and commission expense		(398)	(133)
Net fee and commission income		**1,381**	**1,630**
Net losses from operations with foreign currencies and derivatives	23	(5,042)	(2,441)
Net gains from operations with securities at fair value through profit or loss		92	–
Net gains from operations with securities at fair value through other comprehensive income		2,299	–
Net gains from available-for-sale investment securities		–	7,399
Dividend income		6	123
Income from lease of investment property	21	3,956	4,034
Loss on revaluation of investment property		–	(26)
Other income		1,200	543
Net non-interest income		**2,511**	**9,632**
Operating income		**27,343**	**20,913**
General and administrative expenses	24	(20,442)	(18,872)
Cost of inventories sold		(48)	–
Other operating expenses on banking operations		(1,231)	(1,036)
Operating expenses		**(21,721)**	**(19,908)**
Net profit for the year		**5,622**	**1,005**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Thousands of euros)

	Notes	*2018*	*2017*
Net profit for the year		**5,622**	**1,005**
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	19	(9,624)	1,746
Translation differences		(28)	(19)
Change in the allowance for expected credit losses related to securities at fair value through other comprehensive income	8	300	–
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(9,352)**	**1,727**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment	13	–	803
Losses on equity instruments at fair value through other comprehensive income		(73)	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(73)**	**803**
Other comprehensive (loss)/income		**(9,425)**	**2,530**
Total comprehensive (loss)/income for the year		**(3,803)**	**3,535**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Thousands of euros)

	Statutory capital	*Unpaid capital*	*Revaluation reserve for securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2016	**1,300,000**	**(986,947)**	**(1,506)**	**12,945**	**(57)**	**65,783**	**390,218**
Profit for the year	–	–	–	–	–	1,005	**1,005**
Other comprehensive income for the year	–	–	1,746	803	(19)	–	**2,530**
Total comprehensive income	**–**	**–**	**1,746**	**803**	**(19)**	**1,005**	**3,535**
Contributions to capital (Note 19)	–	1,909	–	–	–	–	**1,909**
At 31 December 2017	**1,300,000**	**(985,038)**	**240**	**13,748**	**(76)**	**66,788**	**395,662**
At 31 December 2017	**1,300,000**	**(985,038)**	**240**	**13,748**	**(76)**	**66,788**	**395,662**
Impact of adopting IFRS 9	–	–	2,043	–	–	(28,903)	**(26,860)**
Balance at 1 January 2018 restated under IFRS 9	**1,300,000**	**(985,038)**	**2,283**	**13,748**	**(76)**	**37,885**	**368,802**
Profit for the year	–	–	–	–	–	5,622	**5,622**
Other comprehensive loss for the year	–	–	(9,397)	–	(28)	–	**(9,425)**
Total comprehensive (loss)/income	**–**	**–**	**(9,397)**	**–**	**(28)**	**5,622**	**(3,803)**
Statutory capital change (Note 19)	700,000	(700,000)	–	–	–	–	**–**
Contributions to capital (Note 19)	–	11,000	–	–	–	–	**11,000**
Transfer of accumulated revaluation reserve on disposal of equity instruments at fair value through other comprehensive income	–	–	(252)	–	–	252	**–**
At 31 December 2018	**2,000,000**	**(1,674,038)**	**(7,366)**	**13,748**	**(104)**	**43,759**	**375,999**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Thousands of euros)

	Notes	*2018*	*2017*
Cash flows from operating activities			
Interest, fees and commissions received		34,612	28,578
Interest, fees and commissions paid		(1,174)	(3,327)
Realized gains less losses from operations with foreign currencies and derivatives		(1,577)	15,775
Cash flows from lease of investment property		3,956	4,034
General and administrative expenses		(16,221)	(15,761)
Other operating (expenses)/income on banking operations		(2)	36
Cash flows from operating activities before changes in operating assets and liabilities		**19,594**	**29,335**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		6,350	(5,776)
Loans to banks		16,236	(118,882)
Loans to customers		(131,621)	(210,605)
Other assets		(493)	(15)
Net increase/(decrease) in operating liabilities			
Deposits from banks and other financial institutions		(6,057)	(47,426)
Current customer accounts		9	(1,227)
Other liabilities		(166)	1,016
Net cash flows from operating activities		**(96,148)**	**(353,580)**
Cash flows from investing activities			
Dividend income		6	123
Interest received		6,436	6,491
Purchase of securities at fair value through other comprehensive income (2017: Purchase of available-for-sale securities)		(208,498)	(426,482)
Proceeds from sale and redemption of securities at fair value through other comprehensive income (2017: Purchase of available-for-sale securities)		177,826	478,424
Proceeds from redemption of securities at amortized cost		729	–
Proceeds from sale of investment property/(investments in investment property)		1,065	(39)
Purchase of property, equipment and intangible assets		(1,259)	(1,673)
Net cash flows from investing activities		**(23,695)**	**56,844**
Cash flows from financing activities			
Interest paid		(18,469)	(10,759)
Long-term interbank financing raised		20,845	36,185
Long-term interbank financing repaid		(60,455)	(13,451)
Debt securities issued		228,798	348,661
Redemption and repurchase of debt securities		(76,792)	(88,290)
Contributions to capital		11,000	1,909
Net cash flows from financing activities		**104,927**	**274,255**
Effect of exchange rate changes on cash and cash equivalents		(1,941)	(4,453)
Net increase/(decrease) in cash and cash equivalents		**(16,857)**	**(26,934)**
Cash and cash equivalents, beginning		66,097	93,031
Cash and cash equivalents, ending	5	**49,240**	**66,097**

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

(Thousands of euros)

1. Principal activities

These consolidated financial statements include the financial statements of the International Investment Bank (the "Bank", or "IIB") and CJSC IIB Capital, the subsidiary of the Bank. The Bank and its subsidiary are hereinafter collectively referred to as the "Group". The International Investment Bank is the parent company of the Group. Information on the subsidiary of the Bank is presented in Note 2.

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 Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statute. The Agreement 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 and Statute, approved by the Protocol on Introducing Changes to the Agreement on the Establishment of the International Investment Bank and to the Statute of 8 May 2014, became effective and applicable. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Board of Governors of the IIB. The Bank also performs transactions with securities and foreign currency.

The Bank operates from its headquarters in Russia at 7 Mashi Poryvaevoy str., Moscow. In December 2018, the Board of Governors decided to close the European regional office in Bratislava (Eurovea Central 1, Pribinova 4, Bratislava, 81109, Slovak Republic) from 31 December 2018 and to transfer the IIB's headquarters to Budapest, Hungary. In order to implement this decision, the Bank is working to draft agreements on the conditions of setting up the Bank's headquarters in Budapest and the office in Moscow, which must be agreed with and signed by the Hungarian and Russian parties, respectively. The Bank's headquarters in Budapest are expected to be officially opened in 2019.

The Group had an average of 213 staff employees during 2018 (2017: 220).

On 31 July 2014, the EU Council imposed sectoral sanctions against Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No. 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover Russia-based institutions with international status established by intergovernmental agreements in which Russia is one of the parties. Therefore, the IIB is directly excluded from the list of financial institutions to which the restrictions apply.

The Group continues to expand its operations in accordance with its mandate and strategic objectives established by the member countries:

- According to the Protocol on Introducing Changes to the Agreement on the Establishment of the International Investment Bank and the Statute:
  - The Bank implemented the three level corporate governance structure and established new bodies, the Board of Governors and the Board of Directors;
  - The IIB's subscribed authorized capital increased from EUR 1.3 billion to EUR 2 billion;
  - A proportional voting system in accordance with the corresponding shares in the paid-in capital and double majority approach were introduced to the process of decision-making by the Bank's supreme management bodies.
- In December 2018, in Varadero, Cuba, meetings of the Board of Governors and the Board of Directors were held for the first time in the Bank's history, resulting in the adoption of several strategically important decisions, in particular:
  - The relocation of the Bank's headquaters from Moscow to Budapest;
  - The opening of an IIB office in Moscow;
  - The new IIB capitalization program for 2020-2022 for the total amount of EUR 200 million was approved. Also, at least EUR 50 million of this amount is to be paid by the end of 2020.
- On 12 July 2018, as part of the Capitalization Program for 2013-2017 Romania made a contribution of EUR 4 million to the IIB authorized capital; on 20 December 2018, the Czech Republic contributed EUR 7 million.

(Thousands of euros)

1. Principal activities (continued)

- During 2018 four international rating agencies upgraded the long-term credit rating of the Bank: in February, Dagong Global Credit Rating upgraded IIB rating to A with a positive outlook; in April, Standard & Poor's and Moody's Investors Services upgraded IIB ratings – to BBB+ and A3, respectively, with a stable outlook; and in November, Fitch Ratings upgraded IIB rating to BBB+ with a stable outlook.
- In April-June 2018, the IIB successfully placed its first CZK-denominated bond issue the Vienna and Prague Stock Exchanges. The private placement issue totaled CZK 750 million. In October 2018, the IIB made a historically significant bond issue (the fourth by now) on the Bucharest Stock Exchange, which was the largest issue on the Romanian market (approx. EUR 145 million).
- In October 2018, the Bank became a full-fledged member of the International Development Finance Club (IDFC), a network of leading national and regional development banks.
- Following the results of 2018, the Bank won the award of Global Banking and Finance Review magazine in two categories: Fastest Growing Infrastructure Investment Bank Central Europe 2018, Fastest Growing Infrastructure Bank Eastern Europe 2018. Also, The European magazine awarded the title of Trade and Finance Bank of the Year CEE – 2019 to the Bank.

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 2018, %***	***31 December 2017, %***
Russian Federation	46.026	47.634
Republic of Bulgaria	12.947	13.399
Hungary	12.271	12.700
Czech Republic	11.466	9.644
Romania	6.889	5.859
Slovak Republic	6.590	6.820
Republic of Cuba	1.644	1.702
Socialist Republic of Vietnam	1.126	1.165
Mongolia	1.041	1.077
	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.

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 Group 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.

(Thousands of euros)

2. Basis of preparation

General

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board.

Subsidiary

As at 31 December 2018, the Bank is a parent company of the Group, which owns CJSC 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 2018, the authorized capital of the subsidiary amounted to RUB 44.5 thousand (31 December 2017: 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 and equipment and investment property are stated at revalued amounts.

Preparation and presentation of financial statements

The financial year of the Bank 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 Bank 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 euros ("thousands of euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and the impact of new accounting standards are described below.

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative data for 2017 is presented in accordance with IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in equity as at 1 January 2018 and are disclosed below.

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as financial assets at fair value through profit or loss (FVPL). According to this criterion, debt instruments that do not meet the definition of basic credit agreement (such as instruments with embedded conversion options or non-recourse loans) are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a “hold to collect” basis are measured at amortized cost;
- Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as at FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements.

Derivatives will continue to be measured at FVPL.

(b) Impairment

The adoption of IFRS 9 fundamentally changes the Group’s accounting for allowances for expected credit losses by replacing the IAS 39 incurred loss approach with the forward-looking expected credit loss (“ECL”) approach.

Starting from 1 January 2018, the Group recognizes the provision for ECL for all loans and other debt financial instruments not measured at FVPL, as well as for loan commitments and financial guarantee contracts, which are collectively referred to as financial instruments in this section. According to IFRS 9, requirements for impairment are not applicable to equity instruments.

The allowance for 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 since the date of initial recognition. Otherwise, the allowance for ECL will be equal to 12-month expected credit losses (12-month ECL). The 12 month ECL are part of lifetime ECL and represent ECL arising from defaults on the financial instrument expected to occur 12 months after the reporting date. The impairment model applied by the Bank is detailed in Note 25.

Before 30 June 2018, the Group accounted for hedging instruments in accordance with IAS 39. As at 30 June 2018, the accumulated hedging adjustments of the fair value included in the carrying amount of the hedged item and recognized in the consolidated statement of financial position amounted to EUR 16 thousand. From 1 July 2018, the Group decided to cease hedge accounting, since accounting at the amortized cost of the hedged item until maturity (September 2019) and the market revaluation of the hedging derivative correctly reflect the effect of the hedged item and hedging instrument on the consolidated statement of financial position and the consolidated statement of comprehensive income. Thus, adjustments of the fair value of the hedged item are no longer required. As at 31 December 2018, the amount of hedging adjustments in the consolidated statement of financial position is equal to zero.

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

(c) Effect of transition to IFRS 9

The effect of IFRS 9 on the consolidated statement of financial position and retained earnings, including the effect from the replacement of the incurred credit loss model under IAS 39 with the ECL model under IFRS 9, is described below.

A reconciliation between the carrying amount under IAS 39 with the carrying amount under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		*Reclassifi-*	*Difference*	*Difference*	*IFRS 9 measurement*	
Financial assets	***Notes***	***Category***	***Amount***	***cation***	***(ECL)***	***(other)***	***Amount***	***Category***
Cash and cash equivalents		L&R[1]	66,097	–	(8)	–	66,089	Amortized cost
Deposits with banks and other financial institutions		L&R	45,889	–	(241)	–	45,648	Amortized cost
Loans to banks – amortized cost		L&R	201,635	–	(8,848)	–	192,787	Amortized cost
Loans to customers – amortized cost		L&R	462,514	–	(18,542)	–	443,972	Amortized cost
From: available-for-sale securities, including those pledged under repurchase agreements		AFS[3]	215,427	(215,427)	–	–	–	
To:								
Securities at fair value through other comprehensive income, including those pledged under repurchase agreements		AFS	–	175,065	(440)	440	175,065	FVOCI (debt instruments, investments)
Securities, including those pledged under repurchase agreements – equity securities at fair value through other comprehensive income		AFS	–	1,710	–	–	1,710	FVOCI (equity instruments)
Securities at amortized cost	A	AFS	–	38,652	–	1,649	40,301	Amortized cost
Financial assets		L&R	728	–	(6)	–	722	
Total assets			**992,290**	**–**	**(28,085)**	**2,089**	**966,294**	
Non-financial liabilities								
Allowances for expected credit losses on credit-related commitments			–	–	(864)	–	(864)	
Total liabilities			**–**	**–**	**(864)**	**–**	**(864)**	

[1] *L&R – loans and receivables*

[2] *HTM – held to maturity*

[3] *AFS – available for sale.*

A As at 1 January 2018, the Group reclassified a part of its assets previously classified as "available for sale" to "debt instruments measured at amortized cost". These instruments satisfied the SPPI criterion, were unquoted in an active market and held to collect related cash flows rather than for sale.

