Independent auditor’s report
on the consolidated financial statements of the
International Investment Bank
and its subsidiary
for 2021

February 2022

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Independent auditor's report

To the Board of Governors of International Investment Bank

Opinion

We have audited the consolidated financial statements of International Investment Bank and its subsidiary (hereinafter - the "Bank" or the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, 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 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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.

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Allowance for expected credit losses ("ECL") on loans to banks and loans to customers

Estimation of the allowance for ECL on loans to banks and loans to customers in accordance with IFRS 9 is a key area of judgment for the Group's management. Identification of factors of significant credit risk increase, considering the change in the risk of default occurring over the remaining life of the financial instrument, estimation of default probability and loss given default involve significant judgments, assumptions and analysis of various factors, including financial and non-financial information by counterparty, macroeconomic projections and estimated future repayment proceeds. In addition, the Covid-19 outbreak has significantly impacted local economies. The deterioration in credit quality of financial assets, as a result of the pandemic and the related measures have impact on ECL measurement, including identification of significant increase in credit risk, model and parameter updates, use of forward-looking information. The use of different models and assumptions can significantly affect the level of allowance for ECL on loans to banks and loans to customers. Due to the significance of such loans, which account for 64% of the total consolidated assets, and the significant use of judgments, the assessment of the allowance for ECL on loans to banks and loans to customers is a key audit matter. The information on ECL on loans to banks and loans to customers is provided in Note 11 Loans to banks, Note 12 Loans to customers, Note 16 Allowances for expected credit losses and Note 26 Risk management to the consolidated financial statements.	We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of loans to banks and loans to customers and controls over ECL calculations including the quality of underlying data and systems. For ECL for loans to banks and loans to customers calculated on an individual basis, we tested the assumptions underlying the impairment identification and quantification focusing on loan cases with the most significant potential impact on the consolidated financial statements. We assessed the Group's assumptions on the expected future cash flows, including the value of realisable collateral and estimates of recovery on default based on our own understanding and available market information. For ECL for loans to banks and loans to customers calculated on a collective basis we evaluated the methodologies, inputs and assumptions used (probability of default, loss given default, significant changes in credit risk and forward-looking elements), especially how the Group addressed the economic impacts of the Covid-19 pandemic in its impairment models. We involved credit risk specialists to review the methodologies and the assumptions used, including model validations. We also assessed whether the relevant disclosures in the consolidated financial statement appropriately reflect the Group's exposure to credit risk and are compliant with the IFRSs.

Determination of fair value of real estate properties

The Group has real estate properties presented in the consolidated statement of financial position as 'investment property' and as 'buildings' within 'property, equipment and intangible assets'. The aggregate value of these real estate properties represents 5% of	We involved a valuation expert to assist us in our audit procedures. Our audit procedures included, among others, evaluation of the assumptions and methodologies used by management, and testing input data of the valuation model by comparing inputs used by

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the total consolidated assets. The Group measures investment properties at fair value and uses the revaluation model for the buildings.

Valuation of investment properties and buildings ("Property valuations") is a significant judgmental area and it is highly dependent on observable and unobservable inputs and parameters (gross income less non-recoverable expenses, rents, vacancy periods, discount rates). Property valuations are performed internally by management at year-end. The significance and subjectivity of these Property valuations make them a key audit matter.

Information on Property valuations is included in Note 13 Investment property, Note 14 Property, equipment and intangible assets, and Note 27 Fair value measurements, to the consolidated financial statements.

the Group to available market prices and other observable information.

We also assessed whether the Group's relevant disclosures related to the valuation of real estate properties are in accordance with the IFRSs.

Other information included in the Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2021 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Group's 2021 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee of the Bank.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Nagyváradiné Szépfalvi Zsuzsanna.

4 February 2022

Nagyváradiné Szépfalvi Zsuzsanna
Partner
Ernst & Young Könyvvizsgáló Kft.
1132 Budapest, Váci út 20

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(Thousands of euros)

	Note	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	5	89,171	86,204
Deposits with banks and other financial institutions	6	58,961	29,434
Derivative financial assets	7	11,333	19,200
Investments at fair value through profit or loss	8	11,713	9,063
Securities at fair value through other comprehensive income	9	218,492	224,297
Securities at fair value through other comprehensive income pledged under repurchase agreements	9	17,562	28,456
Securities at amortized cost	10	86,781	45,647
Securities at amortized cost pledged under repurchase agreements	10	–	49,405
Loans to banks	11	118,934	92,403
Loans to customers	12	1,033,525	888,514
Loans to customers pledged under repurchase agreements	12	40,750	47,371
Investment property	13	32,311	33,004
Property, equipment and intangible assets	14	67,188	65,601
Other assets	15	2,525	2,411
Total assets		**1,789,246**	**1,621,010**
Liabilities			
Due to banks and other financial institutions	17	117,935	147,086
Derivative financial liabilities	7	73,332	39,693
Current customer accounts		16,445	12,871
Long-term loans of banks	18	62,783	77,007
Debt securities issued	19	1,033,939	876,516
Other liabilities	15	13,715	13,221
Total liabilities		**1,318,149**	**1,166,394**
Equity	20		
Authorized capital		2,000,000	2,000,000
Less: unallocated capital		(875,500)	(875,500)
Subscribed capital		**1,124,500**	**1,124,500**
Less: callable capital		(699,631)	(745,790)
Paid-in capital		**424,869**	**378,710**
Revaluation reserve for securities at fair value through other comprehensive income		(58)	8,225
Revaluation reserve for property and equipment		8,691	8,432
Cash flow hedge reserve	7	(29,792)	(248)
Foreign currency translation reserve		(121)	(133)
Retained earnings less net income for the year		59,630	52,331
Net income for the year		7,878	7,299
Total equity		**471,097**	**454,616**
Total equity and liabilities		**1,789,246**	**1,621,010**

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

4 February 2022

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2021

(Thousands of euros)