(intentionally blank)

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and retained earnings
Revaluation reserve for securities at fair value through other comprehensive income (2017: Revaluation reserve for available-for-sale securities)	
Balance at the end of the period as per IAS 39 (31 December 2017)	**240**
Reclassification of debt securities from "available for sale" to "measured at amortized cost"	1,603
ECL recognized on debt financial assets at FVOCI as per IFRS 9	440
Balance at the beginning of the period as per IFRS 9 (1 January 2018)	**2,283**
Retained earnings	
Balance at the end of the period as per IAS 39 (31 December 2017)	**66,788**
Revaluation on reclassification of debt securities from "available for sale" to "measured at amortized cost"	46
ECL recognition under IFRS 9, including with respect to instruments at FVOCI	(28,949)
Balance at the beginning of the period as per IFRS 9 (1 January 2018)	**37,885**
Total change in equity due to the adoption of IFRS 9	**(26,860)**

The following table reconciles the allowance for impairment of financial assets and provisions for credit-related commitments, letters of credit and financial guarantees as defined by IAS 39 and IAS 37 as at 31 December 2017 with the allowances for expected credit losses as defined by IFRS 9 as at 1 January 2018.

	31 December 2017 IAS 39 / IAS 37	*Revaluation under IFRS 9*	*Foreign exchange differences*	*1 January 2018 IFRS 9*
Allowance for impairment				
Cash and cash equivalents	–	8	–	8
Deposits with banks and other financial institutions	34,967	241	–	35,208
Securities at fair value through other comprehensive income (2017: Available-for-sale securities)	–	440	–	440
Loans to banks	9,153	8,848	–	18,001
Loans to customers	5,555	18,542	–	24,097
Financial assets	1,741	6	(12)	1,735
	51,416	**28,085**	**(12)**	**79,489**
Loan commitments	–	408	–	408
Letters of credit issued to customers	–	402	–	402
Financial guarantees	–	54	–	54
	–	**864**	**–**	**864**
	51,416	**28,949**	**(12)**	**80,353**

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and amended in April 2016, establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard, however, does not apply to income related to financial instruments or leases, and therefore does not impact most of the Bank's revenue, including interest revenue, gains/(losses) from operations with securities, lease income regulated by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, a major part of the Group's income is not affected by the adoption of this standard.

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. This interpretation had no impact on the Bank's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

These amendments clarify the cases when an entity is required to transfer real estate, including real estate under construction or development, into or from the category of investment property. The amendments state that a change in use occurs when property begins or ceases to comply with the definition of investment property and there is evidence of a change in use. Any change in management's intentions regarding the use of the property itself does not indicate a change in its use. These amendments did not have any impact on the Group's consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures – Clarification that the Decision to Measure Investees at Fair Value through Profit or Loss Should Be Made Individually for Each Investment

These amendments clarify that an entity that is a venture capital organization, or other similar entity may decide to measure investments in associates and joint ventures at fair value through profit or loss. This decision is made individually for each investment.

If the entity that is not an investment entity itself has an interest in an associate or joint venture that are investment entities, when applying the equity method, such entity can retain the fair value measurement applied by its investment associate or joint venture to its interests in subsidiaries. This decision is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments had no impact on the Group's consolidated financial statements.

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 translated 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.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Bank's exchange rate on the date of the transaction are included in "Net losses from operations with foreign currencies and derivatives".

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control was transferred to the Group and are no longer consolidated from the date when control ceased. All intra-group transactions, balances and unrealized gains on transactions between Group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

(Thousands of euros)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss.

Investments in associates

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. Investments in associates are accounted for under the equity method and is initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognized in the consolidated profit or loss, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment.

Fair value measurement

The Group measures financial instruments through FVPL and FVOCI and non-financial assets such as investment property, at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 26.

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. Also, 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 principal or the most advantageous market must be accessible by the Group. 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 the best and most effective way or by selling it to another market participant that would use the asset in the best and most effective way.

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.

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.

(Thousands of euros)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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 trade date i.e. the date that the Bank commits to purchase the asset or the liability. 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

From 1 January 2018, the Bank has classified all its financial assets on the basis of 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 may at its discretion designate the financial instruments as measured at FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Prior to 1 January 2018 the Group classified the financial assets into the following categories: loans and receivables (measured at amortized cost), assets measured at FVPL, and assets available for sale or held to maturity (measured at amortized cost).

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.

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

Prior to 1 January 2018, deposits with banks and other financial institutions, loans to banks, loans to customers items included non-derivative financial assets with fixed or determinable payments not quoted in an active market, other than:

- Those that the Group intended to sell immediately or in the near term;
- Those that the Group at its discretion designated as measured at FVPL or as available for sale at initial recognition;
- Those for which the Group could collect the amount substantially less than the amount of its initial investment for reasons other than deterioration of the asset's credit quality. Such assets were classified as available for sale.

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

From 1 January 2018, 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 separate 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 won't 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 (the 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

From 1 January 2018, according to IFRS 9, the Group applies a new category and 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 won't decrease the carrying amount of these financial assets in the 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

From 1 January 2018, the Group sometimes at initial recognition of some investments in equity instruments makes an irrevocable decision to reclassify 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 separately.

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 separate income statement, and, according to IAS 37 (prior to 1 January 2018), the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or, according to IFRS 9 (from 1 January 2018), of allowance for ECL.

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, in accordance with IAS 39, if such instruments were onerous, a reserve for them was made, however, from 1 January 2018 requirements related to measuring ECL are applied to such commitments.

Liability guarantees

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Held-to-maturity investments

Prior to 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this category. Held-to-maturity investments were subsequently measured at amortized cost. Gains and losses were recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Prior to 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available for sale. Such assets were carried at amortized cost using the effective interest method. Gains and losses were recognized in profit or loss when such assets were derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Prior to 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognized in other comprehensive income until the investment was derecognized or until the investment was determined to be impaired. In this case, the cumulative gain or loss previously reported in other comprehensive income was reclassified to the separate income statement. However, interest calculated using the effective interest method was recognized in profit or loss.

Reclassification of financial assets and liabilities

From 1 January 2018, 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 2017, 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 (“repos”) 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 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 they 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.

(Thousands of euros)

3. Summary of accounting policies (continued)

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 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 separate 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 separate financial instrument.

According to IAS 39 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 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 separated from the host contract were carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated income statement.

From 1 January 2018, the date, when IFRS 9 became effective, the Bank carries derivatives embedded in financial liabilities and non-financial host contracts in the same manner. Financial assets are classified on the basis of the business model and SPPI test assessment.

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 month end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated will be offset by the hedging instrument in a range of 80% to 125%.

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 terminated. 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 statement of profit or loss.

(Thousands of euros)

3. Summary of accounting policies (continued)

Hedge accounting (continued)

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

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.

Leases

Operating – Group as lessee

Leases of assets, under which the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases. Operating lease payments are recognized as expenses on a straight-line basis over the lease term and included in general and administrative expenses.

Operating lease – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement over the lease term within net non-interest income on "Income from lease of investment property". The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying value of the leased asset.

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.

(Thousands of euros)

3. Summary of accounting policies (continued)

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.

From 1 January 2018, 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 Bank considers the following:

- The change in the currency of a loan;
- The change of a counterparty;
- Whether the modification results in the non-compliance of the instrument to the SPPPI 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 insignificant amounts of principal or interest are needed during at least half of the probation period in accordance with the modified payment schedule.

Impairment of financial assets

Prior to 1 January 2018, at each reporting date the Group individually assessed whether there is any objective evidence of impairment of a financial asset. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment might include indications that the debtor was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganization and observable data indicating that there was a measurable decrease in the estimated future cash flows, such as changes in payment status or economic conditions that correlate with defaults. In case of available-for-sale financial instruments, a significant or prolonged decline in the fair value of the investment below its cost, was also the indicator of impairment.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate or the difference between the original cost of the investment and its fair value in case of available-for-sale financial assets. The carrying value of the asset was reduced and the amount of the loss was recognized in profit or loss. Interest income continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset or at the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss in case of available-for-sale financial assets. Assets together with the associated allowance were written off when there was no realistic prospect of future recovery and all collateral had been realized or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognized, the previously recognized impairment loss was credited to the separate income statement, except for increases in fair value of impaired available-for-sale equity investments, which were recognized in other comprehensive income.

Information on the impairment measurement according to IFRS 9 is provided in Note 25.

(Thousands of euros)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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 where:

- 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; and
- 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

From 1 January 2018, 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.

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, less costs of day-to-day servicing, accumulated depreciation and accumulated impairment losses, excluding buildings that are recorded at revalued amounts, as described below. Such cost includes the cost of replacing the 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 separate items of property and equipment.

(Thousands of euros)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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 decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is taken to the financial result. 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.

Investment property

Investment property includes a part of building held to earn rental income or for capital appreciation and which is 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.

(Thousands of euros)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets of the Group have definite useful life and mainly 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.

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 assets 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.

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* that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Bank.

Segment reporting

The Group's segment reporting is based on the following operating segments: credit and investment activity, treasury, other activities.

(Thousands of euros)

3. Summary of accounting policies (continued)

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 statement:

Interest and similar income and expense

From 1 January 2018, 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 (prior to 1 January 2018: applying the effective interest rate to the amortized cost of financial 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:

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 financial instruments at fair value through profit or loss 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.

(Thousands of euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Dividend income

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

Standards issued but not yet effective

The 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 standards when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. The Group is a lessor only and will continue to classify all leases using the same classification principle as in IAS 17.

In addition, IFRS 16, which becomes effective for annual periods beginning on 1 January 2019, requires that lessors and lessees provide more detailed disclosures as compared with IAS 17.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life insurance, direct insurance and re-insurance) regardless of the type of entities that issues them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- Certain modifications related to insurance contracts with direct participation features (variable compensation method);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early adoption is permitted, provided the entity also applies IFRS 9 and IFRS 15 on the date of the first application. This standard is not applicable to the Group.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. In particular, the interpretation addresses the following issues:

- ► Whether the entity considers uncertain tax treatments separately;
- ► The assumptions that the entity makes with regard to the review of tax treatments by tax authorities;
- ► How the entity determines taxable profit (tax loss), tax base, unused tax losses, unused tax benefits and tax rates;
- ► How the entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual periods beginning on or after 1 January 2019. The Group will apply the interpretation from its effective date. Since the Bank is exempt from any national or local direct taxes or duties Pursuant to the Agreement on the Establishment, the interpretation will have no impact on the Group's consolidated financial statements.

Amendment to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI test) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI test regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments are applied retrospectively and become effective for annual periods beginning on 1 January 2019. Early adoption permitted. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments for an indefinite term, but an entity that early adopts the amendments must apply them prospectively.

The Group will apply these amendments when they become effective.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

Amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. These amendments clarify that if a plan amendment, curtailment or settlement occurs during the reporting period, the entity is:

- ► To determine current service cost applicable to the remaining part of the period after the plan amendment, curtailment or settlement, based on the actuarial assumptions used for the revaluation of a net liability (asset) under the defined benefit plan, reflecting the consideration under the plan and assets of the plan after this event;
- ► To determine the net interest applicable to the remaining part of the period after the plan amendment, curtailment or settlement with the use of a net liability (asset) under the defined benefit plan, reflecting the consideration under the plan and assets of the plan after this event; and the discount rate used to remeasure this net liability (asset) under the defined benefit plan.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The amendments also clarify that the entity is to determine firstly the past service cost or gain/loss on settlement under this plan, not taking into consideration the impact of the asset ceiling. Such amount is recognized in profit or loss. Then the entity must determine the impact of the asset ceiling after the plan amendment, curtailment or settlement. Any change in this impact, except for amounts included in the net interest is recognized in other comprehensive income.

These amendments are applied to the plan amendment, curtailment or settlement, which occurred on the date of or after the beginning of the first annual period on or after 1 January 2019. Early adoption is permitted. These amendments will be applied to the Group's future plan amendment, curtailment or settlement.

Amendments to IAS 28 Long-Term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term investments in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term investments). This clarification is important as it implies that the expected credit losses model is applied to such long-term investments in IFRS 9.

The amendments also clarify that, in applying IFRS 9, an entity does not take into account any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments are effective retrospectively for annual periods beginning on or after 1 January 2019. Early adoption is permitted. Since the Group does not have such long-term investments in an associate or a joint venture, these amendments will not have any impact on its consolidated financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS improvements include the following amendments:

IFRS 3 Business Combinations

The amendments clarify that if the entity obtains control over the business that is a joint operation, it must apply requirements towards business combinations achieved in stages, including the revaluation of previously existing interests in assets and liabilities of a joint operations at fair value. Simultaneously, the acquirer must remeasure all the previously existing interest in joint operations.

The entity must apply these amendments to business combinations, the date of which coincides with or occurs after the beginning of the first annual period on or after 1 January 2019. Early adoption is permitted. These amendments will be applied to the Group's future business combinations.

IFRS 11 Joint Arrangements

A party that participates in (but does not have joint control over a joint operation) may obtain joint control over joint operations that comprise the activities defined as business in IFRS 3. The amendments clarify that in such cases the previously held interests in this joint operation are not remeasured.

The entity must apply these amendments to transactions, which provide for obtaining joint control, and the date of which coincides with or occurs after the beginning of the first annual period on or after 1 January 2019. Early adoption is permitted. Currently, these amendments are not applicable to the Group, however, they can be applicable to transactions in future.

IAS 12 Income Taxes

The amendments clarify that income tax consequences of dividends are to a greater extent related to past operations or events that generated the distributable profits than to distributions among owners. Therefore, an entity must recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating past operations or events.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

An entity must apply these amendments for annual periods beginning on or after 1 January 2019. Early adoption is permitted. On initial application of these amendments, an entity must apply them to income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since pursuant to the Agreement on the Establishment, the Bank is exempt from any national or local direct taxes or duties, the clarification will have no impact on the Bank's consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity must record specific borrowings related to the purchase of a qualifying asset, received as part of general borrowings, when almost all works required to prepare this asset for its intended use or sale are completed.

An entity must apply these amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which an entity first applies these amendments. An entity must apply these amendments for annual periods beginning on or after 1 January 2019. Early adoption is permitted. Since the Group's current practice is in line with the requirements of the amendments, these amendments are not expected to have any impact on the Group's consolidated financial statements.

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.

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 20 – Commitments and contingencies.

(intentionally blank)

(Thousands of euros)

4. Significant accounting judgments and estimates (continued)

Reclassification of comparative information

The Group changed the presentation of line items in the consolidated income statement and the consolidated statement of cash flows for the year ended 31 December 2017. The following reclassifications have been made to 2017 balances to correspond to the 2018 presentation:

	As previously reported	*Reclassification amount*	*After reclassification*
Line item in the consolidated income statement			
Net gains/(losses) from operations with foreign currencies and derivatives	15,949	(18,390)	(2,441)
Other interest income	–	19,932	19,932
Other interest expenses	–	(1,542)	(1,542)
Reversal of allowance for impairment of other assets	27	(27)	–
Net charge of allowance for credit losses on financial instruments	(12,165)	27	(12,138)
Line item in the consolidated statement of cash flows			
Interest paid	(26,212)	15,453	(10,759)
Realized gains less losses from operations with foreign currencies and derivatives	31,228	(15,453)	15,775

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	*31 December 2017*
Cash on hand	**276**	**85**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	39,024	49,120
Credit rating from BBB− to BBB+	5,730	4,167
Credit rating from BB- to BB+	1,149	274
Total nostro accounts with banks and other financial institutions	**45,903**	**53,561**
Short-term deposits with banks		
Term deposits with banks		
Credit rating from A- to A+	3,061	−
Credit rating BBB-	−	68
Credit rating from BB- to BB+	−	12,383
Total short-term deposits with banks	**3,061**	**12,451**
Less: allowance for impairment	**–**	**–**
Cash and cash equivalents	**49,240**	**66,097**

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

(Thousands of euros)

5. Cash and cash equivalents (continued)

Movements in the gross carrying amount and respective ECL related to nostro accounts with banks and other financial institutions and short-term deposits with banks for the year ended 31 December 2018 are as follows:

Cash equivalents	*Stage 1*	*Total*
Carrying amount at 1 January 2018, gross	**66,012**	**66,012**
New assets purchased or originated	4,969,970	**4,969,970**
Assets derecognized or redeemed (excluding write-offs)	(4,985,091)	**(4,985,091)**
Foreign exchange differences	(1,927)	**(1,927)**
At 31 December 2018	**48,964**	**48,964**
Allowance for ECL at 1 January 2018		**8**
New assets purchased or originated		58
Assets derecognized or redeemed		(66)
Allowance for ECL at 31 December 2018		**–**

6. Deposits with banks and other financial institutions

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

	31 December 2018	*31 December 2017*
Term deposits up to 1 year		
Credit rating from B- to B+	–	37,157
Total term deposits up to 1 year	**–**	**37,157**
Term deposits over 1 year		
Credit rating from AA- to AA+	900	–
Credit rating from A- to A+	24,180	5,650
Credit rating from BBB- to BBB+	16,876	–
Credit rating from BB- to BB+	5,440	3,082
Total term deposits over 1 year	**47,396**	**8,732**
Less: allowance for impairment	–	–
Deposits with banks and other financial institutions	**47,396**	**45,889**

Movements in the gross carrying amount and respective ECL related to deposits with banks and other financial institutions for the year ended 31 December 2018 are as follows:

Deposits with banks and other financial institutions	*Stage 1*	*Total*
Carrying amount at 1 January 2018, gross	**45,889**	**45,889**
New assets purchased or originated	131,413	**131,413**
Assets derecognized or redeemed (excluding write-offs)	(129,383)	**(129,383)**
Foreign exchange differences	(523)	**(523)**
At 31 December 2018	**47,396**	**47,396**
Allowance for ECL at 1 January 2018		**241**
New assets purchased or originated		–
Assets derecognized or redeemed		(241)
Allowance for ECL at 31 December 2018		**–**

As at 31 December 2018, EUR 34,967 thousand (31 December 2017: EUR 34,967 thousand) were due to the Group from the Central Bank of Cuba. This amount was fully provisioned (31 December 2017: EUR 34,967 thousand).

(Thousands of euros)

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

Concentration of deposits with banks and other financial institutions

As at 31 December 2018, besides deposits with the Central Bank of Cuba, the Group had four counterparties (31 December 2017: three counterparties) accounting for over 10% of the Group's total deposits with banks and other financial institutions. As at 31 December 2017, deposits with these counterparties amounted to EUR 42,956 thousand (31 December 2017: EUR 25,724 thousand); those deposits were not provisioned (31 December 2017: the deposits were not provisioned).

7. Derivative financial instruments

The Group performs operations with currency and other derivative financial instruments which are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments have either potentially favorable terms (and are assets) or potentially unfavorable conditions (and are liabilities) as a result of fluctuations in exchange rates or other variable factors associated with these instruments. The fair value of derivative financial instruments can vary significantly depending on the potentially favorable and unfavorable conditions. The table below shows the fair value of derivative financial instruments as at 31 December 2018 and 31 December 2017 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	31 December 2018				
	Nominal amount		*Weighted average exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 11,997,998 thousand	EUR 185,875 thousand	64.73	–	32,810
	RON 757,800 thousand	EUR 166,289 thousand	4.56	2,091	3,925
	EUR 184,595 thousand	USD 216,924 thousand	1.18	28	5,049
	EUR 15,139 thousand	HUF 4,760,000 thousand	314.42	409	137
	EUR 4,512 thousand	RON 21,000 thousand	4.65	–	190
	EUR 53,833 thousand	RUB 4,116,000 thousand	76.46	561	–
	HUF 3,970,000 thousand	EUR 12,389 thousand	320.45	–	1
	CZK 750,000 thousand	EUR 29,503 thousand	25.42	631	–
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	–	7,779
Forwards	EUR 34,000 thousand	USD 40,140 thousand	1.18	–	1,052
Total derivative financial assets and liabilities at fair value through profit or loss				**3,720**	**50,943**
Derivative financial instruments				**3,720**	**50,943**

(intentionally blank)

(Thousands of euros)

7. Derivative financial instruments (continued)

	31 December 2017				
	Nominal amount		*Weighted average exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	EUR 180,000 thousand	USD 209,572 thousand	1.16	5,203	89
	EUR 10,270 thousand	HUF 3,160,000 thousand	307.69	54	–
	RUB 9,997,998 thousand	EUR 158,232 thousand	63.20	–	8,603
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	638	–
	RON 319,800 thousand	EUR 70,544 thousand	4.53	931	1,212
Forwards	EUR 34,000 thousand	USD 39,527 thousand	1.16	935	–
Total derivative financial assets and liabilities at fair value through profit or loss				**7,761**	**9,904**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	5,169
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**5,169**
Derivative financial instruments				**7,761**	**15,073**

Due to the issue of bonds denominated in currencies other than the Group's functional currency (Note 18), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis with large international and Russian credit institutions. These swaps are used to manage long-term currency risks of the Group. Payment netting is not applied to the parties' obligations in respect of interest and principal payments.

The notional amount, recorded gross, is the amount of a derivative's underlying asset and liability and is the basis upon which changes in the value of derivatives are measured. The nominal amounts indicate the volume of transactions outstanding at the end of the reporting period and are not indicative of the credit risk.

As at 31 December 2018 and 31 December 2017, the Group has positions in the following types of derivatives:

Forwards: Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps: Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified nominal amounts.

Fair value measurement is based on the corresponding forward curves that depend on exchange rates, interest rates and swap contract maturity. For the fair value of swaps, the discount rate was calculated on the basis of zero coupon yield curve and credit risk. Changes in the fair value of swaps were mainly due to the increase in the forward exchange rates of the euro to transaction currencies.

(Thousands of euros)

8. Securities at fair value through other comprehensive income (2017: Available-for-sale investment securities)

Securities at fair value through other comprehensive income comprise:

	31 December 2018	*31 December 2017*
Owned by the Group		
Listed debt securities at fair value through other comprehensive income		
Government bonds of member countries		
Credit rating A+	1,149	–
Government bonds of non-member countries		
Credit rating from AA- to AA+	10,574	–
Credit rating from A- to A+	11,472	–
Credit rating B-	18,077	–
Government bonds	**41,272**	**–**
Corporate bonds		
Credit rating AAA	22,294	–
Credit rating from AA- to AA+	3,504	–
Credit rating from A- to A+	50,556	–
Credit rating from BBB- to BBB+	28,308	–
Credit rating from BB- to BB+	25,040	–
Credit rating from B- to B+	32,679	–
Corporate bonds	**162,381**	**–**
Total listed debt securities at fair value through other comprehensive income	**203,653**	**–**
Listed equity instruments at fair value through other comprehensive income		
Corporate shares:		
No credit rating	5	–
Corporate shares	**5**	**–**
Investments in equity instruments		
Investments in the fund	674	–
Investments in equity instruments	**674**	**–**
Total listed equity instruments at fair value through other comprehensive income	**679**	**–**
Securities at fair value through other comprehensive income	**204,332**	**–**

(intentionally blank)

(Thousands of euros)

8. Securities at fair value through other comprehensive income (2017: Available-for-sale investment securities) (continued)

	31 December 2018	*31 December 2017*
Owned by the Group		
Listed debt securities		
Government bonds of non-member countries		
Credit rating AAA	–	4,066
Credit rating AA+	–	5,396
Credit rating B-	–	18,552
Government bonds	**–**	**28,014**
Corporate bonds		
Credit rating from A- to A+	–	12,292
Credit rating from BBB- to BBB+	–	20,370
Credit rating from BB- to BB+	–	62,496
Credit rating from B- to B+	–	13,817
Corporate bonds	**–**	**108,975**
Total listed debt securities	**–**	**136,989**
Listed equity instruments		
Credit rating A-	–	633
Credit rating BBB	–	1,077
No credit rating	–	5
Total listed equity instruments	–	**1,715**
Available-for-sale investment securities	**–**	**138,704**
Pledged under repurchase agreements		
Listed debt securities		
Government bonds of member countries		
Credit rating A+	–	10,010
Government bonds of non-member countries		
Credit rating A+	–	7,867
Government bonds	**–**	**17,877**
Corporate bonds		
Credit rating AAA	–	19,991
Credit rating from AA- to AA+	–	7,466
Credit rating from A- to A+	–	18,544
Credit rating from BBB- to BBB+	–	5,995
Credit rating from BB- to BB+	–	6,850
Corporate bonds	**–**	**58,846**
Total listed available-for-sale debt securities pledged under repurchase agreements	**–**	**76,723**

Movements in the gross carrying amount and respective ECL related to securities at fair value through other comprehensive income for the year ended 31 December 2018:

Securities at fair value through other comprehensive income	***Stage 1***	***Total***
Carrying amount at 1 January 2018, gross	**176,652**	**176,652**
New assets purchased or originated	234,535	**234,535**
Assets derecognized or redeemed (excluding write-offs)	(210,382)	**(210,382)**
Foreign exchange differences	3,527	**3,527**
At 31 December 2018	**204,332**	**204,332**
Allowance for ECL at 1 January 2018		**440**
New assets purchased or originated		87
Assets derecognized or redeemed		(227)
Allowance for ECL at 31 December 2018		**300**

(Thousands of euros)

8. Securities at fair value through other comprehensive income (2017: Available-for-sale investment securities) (continued)

Government bonds comprise EUR- and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries. The bonds mature in 2023-2027 (31 December 2017: maturing in 2020-2027). The annual coupon rate for these bonds varies from 0.4% to 7.6% (31 December 2017: from 0.4% to 7.6%).

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 2020-2028 (31 December 2017: maturing in 2020-2026). The annual coupon rate for these bonds varies from 0.4% to 7.8% (as at 31 December 2017: from 0.4% to 7.9%).

Equity securities are represented by shares issued by a major international company.

Investments in the fund comprise investments in the Central Europe Fund of Funds (CEFoF) established by the European Investment Fund (EIF), a member of the European Investment Bank (EIB), together with governments and national development banks of five countries, including the Republic of Austria, Hungary, the Slovak Republic, Slovenia, and the Czech Republic. The Fund is primarily engaged in encouraging investments in SMEs' equity and creating market infrastructure that would promote those investments, as well as attracting institutional investors and investment managers to Central Europe.

9. Securities at amortized cost

As at 1 January 2018, the Group reclassified a part of its securities previously classified as available for sale to debt instruments measured at amortized cost. These instruments satisfy the SPPI criteria and are held to collect related cash flows rather than for sale.

	31 December 2018	*31 December 2017*
Owned by the Bank		
Listed debt securities at amortized cost		
Corporate bonds:		
Credit rating AAA	22,053	–
Credit rating AA	4,455	–
Credit rating BBB-	14,957	–
Corporate bonds	**41,465**	**–**
Listed debt securities at amortized cost	**41,465**	**–**

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 2021-2026(31 December 2017: none). The coupon rate for these bonds varies from 1.8% to 2.1% (31 December 2017: none).

Movements in the gross carrying amount related to securities at amortized cost for the year ended 31 December 2018:

Investment securities at amortized cost	*Stage 1*	*Total*
Carrying amount at 1 January 2018, gross	**40,301**	**40,301**
New assets purchased or originated	980	**980**
Assets derecognized or redeemed (excluding write-offs)	(922)	**(922)**
Foreign exchange differences	1,106	**1,106**
At 31 December 2018	**41,465**	**41,465**

No allowances for ECL for the year ended 31 December 2018 were made.