	Note	*2021*	*2020*
Interest income calculated using the EIR method	23	53,707	44,181
Other interest income	23	21,834	20,010
Interest expense calculated using the EIR method	23	(41,532)	(37,125)
Other interest expense	23	(10,509)	(9,677)
Net interest income		**23,500**	**17,389**
Net allowance for credit losses on financial instruments	5-6, 9, 11-12, 13-14, 16, 21	(3,221)	(4,349)
Net interest income after allowance for loan impairment		**20,279**	**13,040**
Fee and commission income		1,461	2,047
Fee and commission expense		(381)	(321)
Net fee and commission income		**1,080**	**1,726**
Net losses from operations with foreign currencies and derivatives	24	(2,148)	(1,313)
Net gains/(losses) from operations with investments at fair value through profit or loss		1,423	(290)
Net gains from operations with investments at fair value through other comprehensive income		4,822	14,618
Net gains from operations with investments at amortized cost		480	–
Income from lease of investment property	13, 22	2,373	2,078
Gains from sale of investment property	13	–	647
Losses from revaluation of investment property	13	(102)	(1,413)
Other income		1,196	144
Net non-interest income		**8,044**	**14,471**
Operating income		**29,403**	**29,237**
General and administrative expenses	25	(21,119)	(21,467)
Other operating expenses on banking operations		(406)	(471)
Operating expenses		**(21,525)**	**(21,938)**
Net income for the year		**7,878**	**7,299**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

(Thousands of euros)

	Note	*2021*	*2020*
Net income for the year		**7,878**	**7,299**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in the fair value of debt instruments at fair value through other comprehensive income	20	(8,482)	2,010
Net unrealized (loss)/income on cash flow hedges	7	(29,544)	561
Translation differences		12	(58)
Change in the allowance for expected credit losses related to securities at fair value through other comprehensive income	9, 12	199	58
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(37,815)**	**2,571**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment	14	259	(2,429)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**259**	**(2,429)**
Other comprehensive (loss)/income		**(37,556)**	**142**
Total comprehensive (loss)/income for the year		**(29,678)**	**7,441**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

(Thousands of euros)

	Authorized capital	*Unallocated capital*	*Callable capital*	*Revaluation reserve for securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Cash flow hedge reserve*	*Retained earnings*	*Total equity*
At 1 January 2020	**2,000,000**	**(875,500)**	**(784,888)**	**6,157**	**10,861**	**(75)**	**(809)**	**52,331**	**408,077**
Profit for the year	–	–	–	–	–	–	–	7,299	**7,299**
Other comprehensive loss	–	–	–	2,068	(2,429)	(58)	561	–	**142**
Total comprehensive (loss)/income	**–**	**–**	**–**	**2,068**	**(2,429)**	**(58)**	**561**	**7,299**	**7,441**
Contributions to capital (Note 20)	–	–	39,098	–	–	–	–	–	**39,098**
At 31 December 2020	**2,000,000**	**(875,500)**	**(745,790)**	**8,225**	**8,432**	**(133)**	**(248)**	**59,630**	**454,616**
At 1 January 2021	**2,000,000**	**(875,500)**	**(745,790)**	**8,225**	**8,432**	**(133)**	**(248)**	**59,630**	**454,616**
Profit for the year	–	–	–	–	–	–	–	7,878	**7,878**
Other comprehensive income/(loss)	–	–	–	(8,283)	259	12	(29,544)	–	**(37,556)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**(8,283)**	**259**	12	**(29,544)**	**7,878**	**(29,678)**
Contributions to capital (Note 20)	–	–	46,159	–	–	–	–	–	**46,159**
At 31 December 2021	**2,000,000**	**(875,500)**	**(699,631)**	**(58)**	**8,691**	**(121)**	**(29,792)**	**67,508**	**471,097**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

(Thousands of euros)

	Note	*2021*	*2020*
Cash flows from operating activities			
Interest, fees and commissions received		36,012	34,060
Interest, fees and commissions paid		(1,444)	(2,184)
Realized gains less losses from operations with foreign currencies and derivatives		(3,741)	(29,853)
Cash flows from lease of investment property	22	2,373	2,078
General and administrative expenses		(18,192)	(16,304)
Other operating income on banking operations		1,099	94
Cash flows from operating activities before changes in operating assets and liabilities		**16,107**	**(12,109)**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(23,600)	(407)
Loans to banks	11	(30,387)	52,984
Loans to customers	12	(100,057)	(215,952)
Other assets		408	739
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions	17	(30,322)	100,882
Current customer accounts		1,498	170
Other liabilities		(5,980)	124
Net cash flows from operating activities		**(172,333)**	**(73,569)**
Cash flows from investing activities			
Interest received		7,830	8,826
Purchase of securities at fair value through profit or loss	8	(827)	(7,695)
Purchase of securities at fair value through other comprehensive income	9	(141,726)	(401,816)
Proceeds from sale and redemption of securities at fair value through other comprehensive income	9	166,171	337,126
Purchase of securities at amortized cost	10	–	(5,033)
Proceeds from redemption and sale of securities at amortized cost	10	11,792	1,468
Proceeds from sale of investment property	13	130	6,242
Acquisition of property, equipment and intangible assets	14	(4,411)	(28,268)
Net cash flows from investing activities		**38,959**	**(89,150)**
Cash flows from financing activities			
Interest paid	30	(23,427)	(22,514)
Long-term interbank financing raised	18	2,227	31,564
Long-term interbank financing repaid	18	(20,000)	(6,000)
Debt securities issued	19	351,624	473,113
Redemption and repurchase of debt securities	19	(220,734)	(300,552)
Contributions to capital	20	46,159	39,098
Net cash flows from financing activities		**135,849**	**214,709**
Effect of exchange rate changes on cash and cash equivalents		494	(13,833)
Net decrease in cash and cash equivalents		**2,969**	**38,157**
Cash and cash equivalents, beginning		86,204	48,047
Cash and cash equivalents	5	**89,173**	**86,204**
Less: allowance for impairment cash and cash equivalents		(2)	–
Cash and cash equivalents, ending		**89,171**	**86,204**

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

(Thousands of euros)

1. Principal activities

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

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

Following the decision adopted by the Board of Governors in December 2018 the Bank's Headquarters were relocated from Russia to Hungary in 2019. Starting 15 February 2021 the Bank continued its operations from its permanent premises, the renovated historic Lánchíd Palota building (Fo utca, 1), Budapest. At the same time, the IIB Branch operates in Moscow (7 Mashi Poryvaevoy str., Moscow, Russian Federation).

The Group had an average of 185 staff employees during 2021 (2020: 192).