(Thousands of euros)

10. Loans to banks

In 2018, the Group continued its lending activities, being guided by the key priorities of the Development Strategy of the IIB. The principal lending activity is to participate in financing of socially important infrastructure projects in these countries and to facilitate the development of small and medium-sized businesses and foreign trade in the member countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2018 and 2017, the Group provided trade financing loans and long-term loans to borrowers operating in the following countries:

	31 December 2018	***31 December 2017***
Trade financing loans		
Republic of Belarus	54,783	3,239
Mongolia	10,849	
Russian Federation	–	23,298
Trade financing loans	**65,632**	**26,537**
Long-term loans to banks		
Republic of Cuba	49,960	49,863
Mongolia	38,255	33,735
Socialist Republic of Vietnam	24,670	25,252
Russian Federation	–	75,401
Long-term loans to banks	**112,885**	**184,251**
Less: allowance for impairment of loans to banks	(1,885)	(9,153)
Loans to banks	**176,632**	**201,635**

Movements in the gross carrying amount and relevant ECL related to trade financing loans for the year ended 31 December 2018 are as follows:

Trade financing loans	***Stage 1***	***Total***
Carrying amount at 1 January 2018, gross	**26,537**	**26,537**
New assets purchased or originated	127,736	**127,736**
Assets derecognized or redeemed (excluding write-offs)	(88,977)	**(88,977)**
Foreign exchange differences	336	**336**
At 31 December 2018	**65,632**	**65,632**

Trade financing loans	***Stage 1***	***Total***
Allowance for ECL at 1 January 2018	**114**	**114**
New assets purchased or originated	1,320	**1,320**
Assets derecognized or redeemed (excluding write-offs)	(956)	**(956)**
At 31 December 2018	**478**	**478**

(intentionally blank)

(Thousands of euros)

10. Loans to banks (continued)

Movements in the gross carrying amount and respective ECL related to long-term loans to banks for the year ended 31 December 2018 are as follows:

Long-term loans to banks	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Carrying amount at 1 January 2018, gross	**168,997**	–	**15,254**	**184,251**
New assets purchased or originated	50,473	18	–	**50,491**
Assets derecognized or redeemed (excluding write-offs)	(87,798)	(118)	–	(87,916)
Transfers to Stage 2	(20,078)	20,078	–	–
Amounts written off	–	(19,978)	(14,377)	(34,355)
Foreign exchange differences	1,291	–	(877)	414
At 31 December 2018	**112,885**	**–**	**–**	**112,885**

Long-term loans to banks	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2018	**2,633**	**–**	**15,254**	**17,887**
New assets purchased or originated	1,117	–	–	**1,117**
Assets derecognized or redeemed (excluding write-offs)	(1,993)	–	–	**(1,993)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(350)	350	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	1,486	–	**1,486**
Amounts written off (against the allowance)	–	(1,836)	(14,377)	**(16,213)**
Foreign exchange differences	–	–	(877)	**(877)**
At 31 December 2018	**1,407**	**–**	**–**	**1,407**

The information on overdue loans to banks as at 31 December 2018 and 31 December 2017 is provided below:

	31 December 2018	***31 December 2017***
Total loans with overdue principal and/or interest	–	15,254
Less: allowance for impairment of loans to banks	–	(9,153)
Overdue loans to banks	**–**	**6,101**

For the purposes of these consolidated financial statements, a loan to a bank is considered overdue if at least one of the loan-related payments is past due at the reporting date. In this case, the amount of the overdue loan is the total amount due from the borrower, including the accrued interest income.

(intentionally blank)

(Thousands of euros)

10. Loans to banks (continued)

Allowance for impairment of loans to banks

A reconciliation of the allowance for ECL for impairment of loans to banks by country for the year ended 31 December 2018 is as follows:

	Russian Federation	*Mongolia*	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Other*	*Total*
At 31 December 2017	**9,153**	**–**	**–**	**–**	**–**	**9,153**
Impact of adopting IFRS 9	6,705	1,295	291	539	18	**8,848**
At 1 January 2018	**15,858**	**1,295**	**291**	**539**	**18**	**18,001**
Net (reversal)/charge for an allowance for ECL during the period	(604)	(622)	(34)	4	2,230	**974**
Write off against previously accrued allowance	(14,377)	–	–	–	(1,836)	**(16,213)**
Change in allowance resulting from changes in exchange rates	(877)	–	–	–	–	**(877)**
At 31 December 2018	**–**	**673**	**257**	**543**	**412**	**1,885**

A reconciliation of the allowance for impairment of loans to banks by country for the year ended 31 December 2017 is as follows:

	Russian Federation	*Total*
At 1 January 2017	**–**	**–**
Net charge for the period	9,153	**9,153**
At 31 December 2017	**9,153**	**9,153**
Individual impairment	**9,153**	**9,153**
Loans to banks individually determined to be impaired, before deducting any individually assessed impairment allowance	**15,254**	**15,254**

(Thousands of euros)

10. Loans to banks (continued)

Analysis of collateral for loans to banks

The following table provides an analysis of the portfolio of trade financing loans and long-term loans to banks by type of collateral as at 31 December 2018 and 31 December 2017:

	31 December 2018		*31 December 2017*	
	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	49,416	28.0	49,863	24.7
Uncollateralized part of the loans	127,215	72.0	151,772	75.3
Loans to banks	**176,631**	**100.0**	**201,635**	**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 2018, long-term loans and trade financing loans to six banks (31 December 2017: two banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group's balance sheet. As at 31 December 2018, the total amount of such major loans was EUR 148,608 thousand (31 December 2017: EUR 70,100 thousand) and allowances of EUR 1,411 thousand (31 December 2017: no allowances) were made for them.

11. Loans to customers

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

	31 December 2018	*31 December 2017*
Loans to customers measured at amortized cost		
Republic of Bulgaria	105,161	57,995
Russian Federation	99,979	81,817
Slovak Republic	89,966	60,464
Romania	86,846	78,440
Kingdom of the Netherlands	35,075	5,847
Hungary	34,454	42,910
Republic of Ecuador	31,838	34,763
Republic of Panama	28,747	29,775
Mongolia	27,507	24,425
Socialist Republic of Vietnam	22,028	–
USA	1,580	1,666
Czech Republic	–	49,967
Total loans to customers at amortized cost	**563,181**	**468,069**
Loans to customers at fair value through other comprehensive income		
Republic of Bulgaria	30,073	–
Total loans to customers at fair value through other comprehensive income	**30,073**	**–**
Less: allowance for impairment of loans to customers	(17,051)	(5,555)
Loans to customers	**576,203**	**462,514**

(Thousands of euros)

11. Loans to customers (continued)

Movements in the gross carrying amount and respective ECL related to loans to customers for the year ended 31 December 2018 are as follows:

Loans to customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Carrying amount at 1 January 2018, gross	**446,591**	**6,327**	**15,151**	**468,069**
New assets purchased or originated	383,155	731	103	**383,989**
Assets derecognized or redeemed (excluding write-offs)	(194,676)	(51,013)	(1,014)	**(246,703)**
Transfers to Stage 2	(50,480)	50,480	–	**–**
Transfers to Stage 3	–	(6,190)	6,190	**–**
Amounts written off	–	–	(5,279)	**(5,279)**
Foreign exchange differences	(6,364)	–	(458)	**(6,822)**
At 31 December 2018	**578,226**	**335**	**14,693**	**593,254**

Loans to customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2018	**5,336**	**3,610**	**15,151**	**24,097**
New assets purchased or originated	2,399	11	640	**3,050**
Assets derecognized or redeemed (excluding write-offs)	(5,706)	–	–	**(5,706)**
Transfers to Stage 3	–	(4,639)	4,639	**–**
Changes to models and inputs used for ECL calculations	–	1,347	–	**1,347**
Amounts written off (against the allowance)	–	–	(5,279)	**(5,279)**
Foreign exchange differences	–	–	(458)	**(458)**
At 31 December 2018	**2,029**	**329**	**14,693**	**17,051**

The information on overdue loans to customers as at 31 December 2018 and 31 December 2017 is provided below:

	31 December 2018	***31 December 2017***
Total loans with overdue principal and/or interest	14,694	15,151
Less: allowance for impairment of loans to customers	(14,694)	(5,255)
Overdue loans to customers	**–**	**9,896**

For the purposes of these consolidated financial statements, a loan to a customer is considered overdue if at least one of the loan-related payments is past due at the reporting date. In this case, the amount of the overdue loan is the total amount due from the borrower, including the accrued interest income.

(intentionally blank)

(Thousands of euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for ECL for impairment of loans to customers by country for the year ended 31 December 2018 is as follows:

	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Other*	*Total*
At 31 December 2017	**–**	**300**	**5,255**	**–**	**–**	**–**	**–**	**–**	**5,555**
Impact of adopting IFRS 9	64	3,752	10,261	454	3,333	370	–	308	**18,542**
At 1 January 2018	**64**	**4,052**	**15,516**	**454**	**3,333**	**370**	**–**	**308**	**24,097**
Net (reversal)/charge for the period	6	1,919	(128)	(89)	(3,333)	331	93	(108)	**(1,309)**
Write off against previously accrued allowance	–	(5,279)	–	–	–	–	–	–	**(5,279)**
Change in allowance resulting from changes in exchange rates	–	–	(458)	–	–	–	–	–	**(458)**
At 31 December 2018	**70**	**692**	**14,930**	**365**	**–**	**701**	**93**	**200**	**17,051**

A reconciliation of the allowance for impairment of loans to customers by country for the year ended 31 December 2017 is as follows:

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2017	**8,103**	**6,955**	**2,254**	**17,312**
Net charge for the period	–	11	3,001	**3,012**
Write off against previously accrued allowance	(8,103)	(6,666)	–	**(14,769)**
At 31 December 2017	**–**	**300**	**5,255**	**5,555**
Individual impairment	**–**	**–**	**5,255**	**5,255**
Loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**	**15,151**	**15,151**

(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 2018 and 31 December 2017:

	31 December 2018		***31 December 2017***	
	Loans to customers net of allowance for impairment	***Share in the total loans, %***	***Loans to customers net of allowance for impairment***	***Share in the total loans %***
Pledge of shares	113,532	19.7	42,504	9.2
Pledge of real property (mortgage) and title	103,128	17.9	86,728	18.8
Pledge of equipment and goods in turnover	74,607	12.9	15,292	3.3
State guarantees	60,462	10.5	74,476	16.1
Corporate guarantees	47,302	8.2	70,599	15.3
Pledge of rights of claim	24,888	4.3	6,150	1.3
Pledge of vehicles	16,567	2.9	1,476	0.3
Uncollateralized part of the loans	135,717	23.6	165,289	35.7
Loans to customers	**576,203**	**100.0**	**462,514**	**100.0**

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.

Concentration of loans to customers

As at 31 December 2018, loans to two borrowers (31 December 2017: three borrowers) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 31 December 2018, these loans comprised EUR 159,485 thousand (31 December 2017: EUR 181,256 thousand) in total and impairment allowances of EUR 86 thousand (31 December 2017: no allowances) were made for them.

Analysis of loans to customers by industry

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

	31 December 2018	***31 December 2017***
Production and transmission of electricity	181,592	104,847
Leases	122,638	116,910
Communications	49,946	22,815
Manufacturing of refined oil products	30,101	30,099
Wholesale trade	29,538	738
Retail trade	29,506	–
Food and beverage	23,653	25,662
Finance	22,028	–
Mining	21,766	20,632
Real estate	18,863	19,722
Manufacturing of electrical equipment	14,694	21,159
Oil and gas production	14,361	–
Production of pharmaceutical products	10,771	11,319
Agriculture	10,527	13,408
Land transport	8,640	11,248
Postal activities	4,630	–
Metal working industry	–	49,967
Legal and advisory services, audit	–	19,543
	593,254	**468,069**
Less: allowance for impairment of loans to customers	(17,051)	(5,555)
Loans to customers	**576,203**	**462,514**

(Thousands of euros)

12. Investment property

In 2018 and 2017, the following changes occurred in the cost of investment property under operating lease:

	2018	*2017*
At 1 January	**21,853**	**21,840**
Leasehold improvements	13	39
Sales	(1,078)	(26)
Carrying amount at 31 December	**20,788**	**21,853**

The Group leases out investment properties under operating lease agreements. In 2018, the Group's income from lease of investment property amounted to EUR 3,956 thousand (2017: EUR 4,034 thousand).

The Group regularly remeasures 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 2017, the investment properties were remeasured at market value based on the results of the valuation performed by independent companies of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. As at 31 December 2018, management of the Group believes that the fair value of the investment properties, determined by reference to market-based evidence and potential ability to generate income, does not significantly differ from their carrying amount at that date. For further details on the fair value of investment properties, refer to Note 26.

If the investment properties were measured using the cost method, the carrying amounts as at 31 December 2018 and 31 December 2017 would be as follows:

	2018	*2017*
Cost	**20,190**	**20,141**
Leasehold improvements	13	49
Sales	(1,078)	–
Accumulated depreciation	(2,822)	(2,611)
Net book value	**16,303**	**17,579**

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

(intentionally blank)

(Thousands of euros)

13. Property, equipment and intangible assets

The movements in property, equipment and intangible assets for the years 2018 and 2017 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Intangible assets*	*Other*	*Capital expenditure*	*Total*
Cost or revalued amount									
At 1 January 2018	**67,758**	**7,581**	**1,923**	**301**	**689**	**3,051**	**178**	**706**	**82,187**
Additions	–	–	–	–	–	–	–	917	**917**
Transfers	121	251	158	7	–	945	4	(1,486)	**–**
Disposals	–	(31)	(2)	(2)	–	–	(6)	–	**(41)**
At 31 December 2018	**67,879**	**7,801**	**2,079**	**306**	**689**	**3,996**	**176**	**137**	**83,063**
Accumulated depreciation and amortization									
At 1 January 2018	**(186)**	**(6,714)**	**(1,427)**	**(239)**	**(563)**	**(566)**	**(104)**	**–**	**(9,799)**
Charge for the period	(1,124)	(241)	(267)	(19)	(81)	(296)	(6)	–	**(2,034)**
Disposals	–	31	–	1	–	–	4	–	**36**
At 31 December 2018	**(1,310)**	**(6,924)**	**(1,694)**	**(257)**	**(644)**	**(862)**	**(106)**	**–**	**(11,797)**
Net book value									
At 31 December 2017	**67,572**	**867**	**496**	**62**	**126**	**2,485**	**74**	**706**	**72,388**
At 31 December 2018	**66,569**	**877**	**385**	**49**	**45**	**3,134**	**70**	**137**	**71,266**

(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 2017	**67,644**	**7,500**	**3,361**	**307**	**808**	**2,472**	**183**	**427**	**82,702**
Additions	–	–	–	–	–	–	–	1,749	**1,749**
Transfers	350	364	150	14	–	590	2	(1,470)	**–**
Disposals	–	(283)	(1,588)	(20)	(119)	(11)	(7)	–	**(2,028)**
Recovery of accumulated depreciation and amortization upon revaluation	(1,039)	–	–	–	–	–	–	–	**(1,039)**
Revaluation	803	–	–	–	–	–	–	–	**803**
At 31 December 2017	**67,758**	**7,581**	**1,923**	**301**	**689**	**3,051**	**178**	**706**	**82,187**
Accumulated depreciation and amortization									
At 1 January 2017	**(117)**	**(6,747)**	**(2,730)**	**(236)**	**(580)**	**(343)**	**(105)**	**–**	**(10,858)**
Charge for the period	(1,108)	(250)	(284)	(21)	(102)	(237)	(6)	–	**(2,008)**
Disposals	–	283	1,587	18	119	14	7	–	**2,028**
Recovery of accumulated depreciation and amortization upon revaluation	1,039	–	–	–	–	–	–	–	**1,039**
At 31 December 2017	**(186)**	**(6,714)**	**(1,427)**	**(239)**	**(563)**	**(566)**	**(104)**	**–**	**(9,799)**
Net book value									
At 31 December 2016	**67,527**	**753**	**631**	**71**	**228**	**2,129**	**78**	**427**	**71,844**
At 31 December 2017	**67,572**	**867**	**496**	**62**	**126**	**2,485**	**74**	**706**	**72,388**

As at 31 December 2018, the cost of fully depreciated property and equipment still used by the Bank was EUR 6,082 thousand (31 December 2017: EUR 5,217 thousand).

(Thousands of euros)

13. Property, equipment and intangible assets (continued)

As at 31 December 2018, the fair value of buildings owned by the Group is determined based on the results of the valuation performed by an independent company of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, the Group's management believes that the fair value of buildings owned by the Bank as at 31 December 2018 does not significantly differ from their carrying amount at that date.

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 26.

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. Revaluation of buildings owned by the Group at market value was performed as at 31 December 2017 based on the results of the valuation performed by an independent firm of professional appraisers who have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. As at 31 December 2018, management of the Group believes that by reference to market-based evidence the fair value of buildings owned by the Group does not significantly differ from their carrying amount at that date. For further details on the fair value of buildings owned by the Group, refer to Note 26.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2018 and 31 December 2017 would be as follows:

	2018	*2017*
Cost	**52,705**	**52,355**
Additions	121	350
Accumulated depreciation and amortization	(22,331)	(21,298)
Net book value	**30,495**	**31,407**

14. Other assets and liabilities

Other assets comprise:

	31 December 2018	*31 December 2017*
Financial assets		
Settlements on bank transactions	1,970	2,007
Accounts receivable on business operations	108	73
Guarantee payments	26	26
Other financial assets	316	363
	2,420	**2,469**
Less allowance for impairment of financial assets	(1,527)	(1,741)
Total financial assets	**893**	**728**
Non-financial assets		
Advances issued	1,585	990
Assets held for sale – real estate	89	89
Inventories – real estate	–	50
Other non-financial assets	748	619
Total non-financial assets	**2,422**	**1,748**
Other assets	**3,315**	**2,476**

(Thousands of euros)

14. Other assets and liabilities (continued)

Movements in the gross carrying amount and relevant ECL related to financial assets for the year ended 31 December 2018 were as follows:

Financial assets	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Carrying amount at 1 January 2018, gross	**729**	**–**	**1,740**	**2,469**
New assets purchased or originated	1,823,655	1	–	**1,823,656**
Assets derecognized or redeemed (excluding write-offs)	(1,824,294)	(1)	–	**(1,824,295)**
Foreign exchange differences	806	–	(216)	**590**
At 31 December 2018	**896**	**–**	**1,524**	**2,420**

Significant amounts in "New purchased or originated assets" and "Assets derecognized or redeemed (excluding write-offs)" comprise, among others, cash paid to arrangers of the debt securities issue to fulfil the Bank's obligations (Note 18).

	Stage 1	*Stage 3*	*Total*
Allowance under IFRS 39	**5**	**1,736**	**1,741**
Impact of adopting IFRS 9	–	**(6)**	**(6)**
Allowance at 1 January	**5**	**1,730**	**1,735**
New purchased or originated assets	19	–	–
Assets derecognized or redeemed (excluding write-offs)	(22)	–	(22)
Change in allowance resulting from changes in exchange rates	–	(205)	(205)
Allowance at the end of the reporting period	**2**	**1,525**	**1,527**

Other liabilities comprise the following:

	31 December 2018	*31 December 2017*
Financial liabilities		
Other accounts payable on bank transactions	163	1,125
Other accounts payable on business operations	1,606	1,015
Other financial liabilities.	–	8
Total financial liabilities	**1,769**	**2,148**
Non-financial liabilities		
Settlements with employees	4,812	4,070
Allowance for ECL on credit-related commitments	1,752	–
Other non-financial liabilities	487	178
Total non-financial liabilities	**7,051**	**4,248**
Other liabilities	**8,820**	**6,396**

(Thousands of euros)

15. Allowances for credit losses, other impairment and provisions

The table below shows allowances for ECL on financial instruments recorded in profit or loss for the year ended 31 December 2018:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	(8)	–	–	**(8)**
Deposits with banks and other financial institutions	6	(241)	–	–	**(241)**
Securities at fair value through other comprehensive income	8	(140)	–	–	**(140)**
Loans to banks	10	(862)	1,836	–	**974**
Loans to customers	11	(3,307)	1,358	640	**(1,309)**
Financial assets	14	(3)	–	–	**(3)**
Non-financial liabilities (allowance for ECL on credit-related commitments)	14, 20	889	(1)	–	**888**
Total (income)/expenses on impairment		**(3,672)**	**3,193**	**640**	**161**

Movements in allowances for ECL on financial instruments for the year ended 31 December 2018 were as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**9,573**	**3,678**	**67,102**	**80,353**
New assets purchased or originated	8,570	11	640	**9,221**
Assets derecognized or redeemed (excluding write-offs)	(11,892)	(1)	–	**(11,893)**
Transfers to Stage 2	(350)	350	–	**–**
Transfers to Stage 3		(4,639)	4,639	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	1,486	–	1,486
Changes to models and inputs used for ECL calculations	–	1,347	–	**1,347**
Amounts written off	–	(1,836)	(19,656)	**(21,492)**
Foreign exchange differences	–	–	(1,540)	**(1,540)**
At 31 December 2018	**5,901**	**396**	**51,185**	**57,482**

As at 31 June 2018, there were no other allowances other than those mentioned above on the Group's balance sheet.

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 2018	*31 December 2017*
Due to banks up to 1 year		
Term deposits of banks and other financial institutions	67,872	3,496
Total due to banks up to 1 year	**67,872**	**3,496**
Due to banks over 1 year		
Repurchase agreements	–	62,015
Total due to banks over 1 year	**–**	**62,015**
Due to banks and other financial institutions	**67,872**	**65,511**

The Group performs daily monitoring of repurchase agreements and the value of collateral when placing/returning additional collateral, if necessary.

(Thousands of euros)

16. Due to banks and other financial institutions (continued)

Concentration of deposits from banks and other financial institutions

As at 31 December 2018, the Group has four counterparties (31 December 2017: two counterparties) accounting for over 10% of the Group's total deposits from banks and other financial institutions in the amount of EUR 67,872 thousand (31 December 2017: EUR 62,015 thousand).

17. Long-term loans of banks

Long-term loans of banks comprise:

	31 December 2018	*31 December 2017*
Loans of banks	34,559	12,898
SSD	22,994	22,939
Syndicated loans	–	59,755
Long-term loans of banks	**57,553**	**95,592**

On 19 March 2018, the Group received the first tranche from the BRICS New Development Bank in the amount of USD 12.5 thousand (EUR 10,273 thousand) under the loan agreement of USD 50 mln. On 17 July 2018, the Bank received the second tranche in the amount of USD 12.5 million (EUR 10,674 thousand).

In 2017, the Group issued SSD debentures (Schuldscheindarlehen) in the Western European market in the total amount of EUR 23,000 thousand.

On 3 August 2017, the Group raised bilateral financing in the Hungarian financial market in the amount of HUF 4.0 billion (EUR 13,185 thousand).

18. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*31 December 2018*	*31 December 2017*
RUB-denominated bonds	0.01-9.50	2024-2027	230,032	267,112
RON-denominated bonds	3.40-4.57	2019-2021	194,071	152,084
EUR-denominated bonds	1.50-3.50	2019-2021	170,085	90,017
CZK-denominated bonds	2.33	2021	29,266	–
Debt securities issued			**623,454**	**509,213**

On 15 October 2018, the Group placed bonds of the fourth issue on the Bucharest Stock Exchange structured in two tranches of EUR 80 million and RON 300 million (EUR 64,364 thousand). Both tranches mature in three years. EUR-denominated bonds and RON-denominated bonds bear interest rates of 1.5026% p.a. and 3m Robor + 1.40%, respectively.

On 15 October 2018, the Bank fully repaid the first issue of bonds placed in Romania in the amount of RON 111 million (EUR 23,801 thousand).

On 26 April 2018, the Group placed in the amount of CZK 501.1 million (EUR 19,832 thousand) maturing in three years. On 4 June 2018, the Group made an additional placement of bonds worth a total of CZK 249.7 million (EUR 9,675 thousand). The coupon rate was set at 3m Pribor + 0.55% p.a.

(Thousands of euros)

18. Debt securities issued (continued)

On 30 May 2018, the Group made a secondary placement of RUB-denominated bonds, series 03, in the amount of RUB 3.99 RUB billion (EUR 55,120 thousand) that had been repurchased in 2017 under the offer. A new coupon rate of 7.6% p.a. was set for one coupon period before the offer in November 2018. The Group repurchased the full issue from investors under the offer in November 2018.

The Group redeemed and made a secondary placement of bonds, series 04, worth RUB 1.2 billion (EUR 18,271 thousand) on 21 November 2017, as scheduled under the offer. A new coupon rate of 8.15% was set.

The Group partially redeemed RUB-denominated bonds, series 01, worth a total of RUB 489,432 thousand (EUR 7,259 thousand) on 27 October 2017, as scheduled under the offer. A new coupon rate of 0.01% was set for the remaining bonds of this issue.

The Group placed a third issue of bonds in the Romanian capital market on 25 September 2017. The issue comprises two tranches of EUR 60 million and RON 300 million (EUR 65,199 thousand) maturing in three years. EUR-denominated bonds and RON-denominated bonds bear interest rates of 1.593% p.a. and 3m Robor + 1.50%, respectively.

On 14 June 2017, the Group placed an issue of exchange-traded bonds at the Moscow Exchange under the Program to issue exchange-traded bonds registered in 2016. The issue totaled RUB 10 billion (EUR 156,579 thousand) and provides for an offer in March 2020. The coupon rate of the bonds was set at 8.75% payable on a semi-annual basis with the first coupon payment to be made on 11 September 2017.

The Group redeemed RUB-denominated bonds, series 03, worth a total of RUB 3.99 billion (EUR 62,858 thousand) on 2 June 2017, as scheduled under the offer. A new coupon rate of 0.01% was set for the remaining bonds of this issue.

At the issue dates of 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 RUB, RON, to the currency required by the Group (EUR, USD) to finance credit projects in the required currency. The effects of using cross-currency interest rate swaps and fair value hedge operations are disclosed in Notes 22 and 23.

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

19. 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 statutory capital amounts to EUR 2,000,000 thousand (31 December 2017: EUR 1,300,000 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.

As at 31 December 2018, the unpaid portion of the Bank's statutory capital in the amount of EUR 1,674,038 thousand (31 December 2017: EUR 985,038 thousand) is the amount of contributions that have not been made yet by the Bank's member countries and the amount of unallocated equity contributions totaling EUR 875,500 thousand (31 December 2017: EUR 175,500 thousand).

The Government of the Czech Republic made an additional contribution of EUR 7,000 thousand to the Bank's equity on 20 December 2018.

The Government of Romania made an additional contribution of EUR 4,000 thousand to the Bank's equity on 12 July 2018.

The Government of Mongolia made an additional contribution of EUR 1,909 thousand to the Bank's equity on 27 December 2017.

The paid-in capital of the International Investment Bank totaled EUR 325,962 thousand (31 December 2017: EUR 314,962 thousand).

(Thousands of euros)

19. Equity (continued)

Revaluation reserve for securities at fair value through other comprehensive income and revaluation reserve for property and equipment

Changes in the revaluation reserve for securities at fair value through other comprehensive income and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for securities	*Revaluation reserve for property and equipment*
At 1 January 2017	**(1,506)**	**12,945**
Net unrealized gains on available-for-sale securities	9,145	–
Realized gains on available-for-sale securities reclassified to the income statement	(7,399)	–
Revaluation of buildings	–	803
At 31 December 2017	**240**	**13,748**
Effect of adopting IFRS 9	2,043	–
At 1 January 2018	**2,283**	**13,748**
Net change in the fair value of securities at fair value through other comprehensive income	(7,398)	–
Change in the allowance for ECL on securities at fair value through other comprehensive income	300	–
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the consolidated income statement	(2,299)	–
Reclassification of accumulated profit from disposal of equity instruments at fair value through other comprehensive income to retained earnings	(252)	–
At 31 December 2018	**(7,366)**	**13,748**

Revaluation reserve for securities

The revaluation reserve for securities records fair value changes of available-for-sale (before 1 January 2018) and financial assets through FVOCI (after 1 January 2018).