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

- The key point on the agenda of the IIB Board of Governors meeting held on December 8, 2021 was the application of the Republic of Serbia on the accession to the membership in International Investment Bank. It is important to highlight that a matter of accession of a new country became a subject of discussion for the first time in more than half-a-century existence of IIB. A positive unanimous decision was taken to admit the Republic of Serbia as a shareholder state. Expansion of the shareholder base with the admission of Serbia fully corresponds with interests of all countries. It will allow IIB to expand its operations in Europe continuing the "European" strategic course of the past few years, to increase capital levels, further improve financial stability and geographic diversification due to access to the markets of the Balkan region. Moreover, Serbia's membership is set to give an additional impetus to enhancement of its trade and economic ties with IIB countries on a bilateral, as well as multilateral basis through implementation of projects with an integration component. Full completion of official procedure on Serbia's accession is expected during 1Q 2022.
- The return of Hungary as a member state five years ago and its continuously active stance on key issues have largely determined the success of the comprehensive "Europeanization" of the Bank. As a result, last year IIB acquired its new seat in the Hungarian capital, becoming the only multilateral financial development institution with headquarters in the CEE region.
- In the current challenging situation due to the COVID-19 pandemic, the Group steadily continues its operations, showing positive financial results and growth of development impact of its operations. During the unfolding pandemic, due to the enhancement of business processes, decision-making procedures and IT solutions, as well as technological support, IIB has managed to ensure continuous effective management of operational processes, reporting and communications with shareholders. Since June 2020, online meetings of the Board of Directors, Board of Governors and Audit Committee have been organized and run smoothly and at a high level. In December 2021, a historical mixed-format meeting of the Board of Governors took place in the Bank's HQ in Budapest. IT technologies and professional event management allowed for a comfortable meeting where some participants participated in person and some joined online. The efficiency and speed of administrative decision-making has remained at the adequate level.
- During 2021, three rating agencies have taken action with regard to IIB. On 31 March 2021 S&P Global affirmed the long-term rating of International Investment Bank at "A-" with a stable outlook. S&P underlined that IIB managed to improve its capital adequacy thanks to the additional capitalization program and paid-in capital installments from member states executed in 2020 within its framework. In April and October 2021, ACRA affirmed the "A" rating to International Investment Bank, outlook Stable, under the international scale and AAA(RU), outlook Stable, under the national scale for the Russian Federation. The agency also affirmed AAA(RU) to the IIB bond issues. In August, international credit rating agency Fitch Ratings affirmed the long-term rating of International Investment Bank at "A-" with a stable outlook. The rating affirmation praised the Group's financial stability and its effective response to the consequences of the COVID-19 pandemics.

(Thousands of euros)

1. Principal activities (continued)

- IIB started its funding activities in 2021 by placing a transaction under its MTN Program with a record-long maturity of 20 years. The new transaction in the amount of EUR 30 million and priced at MS+90 bps (0.95% annual coupon) was listed on the Irish Stock Exchange (included in Debt securities issued, Note 19). This deal provided for the longest-ever attracted maturity, which helps to improve the overall maturity profile of IIB's funding and extend the duration of its liabilities.
- In March 2021, the Group achieved a new lowest euro after-swap price for its funding. That was Group's third private placement (included in Debt securities issued, Note 19), denominated in Hungarian forint, in the volume of HUF 8.5 billion (EUR 23,154 thousand) with the coupon amounting to 1.90% p.a. reaching an after-swap price of 0.065% p.a.
- The first half of 2021 was a period of successful funding for the IIB. Under the already mentioned updated MTN program, for the first time in its 50-year-long history the Group reached a negative interest rate of EUR fixed -0.05% p.a. on the after-swap basis, by placing a floating rate note amounting to RON 190 million (EUR 38,876 thousand) with 2-year maturity (included in Debt securities issued, Note 19).
- In April, IIB executed its new CZK-denominated private placement consolidating its euro negative curve by issuing one of the largest CZK deals by a non-Czech issuer ever. The Group refinanced its maturing CZK floating rate notes with a new issuance of CZK 2.499 million (EUR 96.556 thousand) notes with a 3-year maturity and an annual coupon of 1.50%. The euro after-swap price of the issuance, which was placed under the Group's MTN Program, was fixed at -0.041% p.a.
- In May 2021, following its mission and Policy on Environmental and Social Sustainability IIB, became a major investor of a corporate green bond issue placed by Vajda-Papír Ltd. on the Budapest Stock Exchange (included in Loans to customers, Note 12).
- In August 2021, IIB has joined the largest project for the export of high-tech power equipment from the Czech Republic to the Russian Federation over the past 15 years with a total project volume of EUR 172 million.
- In September 2021, IIB further expanded its partner network in Europe. The Bank signed a Memorandum of Understanding with the Council of Slovak Exporters. The document, among other things, provided for strengthening of business relations and promotion of economic collaboration between members and clients of both institutions.
- The April Czech funding deal got a follow-up in September 2021, IIB successfully tapped its outstanding amount CZK 1,251 million (EUR 48,270 thousand). The overall size of the issuance was brought up to CZK 3,750 million (EUR 144,826 thousand) becoming the biggest supranational issue in the CZK market and the largest bond issue by IIB ever.
- In October 2021, in support of gender equality and sustainability, International Investment Bank issued a loan facility of USD 14,888 thousand (EUR 12,884 thousand) to one of Mongolia's leading commercial banks − Trade and Development Bank of Mongolia (TDBM). The 5-year-term facility will provide funding for TDBM's two specialized programs aimed at further enhancement of the country's sustainable development, namely, the Women Entrepreneurship Support Program (WESP) and Green Loan Program.
- Further consolidating its European investor base, in the second half of 2021, IIB started a partnership with German DZ Bank. The transaction accommodated interest of three investors in 2-year bond and again reached a negative yield, further improving IIB's cost of funds despite the recent volatility and increased interest rate environment.
- A new loan granted to GTLK became another milestone event in October 2021. This loan of up to EUR 37,924 thousand allowed the Group to bring its net loan portfolio level to EUR 1.2 billion.
- In November 2021, the cross-border "Clear Water. Happy Tisza" initiative, launched two years ago and sponsored by IIB was completed. In Hungary, nearly 3000 polluted areas were pinpointed in the floodplain forests, and 300 of them were already successfully cleaned up.
- The IIB Treasury ESG portfolio is preserved at the high level of 69%.

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(Thousands of euros)

1. Principal activities (continued)

Member countries of the Bank

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

Member countries	*31 December 2021, %*	*31 December 2020, %*
Russian Federation	47.456	45.065
Hungary	17.360	17.296
Republic of Bulgaria	9.933	11.144
Czech Republic	8.797	9.869
Slovak Republic	6.795	6.452
Romania	6.144	6.893
Republic of Cuba	1.688	1.416
Mongolia	0.963	0.896
Socialist Republic of Vietnam	0.864	0.969
	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.

2. Basis of preparation

General

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

The consolidated financial statements shall be incorporated by reference in the Offering Circular related to the IIB Medium Term Note Programme.