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.

20. 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.

(Thousands of euros)

20. Commitments and contingencies (continued)

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 is exempt from any national or local direct taxes or duties effective in the territories of its member states. For taxation purposes, its subsidiaries are subject to the provisions of the effective Russian tax, currency and customs legislation.

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 2018, credit-related commitments of the Bank comprised credit-related commitments such as undrawn loan facilities, guarantees and reimbursement obligations, including under the Trade Financing Program.

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. Reimbursement obligations, which are irrevocable reimbursement obligations of the Group issued on behalf of banks issuing documentary letters of credit that are accepted and paid by foreign partner banks up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. 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 2018 and 31 December 2017.

	31 December 2018	***31 December 2017***
Undrawn loan facilities	108,601	116,161
Guarantees issued	63,987	15,425
Reimbursement obligations	17,021	32,812
	189,609	**164,398**
Less: allowance for impairment of credit-related commitments	(1,752)	–
Credit-related commitments	**187,857**	**164,398**

Changes in the gross carrying amount and relevant ECL related to guarantees issued for the year ended 31 December 2018 were as follows:

Guarantees issued	***Stage 1***	***Total***
Carrying amount at 1 January 2018, gross	**15,425**	**15,425**
New purchased or originated credit-related commitments	69,606	**69,606**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(17,094)	**(17,094)**
Translation differences	(3,950)	**(3,950)**
At 31 December 2018	**63,987**	**63,987**

(Thousands of euros)

20. Commitments and contingencies (continued)

Credit-related commitments (continued)

Guarantees issued	*Stage 1*	*Total*
Allowance for ECL at 1 January 2018	**54**	**54**
New purchased or originated credit-related commitments	2,083	**2,083**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(1,209)	**(1,209)**
At 31 December 2018	**928**	**928**

Changes in the gross carrying amount and relevant ECL related to the undrawn loan facilities for the year ended 31 December 2018 were as follows:

Undrawn loan facilities	*Stage 1*	*Stage 2*	*Total*
Carrying amount at 1 January 2018, gross	**116,094**	**68**	**116,162**
New purchased or originated credit-related commitments	497,819	15,067	**512,886**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(494,547)	(15,068)	**(509,615)**
Translation differences	(10,832)	–	**(10,832)**
At 31 December 2018	**108,534**	**67**	**108,601**

Undrawn loan facilities	*Stage 1*	*Stage 2*	*Total*
Allowance for ECL at 1 January 2018	**340**	**68**	**408**
New purchased or originated credit-related commitments	760	–	**760**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(741)	(1)	**(742)**
At 31 December 2018	**359**	**67**	**426**

Changes in the gross carrying amount and relevant ECL related to reimbursement obligations for the year ended 31 December 2018 were as follows:

Reimbursement obligations	*Stage 1*	*Total*
Carrying amount at 1 January 2018, gross	**32,812**	**32,812**
New purchased or originated credit-related commitments	20,745	**20,745**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(36,766)	**(36,766)**
Translation differences	230	**230**
At 31 December 2018	**17,021**	**17,021**

Reimbursement obligations	*Stage 1*	*Total*
Allowance for ECL at 1 January 2018	**402**	**402**
New purchased or originated credit-related commitments	727	**727**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(731)	**(731)**
At 31 December 2018	**398**	**398**

(Thousands of euros)

21. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 31 December 2018, the Group's non-cancelable operating lease rentals amount to EUR 3,326 thousand (31 December 2017: EUR 6,819 thousand) and will be settled within 1 month-4 years (31 December 2017: 1-5 years).

22. Interest income and interest expenses

Net interest income comprises:

	2018	*2017*
Interest income		
Interest income calculated using the EIR method		
Loans to customers	28,311	19,754
Loans to banks	8,896	6,908
Securities at fair value through other comprehensive income	6,528	–
Available-for-sale securities	–	6,006
Deposits with banks and other financial institutions, including cash and cash equivalents	1,492	3,252
Securities at amortized cost	697	–
Other	5	43
Other interest income		
Cross-currency interest rate swaps covering long-term currency risks	16,874	19,932
Total interest income	**62,803**	**55,895**
Interest expense		
Interest expenses calculated using the EIR method		
Debt securities issued	(32,875)	(27,851)
Long-term loans of banks	(2,044)	(2,377)
Funds raised under repurchase agreements	(772)	(1,940)
Due to banks and other financial institutions	(207)	(161)
Current customer accounts	(181)	(237)
Other	(65)	–
Other interest expenses		
Cross-currency interest rate swaps covering long-term currency risks	(3,047)	(1,542)
Total interest expenses	**(39,191)**	**(34,108)**
Net interest income	**23,612**	**21,787**

There was no interest income accrued on impaired loans issued for the year ended 31 December 2018 (2017: EUR 122 thousand).

(intentionally blank)

(Thousands of euros)

23. Net losses from operations with foreign currencies and derivatives

Net losses from operations with foreign currencies and derivatives comprise:

	2018	*2017*
Derivatives and operations with foreign currencies		
Net gains from operations with foreign currencies and derivatives	11,132	29,915
Net losses from revaluation of derivatives	(54,862)	(24,809)
Total derivatives and operations with foreign currencies	**(43,730)**	**5,106**
Fair value hedge operations		
Net gains from fair value hedge operations	–	1,016
Net gains/(losses) from revaluation of fair value hedge operations	1,125	(3,633)
Net losses from revaluation of the hedged object	(834)	2,553
Total fair value hedge operations	**291**	**(64)**
Translation differences		
Net gains/(losses) from revaluation of assets and liabilities in foreign currencies	38,397	(7,483)
Net losses from operations in foreign currencies and with derivatives	**(5,042)**	**(2,441)**

24. General and administrative expenses

General and administrative expenses comprise:

	2018	*2017*
Employee compensations and employment taxes	14,432	13,105
Depreciation of property, equipment and intangible assets	2,034	2,008
IT expenses, inventory and occupancy expenses	1,938	1,842
Expenses related to business travel, representative and accommodation expenses	790	805
Professional services	764	559
Other	484	553
General and administrative expenses	**20,442**	**18,872**

25. Risk management

Risk management framework

The Group's risk management policy is based on the conservative assessment approach and is mainly aimed at mitigation of 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 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 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.

(Thousands of euros)

25. 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 the 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 insuring the acceptable level of risk for aggregated positions, transparent distribution of 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 Bank, 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 Bank.

The Finance Committee determines approaches to forming the optimal structure of the balance sheet, taking into account information of the current and expected level of risks associated with assets and liabilities management within the established limits and other restrictions.

It also ensures management and control over the credit risk, market risk, operational risk, reputational risk, legal risk and liquidity risk and reviews the limit-setting offers. The Credit Committee manages the Group's loan portfolio in accordance with its effective lending policy, aligns operation of the Group's divisions in terms of the credit risk management and reviews the offers for setting credit risk limits in respect of the certain counterparties.

Committees meet on a regular basis and provide the Management Board with their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Group's performance.

During 2018, further development of the risk management system was aimed at implementation of Basel standards and best practices of development banks within the Group.

(Thousands of euros)

25. Risk management (continued)

Risk management system (continued)

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. During the reporting period, the Group sent its specialists to certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of impairment of loan assets.

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

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 Bank 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 shall be defined by the Risk Management Department and submitted for review by the Management Board and approval by the Board of Directors of the Bank.

The risk appetite shall be approved by the Board of Directors of the Bank on an annual basis for the next year and shall be a major factor of the Group's strategic limits determining the thresholds for the Group's key performance indicators and the Group's significant risks.

In determining the risk appetite, the Group assesses whether the specified risk appetite is acceptable in the current time period and whether it will be acceptable in the future, taking into account:

- Expectations of the founders concerning the level of profitability;
- International regulatory standards;
- Current and expected future volume of transactions;
- Current and expected future structure of significant risks;
- Current and expected future level of aggregate capital.

Based on the risk appetite determined by the Board of Directors, the Management Board annually approves the Group's limits, sublimits, and risk indicators, which should not exceed the target values of the risk appetite.

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 of 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 influencing 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.

(Thousands of euros)

25. Risk management (continued)

Risk management system (continued)

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.

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 discharged 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 consolidated 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.

Pursuant to the established procedure, the Credit Committee establishes the limits per borrower/group of related borrowers. The Credit Committee structures the transaction to minimize credit risk. The Loan Operations Analysis Department, together with the Risk Management Department, is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit, it must be approved by the Credit Committee and, subsequently, by the Management Board and/or the Board of Directors/Board of Governors, within their powers.

(Thousands of euros)

25. Risk management (continued)

Credit risk (continued)

The corporate loan/credit application and appropriate project documents are reviewed by the Customer Relations Department. Based on the background information on the deal, the Customer Relations Department takes a decision whether to continue work with the client. In case of a positive decision, the Loan Operations Analysis Department makes full examination of the deal and sends the full set of required documents for reviewing the loan/credit application to the Legal Department, Risk Management Department, Security Department, Strategic Development and Analysis Department, Internal Control Department, Compliance Control Department, and Structured and Debt Financing Department. These departments prepare expert opinions in the framework of their competence. The loan/credit application is subject to review by the Credit Committee based on the Loan Operations Analysis Department's materials and expert opinions received from the departments. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing the application and making a decision by the Credit Committee (if such issue falls within its competence); Step 2 includes making a decision by the Management Board of the Bank (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Management Board of the Bank to the member country in order to obtain the final approval from the country of origin of the borrower or making a decision by the Board of Directors/Board of Governors, within their powers.

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration by industry.

To mitigate credit risk, the Group limits concentrations of exposure by individual customers, counterparties and issuers, groups 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 corporate and personal guarantees, as well as monitoring availability and value of collateral.

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:

- Pledge of equipment and goods in turnover;
- Pledge of real estate (mortgage) and title;
- Pledge of construction investment agreements.

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 borrower's default considering the time needed for such sale, litigation and other costs. Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). Where the market value of the collateral is assessed as impaired, the borrowers are usually required to provide additional collateral.

Portfolio of loans to banks and customers (less allowance for impairment) by type of collateral is analyzed in Notes 9 and 10.

(Thousands of euros)

25. Risk management (continued)

Credit risk (continued)

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 10.

Maximum credit risk exposure by credit related commitments represents the whole amount of these commitments (Note 20).

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.

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 – standards 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 (Note 6).

The following table provides information on the credit quality of long-term loans to banks and trade financing loans (Note 10) and loans to customers (Note 11) as at 31 December 2018 and 31 December 2017:

31 December 2018	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans				
Not past due (Stage 1)	65,632	(478)	65,154	0.7
Total trade financing loans	**65,632**	**(478)**	**65,154**	**0.7**
Long-term loans to banks				
Not past due (Stage 1)	112,885	(1,407)	111,478	1.2
Total long-term loans to banks	**112,885**	**(1,407)**	**111,478**	**1.2**
Loans to customers at amortized cost				
Not past due (Stage 1, 2)	548,487	(2,357)	546,130	0.4
Loans more than 90 days past due (Stage 3)	14,694	(14,694)	–	100.0
Total loans to customers at amortized cost	**563,181**	**(17,051)**	**546,130**	**3.03**
Loans to customers at fair value through other comprehensive income				
Not past due (Stage 1)	30,073	–	30,073	–
Total loans to customers at fair value through other comprehensive income	**30,073**	**–**	**30,073**	**–**
Total loans	**771,771**	**(18,936)**	**752,835**	**2.5**

(Thousands of euros)

25. Risk management (continued)

Credit risk (continued)

31 December 2017	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans				
Not past due	26,537	–	26,537	–
Total trade financing loans	**26,537**	**–**	**26,537**	**–**
Long-term loans to banks				
Not past due	168,997	–	168,997	–
Loans more than 90 days past due	15,254	(9,153)	6,101	60.0
Total long-term loans to banks	**184,251**	**(9,153)**	**175,098**	**5.0**
Loans to customers				
Not past due	446,910	–	446,910	–
Restructured loans	6,008	(300)	5,708	5.0
Loans more than 90 days past due	15,151	(5,255)	9,896	34.7
Total loans to customers	**468,069**	**(5,555)**	**462,514**	**1.2**
Total loans	**678,857**	**(14,708)**	**664,149**	**2.2**

Impairment assessment

The adoption of IFRS 9 fundamentally changes the Group's accounting for allowances for expected credit losses by replacing the IAS 39 incurred loss approach with the forward-looking expected credit loss ("ECL") approach. Starting from 1 January 2018, the Group recognizes the provision for ECL for all loans and other debt financial instruments not measured at FVPL, as well as for loan commitments and financial guarantee contracts, which are collectively referred to as financial instruments in this section. According to IFRS 9, requirements for impairment are not applicable to equity instruments. The allowance for ECL is based on the 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 will be equal to 12-month expected credit losses (12-month ECL). 12-months ECL are part of lifetime ECL and represent ECL arising from defaults on the financial instrument expected to occur 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 has decreased to such an 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.

(Thousands of euros)

25. Risk management (continued)

Credit risk (continued)

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. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in 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. LGD is calculated as a difference between contractual cash flows and cash flows a creditor expects to receive, including from the sale of collateral. This estimate is usually expressed as a percentage of EAD.

To calculate the macroeconomic adjustment for ECL the Group uses a wide range of forecast information as economic inputs for its models, including:

- 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, such as Bloomberg, IMF, BMI, World Bank, central banks, and national statistical agencies.

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 Credit Committee on a monthly basis.

(Thousands of euros)

25. Risk management (continued)

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.

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 decision making matrix related to liquidity management includes a strategic level of liquidity management (the Council), tactical level (the Management Board and special-purpose committees) and operational level (responsible structural divisions). The Asset and Liability Management Department (DUAP or ALM Unit) is responsible for organizing and aligning management of the Group's liquidity position. 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. As a result of applying these instruments, DUAP issues appropriate recommendations to responsible structural divisions.

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 due to liquidity reserves, namely securities recognized in the Group's balance sheet and included in the Lombard lists of the European Central Bank and Bank of Russia, and nostro accounts 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 2018, the liquidity buffer amounts to EUR 135.1 million (31 December 2017: EUR 83.5 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.