Subsidiary

As at 31 December 2021, the Bank is a parent company of the Group, which owns JSC IIB Capital (the Bank's 100% subsidiary) established in 2012 to deal with issues related to the IIB activities in Russia, including the provision of trustee services to the Bank. As at 31 December 2021, the authorized capital of the subsidiary amounted to RUB 44.5 thousand (31 December 2020: RUB 44.5 thousand), which is equivalent to EUR 1.1 thousand at the historical exchange rate at the date of establishment.

(intentionally blank)

(Thousands of euros)

2. Basis of preparation (continued)

Effect of COVID-19 pandemic

Following the rapid spread of COVID-19 pandemic in 2020, which continued in 2021, many governments have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by central banks and regulators to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

The Group continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results. Despite the significant estimation uncertainty, the Group believes that its current liquidity position is sufficient to ensure the sustainable operation.

Basis of measurement

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

Preparation and presentation of financial statements

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

Functional and presentation currency

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

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

3. Summary of accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new Standards effective as of 1 January 2021. The nature and the effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations are applied for the first time in 2021, but do not have an impact on the consolidated financial statements of the Group.

(intentionally blank)

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Interest Rate Benchmark Reform − Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2.

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component;

These amendments had no material impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions* − amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Foreign currency transactions

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

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.

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.

(Thousands of euros)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

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.

Fair value measurement

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

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

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

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

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

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement

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

Categories of measurement of assets and liabilities

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

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

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

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

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

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

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

These terms are detailed below.

Business model assessment

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

The Group's business model is assessed at the higher level of aggregated portfolio, rather than the separated 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.

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

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

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

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

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

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

Debt instruments at FVOCI

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

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

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

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

Equity instruments at FVOCI

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial guarantees, letters of credit and loan commitments

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

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

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

Performance guarantees

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

Reclassification of financial assets and liabilities

The Group does not reclassify financial assets after the initial recognition, apart from exceptional cases, when the Group changes the business model for managing the financial assets. Financial liabilities are never reclassified. In 2021, the Group did not reclassify financial assets and liabilities.

Cash and cash equivalents

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

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Derivative financial instruments (continued)

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

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

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 quarter end on an ongoing basis.

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

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

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

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

The Group applies hedge accounting in accordance with IFRS 9.

Fair value hedges

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

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

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

Offsetting of financial instruments

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

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

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

Renegotiated loans

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

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

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Renegotiated loans (continued)

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Write-off

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

Financial liabilities

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

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

Property and equipment

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

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

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

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

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

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

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

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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

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

Investment property

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

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

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

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

Intangible assets

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

	Years
Automated banking system	20
Other computer software	1-5

Assets classified as held for sale

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

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Assets classified as held for sale (continued)

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

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

Fiduciary assets

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

Segment reporting

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

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

(Thousands of euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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 FVPL are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

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

Standards issued but not yet effective

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

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, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Consolidated the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans − e.g. a loan with waiver on death − have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Group does not have any contracts that would be in scope of IFRS 17.

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

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework − Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations − Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements.*

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Group.

Property, Plant and Equipment: Proceeds before Intended Use − Amendments to IAS 16

In May 2020, the IASB issued *Property, Plant and Equipment − Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Onerous Contracts − Costs of Fulfilling a Contract − Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 1 First-time Adoption of International Financial Reporting Standards − Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments − Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Definition of Accounting Estimates − Amendments to IAS 8

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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

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

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

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

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

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

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

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

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

(Thousands of euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

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 9 − Securities at fair value through other comprehensive income;
- Note 11 − Loans to banks;
- Note 12 − Loans to customers;
- Note 13 − Investment property;
- Note 14 − Property, equipment and intangible assets;
- Note 21 − Commitments and contingencies.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2021	*31 December 2020*
Cash on hand	**146**	**326**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	71,565	83,318
Credit rating from BBB- to BBB+	791	1,574
Credit rating from BB- to BB+	539	725
Total nostro accounts with banks and other financial institutions	**72,895**	**85,617**
Short-term deposits with banks		
Credit rating from BBB- to BBB+	14,815	261
Credit rating from BB- to BB+	1,317	–
Total short-term deposits with banks	**16,132**	**261**
Less: allowance for impairment cash and cash equivalents	(2)	–
Cash and cash equivalents	**89,171**	**86,204**

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

An analysis of changes in the ECL allowances during the year ended 31 December 2021 and 31 December 2020 are as follows:

Allowance for ECL at 1 January 2021	**–**
New purchased or originated assets	5
Assets derecognized or redeemed	(3)
Allowance for ECL at 31 December 2021	**2**
Allowance for ECL at 1 January 2020	**–**
New purchased or originated assets	42
Assets derecognized or redeemed	(44)
Changes to models and inputs used for ECL calculations	1
Foreign exchange differences	1
Allowance for ECL at 31 December 2020	–

(Thousands of euros)

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 2021	*31 December 2020*
Term deposits up to 1 year		
No credit rating	335	–
Credit rating A	–	358
Total term deposits up to 1 year	**335**	**358**
Term deposits over 1 year		
Credit rating from AA- to AA+	29,780	10,170
Credit rating from A- to A+	25,880	18,790
Credit rating from BBB- to BBB+	2,966	116
Total term deposits over 1 year	**58,626**	**29,076**
Deposits with banks and other financial institutions	**58,961**	**29,434**

Movements in the gross carrying amount related to deposits with banks and other financial institutions for the year ended 31 December 2021 are as follows:

Deposits with banks and other financial institutions	*Stage 1*	*Total*
Carrying amount at 1 January 2021, gross	**29,434**	**29,434**
New purchased or originated assets	157,321	**157,321**
Assets derecognized or redeemed (excluding write-offs)	(127,794)	**(127,794)**
At 31 December 2021, gross	**58,961**	**58,961**

Movements in the gross carrying amount related to deposits with banks and other financial institutions for the year ended 31 December 2020 are as follows:

Deposits with banks and other financial institutions	*Stage 1*	*Total*
Carrying amount at 1 January 2020, gross	**29,056**	**29,056**
New purchased or originated assets	215,735	**215,735**
Assets derecognized or redeemed (excluding write-offs)	(215,357)	**(215,357)**
At 31 December 2020, gross	**29,434**	**29,434**

As at 31 December 2021, in addition to term deposits above EUR 34,967 thousand (31 December 2020: EUR 34,967 thousand) were due to the Group from the Central Bank of Cuba. This amount was fully provisioned (31 December 2020: EUR 34,967 thousand).

Concentration of deposits with banks and other financial institutions

As at 31 December 2021, besides deposits with the Central Bank of Cuba, the Group had deposits of four counterparties (31 December 2020: three counterparties) to each of them accounting for over 10% of the Group's total deposits with banks and other financial institutions and amounting to EUR 52,770 thousand in total (31 December 2020: EUR 28,960 thousand).

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.

(Thousands of euros)

7. Derivative financial instruments (continued)

The table below shows the fair value of derivative financial instruments as at 31 December 2021 and 31 December 2020 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	31 December 2021				
	Nominal amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 7,500,000 thousand	RUB 7,500,000 thousand	1.00	–	6,812
	HUF12,800,000 thousand	EUR 40,851 thousand	313.33	–	5,828
	EUR 245,749 thousand	USD 286,051 thousand	1.16	900	8,594
	EUR 80,982 thousand	HUF 28,642,480 thousand	353.69	7,193	–
	EUR 32,405 thousand	RON 157,499 thousand	4.86	332	146
	HUF 11,900,000 thousand	USD 43,139 thousand	275.85	–	6,841
	EUR 85,296 thousand	RUB 7,500,000 thousand	87.93	–	3,675
	USD 10,000 thousand	EUR 8,440 thousand	1.18	423	–
Forwards	EUR 32,000 thousand	USD 36,458 thousand	1.14	–	66
Total derivative financial assets and liabilities at fair value through profit or loss				**8,848**	**31,962**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	HUF 46,000,000 thousand	EUR 132,568 thousand	346.99	–	13,667
	RUB 16,000,000 thousand	EUR 197,048 thousand	81.20	31	17,854
	CZK 4,371,000 thousand	EUR 168,218 thousand	25.98	2,454	1,913
	RON 1,145,000 thousand	EUR 236,762 thousand	4.84	–	7,936
Total derivative financial assets and liabilities designated as hedging instruments				**2,485**	**41,370**
Derivative financial instruments				**11,333**	**73,332**

	31 December 2020				
	Nominal amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 7,500,000 thousand	RUB 7,500,000 thousand	1.00	52	–
	HUF12,800,000 thousand	EUR 40,851 thousand	313.33	–	5,093
	EUR 217,437 thousand	USD 249,607 thousand	1.15	11,218	–
	EUR 52,079 thousand	HUF 18,350,000 thousand	352.35	1,800	291
	EUR 24,410 thousand	RON 116,599 thousand	4.78	484	–
	CZK 1,500,000 thousand	EUR 58,749 thousand	25.53	–	1,582
	RON 360,000 thousand	EUR 76,375 thousand	4.71	789	2,190
	HUF 11,900,000 thousand	USD 43,139 thousand	275.85	–	3,871
	USD 32,000 thousand	EUR 26,409 thousand	1.21	–	417
Forwards	EUR 45,000 thousand	USD 51,710 thousand	1.14	2,970	–
Total derivative financial assets and liabilities at fair value through profit or loss				**17,313**	**13,444**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	HUF 37,500,000 thousand	EUR 109,261 thousand	343.21	–	6,660
	RUB 16,000,000 thousand	EUR 197,048 thousand	81.20	–	19,526
	CZK 621,000 thousand	EUR 22,582 thousand	27.50	947	–
	RON 755,000 thousand	EUR 157,467 thousand	4.79	940	63
Total derivative financial assets and liabilities designated as hedging instruments				**1,887**	**26,249**
Derivative financial instruments				**19,200**	**39,693**

(Thousands of euros)

7. Derivative financial instruments (continued)

As at 31 December 2021 and 31 December 2020, 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.

Cash flow hedge: The Group’s strategy is to apply cash flow hedge accounting to keep its foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange risk on an instrument or group of instruments.

From an accounting point of view, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized directly in OCI within equity (Cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in Net gains/(losses)from operation with foreign currencies and derivatives in the consolidated income statement.

When the hedged cash flow affects the consolidated income statement, the effective portion of the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of 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, any cumulative gain or loss that has been recognized in OCI at that time remains in OCI and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the consolidated income statement.

Micro-cash flow hedges

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

The Group’s micro-cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued bonds due to changes in forward foreign exchange rate risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt.

The Group considers the hedge of HUF-, RON-, RUB-denominated fixed and CZK-denominated floating rate bonds as a hedge of forward foreign exchange rate risk and follows a micro cash flow hedge with the currency risk element further described in Note 26.

The corresponding line item in the consolidated statement of financial position, where the hedged item is recorded, is Debt securities issued.

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

(Thousands of euros)

7. Derivative financial instruments (continued)

Micro-cash flow hedges (continued)

Hedge ineffectiveness can arise from:

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

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

Following the issue of bonds denominated in currencies other than the functional currency of the Group (Note 19), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis mostly with large international 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 Group applies hedge accounting for the forward foreign exchange risk of the bond issues (Note 19):

- In Romanian lei (RON) placed on 1 November 2019, 7 October 2020, 24 March 2021 and 19 October 2021;
- In Hungarian forint (HUF) placed on 18 October 2019, 28 September 2020 and 18 March 2021;
- In Russian ruble (RUB) placed on 29 April 2020, 19 May 2020 and 11 September 2020;
- In Czech korunas (CZK) placed on 19 May 2020, 26 April 2021 and 27 September 2021.

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.

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(Thousands of euros)

7. Derivative financial instruments (continued)

Micro-cash flow hedges (continued)

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

	31 December 2021				
			Changes in fair value of hedging instruments used for ineffectiveness measurement		*Hedge ineffectiveness identified recognized in the income statement in*
	Change in fair value of hypothetical derivative used for ineffectiveness measurement	*Net interest income/(expense)*	*Change in fair value excluding net interest income/(expense)*	*Effective portion of change in fair value excluding net interest income/(expense)*	*Net losses from operations with foreign currencies and derivatives*
Micro-cash flow hedges					
Fixed rate HUF bonds	(7,631)	1,423	(6,956)	(6,877)	(79)
Fixed rate RON bonds	(8,353)	5,577	(8,339)	(8,339)	–
Fixed rate RUB bonds	4,950	10,034	1,716	3,507	(1,791)
Fixed rate CZK bonds	(2,127)	1,216	(1,629)	(1,629)	–
Floating rate CZK bonds	1,164	181	1,434	1,434	–
Floating rate RON bonds	(634)	718	(701)	(701)	–
	(12,631)	**19,149**	**(14,475)**	**(12,605)**	**(1,870)**