	2018	***2017***
Less than 1 month	17,303	25,835
1 to 3 months	34,126	72,744
3 months to 1 year	40,539	41,489
1 to 5 years	59,984	24,330
Over 5 years	35,905	–
Credit-related commitments	**187,857**	**164,398**

(Thousands of euros)

25. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted debt securities at fair value through other comprehensive income and equity instruments were included in the “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 2018							*31 December 2017*						
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets														
Cash and cash equivalents	49,214	26	–	–	–	–	**49,240**	65,445	652	–	–	–	–	**66,097**
Deposits with banks and other financial institutions	–	–	–	47,396	–	–	**47,396**	5,026	7,097	25,034	8,732	–	–	**45,889**
Derivative financial assets	–	28	65	3,627	–	–	**3,720**	935	–	5,072	1,754	–	–	**7,761**
Securities at fair value through other comprehensive income	204,332	–	–	–	–	–	**204,332**	–	–	–	–	–	–	**–**
Available-for-sale securities	–	–	–	–	–	–	**–**	138,737	54,783	21,907	–	–	–	**215,427**
Securities at amortized cost	–	84	86	4,420	36,875	–	**41,465**	–	–	–	–	–	–	**–**
Loans to banks	465	34,531	42,227	91,380	8,029	–	**176,632**	–	53,491	49,786	90, 935	–	6,101	**201,635**
Loans to customers	6,751	11,986	42,185	215,571	299,710	–	**576,203**	8,965	8,719	77,334	147,277	210,323	9,896	**462,514**
Other financial assets	581	310	2	–	–	–	**893**	489	57	19	163	–	–	**728**
Total assets	**261,343**	**46,965**	**84,565**	**362,394**	**344,614**	**–**	**1,099,881**	**220,919**	**124,799**	**179,152**	**248,861**	**210,323**	**15,997**	**1,000,051**
Liabilities														
Due to banks and other financial institutions	(35,001)	(32,871)	–	–	–	–	**(67,872)**	–	(30,982)	(34,059)	(470)	–	–	**(65,511)**
Current customer accounts	(9,716)	–	–	–	–	–	**(9,716)**	(8,593)	–	–	–	–	–	**(8,593)**
Derivative financial liabilities	(1,052)	(1,380)	(14,954)	(33,557)	–	–	**(50,943)**	–	(89)	(1,213)	(13,771)	–	–	**(15,073)**
Long-term loans of banks	–	(279)	(212)	(18,391)	(38,671)	–	**(57,553)**	–	(24)	(59,967)	(18,819)	(16,782)	–	**(95,592)**
Debt securities issued	(732)	(3,406)	(134,648)	(484,668)	–	–	**(623,454)**	–	(3,906)	(26,519)	(478,788)	–	–	**(509,213)**
Other financial liabilities	(116)	(849)	(156)	(119)	(529)	–	**(1,769)**	(762)	(953)	(396)	(37)	–	–	**(2,148)**
Total liabilities	**(46,617)**	**(38,785)**	**(149,970)**	**(536,735)**	**(39,200)**	**–**	**(811,307)**	**(9,355)**	**(35,954)**	**(122,154)**	**(511,885)**	**(16,782)**	**–**	**(696,130)**
Net position	**214,726**	**8,180**	**(65,405)**	**(174,341)**	**305,414**	**–**	**288,574**	**211,564**	**88,845**	**56,998**	**(263,024)**	**193,541**	**15,997**	**303,921**
Accumulated net position	**214,726**	**222,906**	**157,501**	**(16,840)**	**288,574**	**288,574**		**211,564**	**300,409**	**357,407**	**94,383**	**287,924**	**303,921**	

(Thousands of euros)

25. 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 2018 and 31 December 2017 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 expects that it will have to make payment on current bond offers.

At 31 December 2018	*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	35,001	32,871	–	–	–	**67,872**
Current customer accounts	9,716	–	–	–	–	**9,716**
Net settled derivative financial instruments	1,097	–	–	–	–	**1,097**
Gross settled derivative financial instruments						
- Contractual amounts payable	596	50,905	175,068	504,272	–	**730,841**
- Contractual amounts receivable	(1,216)	(53,047)	(165,872)	(474,441)	–	**(694,576)**
Long-term loans of banks	–	565	1,155	24,540	45,897	**72,157**
Debt securities issued	907	6,199	154,542	510,187	–	**671,835**
Other liabilities	116	849	156	119	529	**1,769**
Total undiscounted financial liabilities	**46,217**	**38,342**	**165,049**	**564,677**	**46,426**	**860,711**

At 31 December 2017	*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	–	31,331	34,783	470	–	**66,584**
Current customer accounts	8,593	–	–	–	–	**8,593**
Net settled derivative financial instruments	(904)	–	–	–	–	**(904)**
Gross settled derivative financial instruments						
- Contractual amounts payable	–	37,664	155,912	348,158	–	**541,734**
- Contractual amounts receivable	–	(42,735)	(169,034)	(350,742)	–	**(562,511)**
Long-term loans of banks	–	60,496	230	19,498	19,624	**99,848**
Debt securities issued	–	6,935	46,200	523,383	–	**576,518**
Other liabilities	762	953	396	37	–	**2,148**
Total undiscounted financial liabilities	**8,451**	**94,644**	**68,487**	**540,804**	**19,624**	**732,010**

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.

Analysis of financial liabilities by remaining contractual maturities

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 Bank performs overall management of market risk.

The Finance Committee coordinates the Group's market risk management policy, and reviews and provides recommendations on management of market risks to the Management Board.

(Thousands of euros)

25. Risk management (continued)

Market risk (continued)

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 in order to increase the Group's income on a daily basis.

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 2018 and 31 December 2017, final data on the value at risk (VaR) assessment in relation to currency and price risks assumed by the Group are represented as follows:

	2018	***2017***
Fixed income securities price risk	1,341	1,005
Currency risk	75	45
Equity securities price risk	–	125

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.

(Thousands of euros)

25. 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 2018 and 31 December 2017 is presented below:

	31 December 2018					*31 December 2017*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Non-derivative financial assets										
Cash and cash equivalents	41,332	4,912	927	2,069	**49,240**	50,488	1,730	13,501	378	**66,097**
Deposits with banks and other financial institutions	47,396	–	–	–	**47,396**	28,936	16,953	–	–	**45,889**
Securities at fair value through other comprehensive income	99,347	97,401	7,584	–	**204,332**	–	–	–	–	**–**
Available-for-sale securities	–	–	–	–	**–**	111,516	102,202	–	1,709	**215,427**
Securities at amortized cost	14,957	26,508	–	–	**41,465**	–	–	–	–	
Long-term loans to banks	133,242	43,390	–	–	**176,632**	147,253	54,382	–	–	**201,635**
Loans to customers	323,348	123,807	80,551	48,497	**576,203**	247,804	108,254	64,097	42,359	**462,514**
Other financial assets	445	377	71		**893**	186	323	214	5	**728**
Total non-derivative financial assets	**660,067**	**296,395**	**89,133**	**50,566**	**1,096,161**	**586,183**	**283,844**	**77,812**	**44,451**	**992,290**
Liabilities										
Due to banks and other financial institutions	(67,872)	–	–	–	**(67,872)**	(34,608)	(29,337)	–	(1,566)	**(65,511)**
Current customer accounts	(9,602)	(114)	–	–	**(9,716)**	(8,481)	(112)	–	–	**(8,593)**
Long-term loans of banks	(22,994)	(22,113)	–	(12,446)	**(57,553)**	(82,694)	–	–	(12,898)	**(95,592)**
Debt securities issued	(170,085)	–	(230,032)	(223,337)	**(623,454)**	(90,017)	–	(267,112)	(152,084)	**(509,213)**
Other financial liabilities	(652)	(227)	(870)	(20)	**(1,769)**	(546)	(175)	(1,427)	–	**(2,148)**
Total non-derivative financial liabilities	**(271,205)**	**(22,454)**	**(230,902)**	**(235,803)**	**(760,364)**	**(216,346)**	**(29,624)**	**(268,539)**	**(166,548)**	**(681,057)**
Net balance sheet position (excluding derivative financial instruments)	**388,862**	**273,941**	**(141,769)**	**(185,237)**	**335,797**	**369,837**	**254,220**	**(190,727)**	**(122,097)**	**311,233**
Derivative financial instruments										
Claims	258,078	–	192,297	206,977	**657,352**	190,457	–	197,443	132,639	**520,539**
Liabilities	(394,056)	(237,679)	(53,272)	(19,568)	**(704,575)**	(296,697)	(220,909)	–	(10,245)	**(527,851)**
Net balance sheet position, including derivative financial instruments	**252,884**	**36,262**	**(2,744)**	**2,172**	**288,574**	**263,597**	**33,311**	**6,716**	**297**	**303,921**

(Thousands of euros)

25. Risk management (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such fluctuations but may also reduce or create losses in the event that unexpected movements arise.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on net interest income for one year, based on financial assets and financial liabilities with floating rates. The sensitivity of equity is calculated by revaluing inactive traded available-for-sale securities with fixed rates as at 31 December 2018 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2018	*2018*	*2018*
BUBOR	0.20%	5	–
EURIBOR	0.20%	872	–
Ger Gov (Average)	0.75%	(2,049)	(3,448)
LIBOR USD	0.50%	344	–
LEONIA	0.10%	9	–
MOSPRIME	0.75%	699	–
PRIBOR	0.80%	(256)	–
ROBOR	0.80%	(1,274)	–
US Treasuries (Average)	1.00%	2,884	(4,024)
OFZ (federal loan bonds) (Average)	1.25%	(2,590)	(210)

	Decrease in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2018	*2018*	*2018*
BUBOR	0.05%	(1)	–
EURIBOR	0.01%	(44)	–
Ger Gov (Average)	0.40%	1,093	1,839
LIBOR USD	0.15%	(103)	–
LEONIA	0.05%	(4)	–
MOSPRIME	1.00%	(933)	–
PRIBOR	0.15%	48	–
ROBOR	0.40%	637	–
US Treasuries (Average)	0.50%	(1,442)	2,012
OFZ (federal loan bonds) (Average)	1.40%	2,897	236

	Increase in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2017	*2017*	*2017*
RGBEY	0.75%	(719)	–
LIBOREUR	0.25%	792	–
LIBOR USD	0.70%	(214)	–
3Y Swap-RON	6.74%	(15,479)	–
YTM 5Y USTreasuries	1.30%	1,761	–
YTM 5Y German Treasuries	0.50%	962	–

	Decrease in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2017	*2017*	*2017*
RGBEY	1.75%	1,677	–
LIBOR EUR	0.01%	(32)	–
LIBOR USD	0.08%	24	–
3Y Swap-RON	4.47%	10,266	–
YTM 5Y USTreasuries	0.50%	(677)	–
YTM 5Y German Treasuries	0.40%	(192)	–

(Thousands of euros)

25. Risk management (continued)

Market risk (continued)

Indices listed in the tables above:

BUBOR - Budapest Interbank HUF Offered Rate (1 and 3 months)

EURIBOR - Europe Interbank EUR Offered Rate (3 and 6 months)
Ger Gov (Average) - German Government Bonds Aggregate Effective Yield Until Redemption

RGBEY – Russian Government Bonds Effective Yield Until Redemption

LIBOR EUR – London Interbank EUR Offered Rate (3 and 6 months)

LIBOR USD – London Interbank USD Offered Rate (1, 3 and 6 months)

LEONIA - LEv OverNight Index Average

MOSPRIME - indicative rate of issuing RUB-denominated loans (deposits) on Moscow market (3 months)

PRIBOR - Prague Interbank CZK Offered Rate (3 months)

ROBOR - Romanian Interbank RON Offered Rate (3 months)

US Treasuries (Average) - US Government Bonds Aggregate Effective Yield Until Redemption

OFZ (Average) - Russian Federal Loan Bonds Aggregate Effective Yield Until Redemption

3Y Swap-RON – three-year bid rate in Romanian leu on the swap market

YTM 5Y USTreasuries – yield-to-maturity of five-year US Treasuries

YTM 5Y German Treasuries – yield-to-maturity of five-year Germany Treasuries.

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.

26. 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)

26. 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 table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

	Level 1 31 December 2018	*Level 2 31 December 2018*	*Level 3 31 December 2018*	*Total 31 December 2018*
Assets measured at fair value				
Derivative financial assets	–	3,720	–	**3,720**
Government bonds of member countries	41,272	–	–	**41,272**
Corporate bonds	115,960	46,421	–	**162,381**
Quoted equity instruments	–	5	–	**5**
Loans to customers at fair value through other comprehensive income	30,073	–	–	**30,073**
Investment property	–	–	20,788	**20,788**
Property and equipment – buildings	–	–	66,569	**66,569**
Liabilities measured at fair value				
Derivative financial liabilities	–	50,943	–	**50,943**
Assets for which fair values are disclosed				
Cash and cash equivalents	276	48,964	–	**49,240**
Deposits with banks and other financial institutions	–	–	47,396	**47,396**
Securities at amortized cost	–	37,347	–	**37,347**
Loans to banks at amortized cost	–	–	177,186	**177,186**
Loans to customers	–	–	564,178	**564,178**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	67,872	**67,872**
Current customer accounts	–	–	9,716	**9,716**
Long-term loans of banks	–	–	57,553	**57,553**
Debt securities issued	–	627,394	–	**627,394**

(intentionally blank)

(Thousands of euros)

26. Fair value measurements (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

	Level 1 2017	*Level 2 2017*	*Level 3 2017*	*Total 2017*
Assets measured at fair value				
Derivative financial assets	–	7,761	–	**7,761**
Government bonds of member countries	45,891	–	–	**45,891**
Corporate bonds	149,277	18,544	–	**167,821**
Quoted equity instruments	1,710	5	–	**1,715**
Investment property	–	–	21,853	**21,853**
Property and equipment – buildings	–	–	67,572	**67,572**
Liabilities measured at fair value				
Derivative financial liabilities	–	15,073	–	**15,073**
Assets for which fair values are disclosed				
Cash and cash equivalents	85	66,012	–	**66,097**
Deposits with banks and other financial institutions	–	–	45,889	**45,889**
Loans to banks	–	–	201,743	**201,743**
Loans to customers	–	–	465,973	**465,973**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	65,511	**65,511**
Current customer accounts	–	–	8,593	**8,593**
Long-term loans of banks	–	–	95,592	**95,592**
Debt securities issued	–	514,893	–	**514,893**

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 2018	*Fair value 31 December 2018*	*Unrecognized gain/(loss) 31 December 2018*	*Carrying amount 31 December 2017*	*Fair value 31 December 2017*	*Unrecognized gain/(loss) 31 December 2017*
Financial assets						
Cash and cash equivalents	49,240	49,240	–	66,097	66,097	–
Deposits with banks and other financial institutions	47,396	47,396	–	45,889	45,889	–
Securities at amortized cost	41,465	37,347	(4,118)	–	–	–
Loans to banks	176,632	177,186	554	201,635	201,743	108
Loans to customers at amortized cost	546,130	564,178	18,048	462,514	465,973	3,459
Financial liabilities						
Due to banks and other financial institutions	67,872	67,872	–	65,511	65,511	–
Current customer accounts	9,716	9,716	–	8,593	8,593	–
Long-term loans of banks	57,553	57,553	–	95,592	95,592	–
Debt securities issued	623,454	627,394	(3,940)	509,213	514,893	(5,680)
Total unrecognized change in unrealized fair value			**10,544**			**(2,113)**

(Thousands of euros)

26. Fair value measurements (continued)

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 2018 and 31 December 2017 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.

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 2018 and 31 December 2017.

Investment property

The Group engages an independent appraiser for the investment property fair value measurement. Fair values of investment properties are 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 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.

Management believes that at 31 December 2018 fair values of investment properties do not differ significantly from their carrying amounts at the above date.

(Thousands of euros)

26. Fair value measurements (continued)

Methodologies and assumptions (continued)

Property and equipment – buildings

The Group engages an independent appraiser for the real estate property fair value measurement. 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.

Management believes that at 31 December 2018 fair values of real estate properties do not differ significantly from their carrying amounts at the above date.

There were no transfers of financial instruments between Level 1 and Level 2 in 2018 and 2017.

Changes in Level 3 assets and liabilities at fair value

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

	At 1 January 2018	*Gains/(losses) recorded in profit or loss*	*Gains/(losses) recorded in comprehen-sive income*	*Additions/ (disposals)*	*Transfer to property and equipment*	*At 31 December 2018*
Assets						
Property and equipment – buildings	67,572	(1,124)	–	121	–	66,569
Investment property	21,853	–	–	(1,065)	–	20,788
Total	**89,425**	**(1,124)**	**–**	**(944)**	**–**	**87,357**

	At 1 January 2017	*Gains/(losses) recorded in profit or loss*	*Gains/(losses) recorded in comprehen-sive income*	*Additions*	*Transfer to property and equipment*	*At 31 December 2017*
Assets						
Property and equipment – buildings	67,527	(1,108)	803	350	–	67,572
Investment property	21,840	(26)	–	39	–	21,853
Total	**89,367**	**(1,134)**	**803**	**389**	**–**	**89,425**

27. 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

(Thousands of euros)

27. Segment information (continued)

Management monitors the operating results of its business units 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 2018	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income calculated using the EIR method	37,647	8,248	34	**45,929**
Other interest income	–	16,874	–	**16,874**
Fee and commission income	1,779	–	–	**1,779**
Net gains from operations with securities at fair value through profit or loss	–	92	–	**92**
Net gains from operations with securities at fair value through other comprehensive income	–	2,299	–	**2,299**
Dividend income	–	6	–	**6**
Income from lease of investment property	–	–	3,956	**3,956**
Other segment income	306	–	894	**1,200**
Total income	**39,732**	**27,519**	**4,884**	**72,135**
Interest expenses calculated using the EIR method	(23,035)	(13,109)	–	**(36,144)**
Other interest expenses	–	(3,047)	–	**(3,047)**
Fee and commission expense	(115)	(193)	(90)	**(398)**
Net losses from operations with foreign currencies and derivatives	–	(5,062)	20	**(5,042)**
Allowance for credit losses from impairment of financial instruments	(553)	389	3	**(161)**
Cost of inventories sold	–	–	(48)	**(48)**
Other segment expenses	(698)	(1)	(532)	**(1,231)**
Segment results	**15,331**	**6,496**	**4,237**	**26,064**
Other unallocated expenses				**(20,442)**
Profit for the period				**5,622**
Development portfolio	754,236	107,726	–	**861,962**
Other segment assets	–	238,242	94,153	**332,395**
Total segment assets	**754,236**	**345,968**	**94,153**	**1,194,357**
Total segment liabilities	**450,949**	**360,930**	**6,479**	**818,358**
Other segment information				
Capital expenditures	–	–	572	**572**

(Thousands of euros)

27. Segment information (continued)

The Group's management separates 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.

31 December 2017	***Credit investment activity***	***Treasury***	***Other operations***	***Total***
Income				
External customers				
Interest income calculated using the EIR method	26,662	9,263	38	**35,963**
Other interest income	–	19,932	–	**19,932**
Fee and commission income	1,763	–	–	**1,763**
Net gains from available-for-sale investment securities	–	7,399	–	**7,399**
Dividend income	–	123	–	**123**
Income from lease of investment property	–	–	4,034	**4,034**
Other segment income	329	–	214	**543**
Total income	**28,754**	**36,717**	**4,286**	**69,757**
Interest expenses calculated using the EIR method	(18,656)	(13,910)	–	**(32,566)**
Other interest expenses	–	(1,542)	–	**(1,542)**
Fee and commission expense	(16)	(109)	(8)	**(133)**
Net losses from operations with foreign currencies and derivatives	–	(2,462)	21	**(2,441)**
Allowance for impairment of financial assets	(12,165)	–	29	**(12,136)**
Net losses from revaluation of investment property	–	–	(26)	**(26)**
Other segment expenses	(79)	(23)	(934)	**(1,036)**
Segment results	**(2,162)**	**18,671**	**3,368**	**19,877**
Other unallocated expenses				**(18,872)**
Profit for the period				**1,005**
Development portfolio	648,404	104,932	–	**753,336**
Other segment assets	15,997	229,906	96,801	**342,704**
Total segment assets	**664,401**	**334,838**	**96,801**	**1,096,040**
Total segment liabilities	**359,914**	**334,477**	**5,983**	**700,378**
Other segment information				
Capital expenditures	–	–	1,013	**1,013**

In 2018, the Group's revenue from lease operations with two external counterparties (31 December 2017: two external counterparties) exceeded 20% of the Group's total revenue (2018: EUR 2,674 thousand; 2017: EUR 2,996 thousand).

(Thousands of euros)

27. Segment information (continued)

Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the years ended 31 December 2018 and 31 December 2017 is presented in the table below:

	31 December 2018				***31 December 2017***			
	Russia	***Other member countries***	***Other countries***	***Total***	***Russia***	***Other member countries***	***Other countries***	***Total***
Interest income calculated using the EIR method	10,361	25,239	10,329	**45,929**	9,346	17,417	9,200	**35,963**
Other interest income	8,174	269	8,431	**16,874**	5,376	346	14,210	**19,932**
Income from lease of investment property	3,731	225	–	**3,956**	3,860	174	–	**4,034**

Non-current assets include investment property.

(intentionally blank)

(Thousands of euros)

27. 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 assets and liabilities as at 31 December 2018 and 31 December 2017 is presented below:

	31 December 2018										
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Republic of Cuba*	*Other countries*	*Total*
Assets											
Cash and cash equivalents	1,098	734	1,108	3,073	808	–	–	4	–	42,415	**49,240**
Deposits with banks and other financial institutions	18,776	–	–	–	–	–	–	–	–	28,620	**47,396**
Derivative financial assets	65	–	–	–	–	–	–	–	–	3,655	**3,720**
Securities at fair value through other comprehensive income	12,429	15,037	10,003	1,149	–	–	–	42,711	–	123,003	**204,332**
Securities at amortized cost	–	–	–	–	–	–	–	–	–	41,465	**41,465**
Long-term loans to banks	–	–	–	–	–	48,431	24,412	–	49,416	54,373	**176,632**
Loans to customers	99,908	134,543	71,916	89,601	34,454	26,805	21,935	–	–	97,041	**576,203**
Other financial assets	320	–	191	–	–	43	–	–	–	339	**893**
Assets	**132,596**	**150,314**	**83,218**	**93,823**	**35,262**	**75,279**	**46,347**	**42,715**	**49,416**	**390,911**	**1,099,881**
Liabilities											
Due to banks and other financial institutions	–	47,871	–	–	–	–	–	–	–	20,001	**67,872**
Derivative financial liabilities	20,796	–	–	–	–	–	–	–	–	30,147	**50,943**
Long-term loans of banks	–	–	–	–	12,446	–	–	–	–	45,107	**57,553**
Long-term securities issued	230,032	–	333,977	30,179	–	–	–	29,266	–	–	**623,454**
Other financial liabilities	1,606	–	–	–	–	–	–	–	–	163	**1,769**
Liabilities	**252,434**	**47,871**	**333,977**	**30,179**	**12,446**	**–**	**–**	**29,266**	**–**	**95,418**	**801,591**

(Thousands of euros)

27. Segment information (continued)

Geographical information (continued)

	31 December 2017										
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Republic of Cuba*	*Other countries*	*Total*
Assets											
Cash and cash equivalents	1,209	792	226	35	–	–	–	36	–	63,799	**66,097**
Deposits with banks and other financial institutions	3,082	–	–	–	–	32,132	–	–	–	10,675	**45,889**
Derivative financial assets	3,340	–	–	–	–	–	–	–	–	4,421	**7,761**
Available-for-sale investment securities	11,947	30,098	–	10,010	13,817	–	–	34,107	–	115,448	**215,427**
Loans to banks	89,545	–	–	–	–	33,735	25,252	–	49,863	3,240	**201,635**
Loans to customers	81,817	57,694	73,185	60,464	42,910	24,425	–	49,967	–	72,052	**462,514**
Other financial assets	382	6	–	–	5	5	–	1	–	329	**728**
Assets	**191,322**	**88,590**	**73,411**	**70,509**	**56,732**	**90,297**	**25,252**	**84,111**	**49,863**	**269,964**	**1,000,051**
Liabilities											
Due to banks and other financial institutions	1,460	–	–	7,508	–	–	–	1,566	–	54,977	**65,511**
Derivative financial liabilities	4,480	–	1,213	–	–	–	–	–	–	9,380	**15,073**
Long-term loans of banks	9,959	7,470	–	–	20,367	–	–	–	–	57,796	**95,592**
Long-term securities issued	266,191	–	212,869	30,153	–	–	–	–	–	–	**509,213**
Other financial liabilities	1,658	33	15	8	–	237	–	–	–	197	**2,148**
Liabilities	**283,748**	**7,503**	**214,097**	**37,669**	**20,367**	**237**	**–**	**1,566**	**–**	**122,350**	**687,537**

Other countries include non-member countries.

(Thousands of euros)

28. 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 2018 and 31 December 2017, and related expenses and income for the year ended 31 December 2018 and 31 December 2017 are as follows:

	Related party	*31 December 2018* *Carrying amount*	*31 December 2017* *Carrying amount*
Consolidated statement of financial position			
Current customer accounts	Key management personnel	1,577	1,420
Other assets	Key management personnel	21	–
Other liabilities	Key management personnel	769	593

	Related party	*2018* *Income/ (expense)*	*2017* *Income/ (expense)*
Consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(33)	(52)
Net interest expense after allowance for loan impairment		**(33)**	**(52)**
Expenses from operating activities		**(33)**	**(52)**
Employee benefits	Key management personnel	(1,687)	(1,398)
Compensation for travel expenses and medical insurance	Key management personnel	(36)	(32)
Operating expenses		**(1,723)**	**(1,430)**
Net loss for the period		**(1,756)**	**(1,482)**

(intentionally blank)

(Thousands of euros)

29. Changes in liabilities arising from financing activities

	Notes	*Debt securities issued*	*Long-term loans of banks*	*Total liabilities arising from financing activities*
Carrying amount at 31 December 2016		**272,528**	**73,349**	**345,877**
Additions		348,661	36,185	**384,846**
Repayment		(88,290)	(13,451)	**(101,741)**
Interest paid		(24,522)	(1,690)	**(26,212)**
Translation differences		(26,095)	(1,178)	**(27,273)**
Non-cash transactions		(920)	–	**(920)**
Interest accrued		27,851	2,377	**30,228**
Carrying amount at 31 December 2017		**509,213**	**95,592**	**604,805**
Additions		228,798	20,845	**249,643**
Repayment		(76,792)	(60,455)	**(137,247)**
Interest paid		(31,371)	(734)	**(32,105)**
Translation differences		(39,269)	1,094	**(38,175)**
Interest accrued		32,875	1,211	**34,086**
Carrying amount at 31 December 2018		**623,454**	**57,553**	**681,007**

Translation differences represent a daily revaluation of liabilities denominated in a currency other than the euro. The Group uses derivatives to mitigate currency risks (Note 7). As at 31 December 2018, interest of RUB 13,636 thousand (31 December 2017: EUR 15,453 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.

30. Capital adequacy

The capital adequacy ratio is the most important financial indicator characterizing 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 2018, this minimum level was 8% (31 December 2017: 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 2018 (31 December 2017: 25%).

The following table shows the composition of the Group's capital position calculated in accordance with the Basel Accord (Basel II) as at 31 December 2018 and 31 December 2017.

	31 December 2018	*31 December 2017*
Capital		
Tier 1 capital	368,749	380,443
Tier 2 capital	6,381	13,988
Total regulatory capital	**375,130**	**394,431**
Risk-weighted assets		
Credit risk	863,716	821,863
Market risk	188,040	177,273
Operational risk	41,472	43,411
Total risk-weighted assets	**1,093,228**	**1,042,547**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	34.39%	37.83%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	33.73%	36.49%