	31 December 2020				
			Changes in fair value of hedging instruments used for ineffectiveness measurement		*Hedge ineffectiveness identified recognized in the income statement in*
	Change in fair value of hypothetical derivative used for ineffectiveness measurement	*Net interest income/(expense)*	*Change in fair value excluding net interest income/(expense)*	*Effective portion of change in fair value excluding net interest income/(expense)*	*Net losses from operations with foreign currencies and derivatives*
Micro-cash flow hedges					
Fixed rate HUF bonds	(5,898)	646	(6,163)	(6,054)	(109)
Fixed rate RON bonds	1,021	3,967	1,568	1,568	–
Fixed rate RUB bonds	(26,115)	6,037	(27,306)	(27,010)	(296)
Floating rate CZK bonds	646	15	520	520	–
	(30,346)	**10,665**	**(31,381)**	**(30,976)**	**(405)**

(Thousands of euros)

7. Derivative financial instruments (continued)

Micro-cash flow hedges (continued)

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

	31 December 2021			
	Opening balance of cash flow hedge reserve as at 1 January 2021	***Foreign currency revaluation of hedged item***	***Change in fair value of hedging instruments excluding net interest income/(expense)***	***Closing balance of cash flow hedge reserve as at 31 December 2021***
Fixed rate HUF bonds	227	1,079	(6,877)	(5,571)
Fixed rate RON bonds	2,463	2,632	(8,339)	(3,244)
Fixed rate RUB bonds	(2,758)	(14,460)	3,507	(13,711)
Fixed rate CZK bonds	–	(5,385)	(1,629)	(7,014)
Floating rate CZK bonds	(180)	(1,320)	1,434	(66)
Floating rate RON bonds	–	515	(701)	(186)
	(248)	**(16,939)**	**(12,605)**	**(29,792)**

	31 December 2020			
	Opening balance of cash flow hedge reserve as at 1 January 2020	***Foreign currency revaluation of hedged item***	***Change in fair value of hedging instruments excluding net interest income/(expense)***	***Closing balance of cash flow hedge reserve as at 31 December 2020***
Fixed rate HUF bonds	65	6,216	(6,054)	227
Fixed rate RON bonds	(874)	1,769	1,568	2,463
Fixed rate RUB bonds	–	24,252	(27,010)	(2,758)
Floating rate CZK bonds	–	(700)	520	(180)
	(809)	**31,537**	**(30,976)**	**(248)**

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(Thousands of euros)

7. Derivative financial instruments (continued)

Micro-cash flow hedges (continued)

As at 31 December 2021 change in fair value of hypothetical derivatives for the reporting period used for ineffectiveness measurement was EUR (12,631) thousand (31 December 2020: EUR (30,346) thousand), change in fair value of hedging instruments used for ineffectiveness measurement was EUR (12,605) thousand (31 December 2020: EUR (30,976) thousand) and was presented in OCI in “Net unrealized losses on cash flow hedges”. During 2021 change in fair value of hedged item of EUR (16,939) thousand (2020: EUR 31,537 thousand) was reclassified from “Net unrealized losses on cash flow hedges” into “Net losses from operations with foreign currencies and derivatives”.

The following table shows the maturity and interest rate risk profiles of the Group’s hedging instruments used in its cash flow hedges. As the Group applies one-to-one hedging ratios, the below table effectively shows the outcome of the cash flow hedges:

	31 December 2021			*31 December 2020*	
	3 months to 1 year	*1 to 5 years*	*Total*	*1 to 5 years*	*Total*
Micro-cash flow hedges					
Cross currency interest rate swaps					
Notional principal	67,669	64,899	**132,568**	109,261	**109,261**
Average interest rate	0.45%	0.54%	**0.49%**	0.63%	**0.63%**
Average HUF/EUR rate	332.50	362.10	**346.99**	343.21	**343.21**
Notional principal	105,122	131,640	**236,762**	105,122	**105,122**
Average interest rate	0.28%	0.13%	**0.21%**	0.36%	**0.36%**
Average RON/EUR rate	4.76	4.90	**4.84**	4.76	**4.76**
Notional principal		197,048	**197,048**	197,048	**197,048**
Average interest rate		1.48%	**1.48%**	1.33%	**1.33%**
Average RUB/EUR rate		81.20	**81.20**	81.20	**81.20**
Notional principal		168,218	**168,218**	22,582	**22,582**
Average interest rate		0.10%	**0.10%**	1.09%	**1.09%**
Average CZK/EUR rate		27.50	**27.50**	27.50	**27.50**

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(Thousands of euros)

8. Investments at fair value through profit or loss

Investments at fair value through profit or loss comprise:

	31 December 2021	*31 December 2020*
Owned by the Group		
Corporate bonds		
Credit rating BBB	8,462	7,684
Corporate bonds	**8,462**	**7,684**
Other investments		
Investments in the fund	3,251	1,379
Other investments	**3,251**	**1,379**
Total investments at fair value through profit or loss	**11,713**	**9,063**

9. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	31 December 2021	*31 December 2020*
Owned by the Group		
Listed debt securities at fair value through other comprehensive income		
Government bonds of member countries		
Credit rating from BBB- to BBB+	–	67,604
Government bonds of non-member countries		
Credit rating from AA- to AA+	17,191	16,151
Credit rating from BBB- to BBB+	2,216	–
Credit rating from BB- to BB+	18,978	–
Government bonds	**38,385**	**83,755**
Corporate bonds		
Credit rating AAA	39,661	30,279
Credit rating from AA- to AA+	62,991	16,342
Credit rating from A- to A+	53,664	57,988
Credit rating from BBB- to BBB+	13,788	11,159
Credit rating from BB- to BB+	10,003	24,774
Corporate bonds	**180,107**	**140,542**
Total listed debt securities at fair value through other comprehensive income	**218,492**	**224,297**
Securities at fair value through other comprehensive income	**218,492**	**224,297**

	31 December 2021	*31 December 2020*
Pledged under repurchase agreements		
Listed debt securities at fair value through other comprehensive income		
Corporate bonds		
Credit rating AAA	17,562	6,238
Credit rating from AA- to AA+	–	22,218
Corporate bonds	**17,562**	**28,456**
Total listed debt securities at fair value through other comprehensive income pledged under repurchase agreements	**17,562**	**28,456**

(Thousands of euros)

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

Movements in the gross carrying amount and relevant ECL related to securities at fair value through other comprehensive income for the year ended 31 December 2021 are as follows:

Securities at fair value through other comprehensive income	***Stage 1***	***Total***
Carrying amount at 1 January 2021	**252,753**	**252,753**
New purchased or originated assets and change in fair value	148,150	**148,150**
Assets derecognized or redeemed (excluding write-offs) and change in fair value	(176,765)	**(176,765)**
Foreign exchange differences	11,916	**11,916**
At 31 December 2021	**236,054**	**236,054**
Allowance for ECL at 1 January 2021		**161**
New purchased or originated assets		85
Assets derecognized or redeemed		(151)
Changes to models and inputs used for ECL calculations		23
Foreign exchange differences		5
Allowance for ECL at 31 December 2021		**123**

Movements in the gross carrying amount and relevant ECL related to securities at fair value through other comprehensive income for the year ended 31 December 2020 are as follows:

Securities at fair value through other comprehensive income	***Stage 1***	***Total***
Carrying amount at 1 January 2020	**216,231**	**216,231**
New purchased or originated assets and change in fair value	379,683	**379,683**
Assets derecognized or redeemed (excluding write-offs) and change in fair value	(329,163)	**(329,163)**
Foreign exchange differences	(13,998)	**(13,998)**
At 31 December 2020	**252,753**	**252,753**
Allowance for ECL at 1 January 2020		**169**
New purchased or originated assets		262
Assets derecognized or redeemed		(446)
Changes to models and inputs used for ECL calculations		191
Foreign exchange differences		(15)
Allowance for ECL at 31 December 2020		**161**

Government bonds comprise EUR-, USD- and RUB- denominated securities issued and guaranteed by the Ministries of Finance of the countries. The bonds mature in 2024-2028 (31 December 2020: maturing in 2024-2035). The annual coupon rate for these bonds varies from 1.0% to 7.5% (31 December 2020: from 1.8% to 2.0%).

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 Group. The bonds mature in 2022-2028 (31 December 2020: maturing in 2021-2028). The annual coupon rate for these bonds varies from 0.0% to 8.0% (31 December 2020: from 0.0% to 8.0%).

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(Thousands of euros)

10. Securities at amortized cost

Securities at amortized cost comprise:

	31 December 2021	*31 December 2020*
Owned by the Group		
Listed debt securities at amortized cost		
Government bonds of non-member countries		
Credit rating AAA	–	5,767
Government bonds	**–**	**5,767**
Corporate bonds		
Credit rating AAA	22,038	25,812
Credit rating AA	19,116	4,101
Credit rating A-	–	9,992
Credit rating BBB	45,686	–
Corporate bonds	**86,840**	**39,905**
Less: allowance for impairment securities at amortized cost	(59)	(25)
Listed debt securities at amortized cost	**86,781**	**45,647**

	31 December 2021	*31 December 2020*
Pledged under repurchase agreements		
Listed debt securities at amortized cost		
Corporate bonds		
Credit rating AAA	–	13,690
Credit rating from BBB- to BBB+	–	35,755
Corporate bonds	**–**	**49,445**
Less: allowance for impairment of securities at amortized cost	–	(40)
Total listed debt securities at amortized cost pledged under repurchase agreements	**–**	**49,405**

Movements in the gross carrying amount and relevant ECL related to securities at amortized cost for the year ended 31 December 2021 are as follows:

Securities at amortized cost	***Stage 1***	***Total***
Carrying amount at 1 January 2021, gross	**95,117**	**95,117**
New purchased or originated assets	1,222	**1,222**
Assets derecognized or redeemed (excluding write-offs)	(11,307)	**(11,307)**
Foreign exchange differences	1,808	**1,808**
At 31 December 2021, gross	**86,840**	**86,840**
Allowance for ECL at 1 January 2021		**65**
New purchased or originated assets		41
Assets derecognized or redeemed		(51)
Foreign exchange differences		4
Allowance for ECL at 31 December 2021		**59**

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(Thousands of euros)

10. Securities at amortized cost (continued)

Movements in the gross carrying amount and relevant ECL related to securities at amortized cost for the year ended 31 December 2020 is as follows:

Securities at amortized cost	***Stage 1***	***Total***
Carrying amount at 1 January 2020, gross	**92,655**	**92,655**
New purchased or originated assets	6,335	**6,335**
Assets derecognized or redeemed (excluding write-offs)	(1,468)	**(1,468)**
Foreign exchange differences	(2,405)	**(2,405)**
At 31 December 2020, gross	**95,117**	**95,117**
Allowance for ECL at 1 January 2020		**60**
New purchased or originated assets		94
Assets derecognized or redeemed		(194)
Changes to models and inputs used for ECL calculations		108
Foreign exchange differences		(3)
Allowance for ECL at 31 December 2020		**65**

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 Group. The bonds mature in 2024-2029 (31 December 2020: 2021-2029). The coupon rate for these bonds varies from 0.6% to 2.2% (31 December 2020: 0.6% to 2.2%).

11. Loans to banks

In 2021, 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 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 business partners.

In 2021 and 2020, the Group provided trade financing loans and long-term loans to borrowers operating in the following countries:

	31 December 2021	***31 December 2020***
Trade financing loans		
Mongolia	2,438	1,952
Republic of Belarus	–	3,705
Trade financing loans	**2,438**	**5,657**
Long-term loans to banks		
Republic of Cuba	50,250	39,540
Mongolia	38,138	13,996
Socialist Republic of Vietnam	31,253	35,133
Long-term loans to banks	**119,641**	**88,669**
Less: allowance for impairment of loans to banks	(3,145)	(1,923)
Loans to banks	**118,934**	**92,403**

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(Thousands of euros)

11. Loans to banks (continued)

Movements in the gross carrying amount and relevant ECL related to trade financing loans for the year ended 31 December 2021 are as follows:

Trade financing loans	*Stage 1*	*Total*
Carrying amount at 1 January 2021, gross	**5,657**	**5,657**
New purchased or originated assets	6,903	**6,903**
Assets derecognized or redeemed (excluding write-offs)	(10,273)	**(10,273)**
Foreign exchange differences	151	**151**
At 31 December 2021, gross	**2,438**	**2,438**

Trade financing loans	*Stage 1*	*Total*
Allowance for ECL at 1 January 2021	**42**	**42**
New purchased or originated assets	81	**81**
Assets derecognized or redeemed (excluding write-offs)	(98)	**(98)**
Changes to models and inputs used for ECL calculations	2	**2**
At 31 December 2021	**27**	**27**

Movements in the gross carrying amount and relevant ECL related to trade financing loans for the year ended 31 December 2020 are as follows:

Trade financing loans	*Stage 1*	*Total*
Carrying amount at 1 January 2020, gross	**27,321**	**27,321**
New purchased or originated assets	51,207	**51,207**
Assets derecognized or redeemed (excluding write-offs)	(72,917)	**(72,917)**
Foreign exchange differences	46	**46**
At 31 December 2020, gross	**5,657**	**5,657**

Trade financing loans	*Stage 1*	*Total*
Allowance for ECL at 1 January 2020	**179**	**179**
New purchased or originated assets	24	**24**
Assets derecognized or redeemed (excluding write-offs)	(847)	**(847)**
Changes to models and inputs used for ECL calculations	687	**687**
Foreign exchange differences	(1)	**(1)**
At 31 December 2020	**42**	**42**

Movements in the gross carrying amount and respective ECL related to long-term loans to banks for the year ended 31 December 2021 are as follows:

Long-term loans to banks	*Stage 1*	*Stage 2*	*Total*
Carrying amount at 1 January 2021, gross	**71,029**	**17,640**	**88,669**
New purchased or originated assets	98,848	541	**99,389**
Assets derecognized or redeemed (excluding write-offs)	(54,815)	(18,181)	**(72,996)**
Foreign exchange differences	4,579	–	**4,579**
At 31 December 2021, gross	**119,641**	**–**	**119,641**

(Thousands of euros)

11. Loans to banks (continued)

Long-term loans to banks	*Stage 1*	*Stage 2*	*Total*
Allowance for ECL at 1 January 2021	**1,575**	**306**	**1,881**
New purchased or originated assets	2,076	–	**2,076**
Assets derecognized or redeemed (excluding write-offs)	(1,170)	(555)	**(1,725)**
Changes to models and inputs used for ECL calculations	529	249	**778**
Foreign exchange differences	108	–	**108**
At 31 December 2021	**3,118**	–	**3,118**

Movements in the gross carrying amount and respective ECL related to long-term loans to banks for the year ended 31 December 2020 are as follows:

Long-term loans to banks	*Stage 1*	*Stage 2*	*Total*
Carrying amount at 1 January 2020, gross	**124,046**	**–**	**124,046**
New purchased or originated assets	22,576	2	**22,578**
Assets derecognized or redeemed (excluding write-offs)	(52,479)	–	**(52,479)**
Transfers to Stage 2	(17,638)	17,638	**–**
Changes to contractual cash flows due to modifications not resulting in derecognition	(296)	–	**(296)**
Foreign exchange differences	(5,180)	–	**(5,180)**
At 31 December 2020, gross	**71,029**	**17,640**	**88,669**

Long-term loans to banks	*Stage 1*	*Stage 2*	*Total*
Allowance for ECL at 1 January 2020	**1,491**	**–**	**1,491**
New purchased or originated assets	37	–	**37**
Assets derecognized or redeemed (excluding write-offs)	(456)	–	**(456)**
Transfers to Stage 2	(118)	118	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	188	**188**
Changes to models and inputs used for ECL calculations	715	–	**715**
Foreign exchange differences	(94)	–	**(94)**
At 31 December 2020	**1,575**	**306**	**1,881**

As at 31 December 2021, there were no overdue loans to banks (31 December 2020: no overdue).

Modified and restructured loans to banks

For the 2021, there were modifications of a loan agreement to bank that resulted in derecognition of old loan and initial recognition of new loan. In 2020, has modified the terms and conditions of several loans to banks, including introduction of payment holidays, as part of the measures related to consequences of COVID-19 pandemic. The Group considered effect from these modifications to be insignificant.

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(Thousands of euros)

11. Loans to banks (continued)

Allowance for impairment of loans to banks

A reconciliation of the allowance for ECL related to the impairment of loans to banks by country for the year ended 31 December 2021 is as follows:

	Mongolia	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Other*	*Total*
Allowance for ECL at 1 January 2021	**501**	**806**	**587**	**29**	**1,923**
Net (reversal)/charge of impairment allowance for ECL during the year	468	(324)	999	(29)	**1,114**
Foreign exchange differences	53	55	–	–	**108**
At 31 December 2021	**1,022**	**537**	**1,586**	**–**	**3,145**

A reconciliation of the allowance for ECL related to the impairment of loans to banks by country for the year ended 31 December 2020 is as follows:

	Mongolia	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Other*	*Total*
Allowance for ECL at 1 January 2020	**609**	**464**	**332**	**265**	**1,670**
Net (reversal)/charge of impairment allowance for ECL during the year	(71)	401	255	(237)	**348**
Foreign exchange differences	(37)	(59)	–	1	**(95)**
At 31 December 2020	**501**	**806**	**587**	**29**	**1,923**

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(Thousands of euros)

11. 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 2021 and 31 December 2020.

	31 December 2021		*31 December 2020*	
	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	48,664	40.9	38,953	42.2
Uncollateralized part of the loans	70,270	59.1	53,450	57.8
Loans to banks	**118,934**	**100.0**	**92,403**	**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 2021, long-term loans and trade financing loans to five banks (31 December 2020: five banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group's consolidated statement of financial position. As at 31 December 2021, the total amount of such major loans was EUR 110,678 thousand (31 December 2020: EUR 88,670 thousand) and allowances of EUR 2,884 thousand (31 December 2020: EUR 1,881 thousand) were made for them.

12. Loans to customers

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

	31 December 2021	*31 December 2020*
Owned by the Group		
Loans to customers at amortized cost		
Russian Federation	229,767	126,522
Romania	114,119	115,804
Hungary	100,463	70,863
Slovak Republic	90,066	107,894
Republic of Bulgaria	80,188	78,130
Kingdom of the Netherlands	68,124	37,404
Mongolia	59,623	58,600
Federal Republic of Germany	50,206	50,206
Grand Duchy of Luxembourg	40,060	20,034
Republic of Panama	28,032	24,564
The Kingdom of Spain	25,106	25,106
Socialist Republic of Vietnam	24,319	38,173
Republic of Ecuador	22,501	23,677
Czech Republic	15,036	–
Cyprus	11,724	7,784
USA	1,701	1,816
France	–	35,272
Total loans to customers at amortized cost	**961,035**	**821,849**
Loans to customers at fair value through other comprehensive income		
Republic of Bulgaria	24,802	16,767
Romania	24,136	15,006
Republic of Ireland	18,134	–
Slovak Republic	14,850	–
Hungary	–	41,249
Total loans to customers at fair value through other comprehensive income	**81,922**	**73,022**
Less: allowance for impairment of loans to customers	(9,432)	(6,357)
Loans to customers	**1,033,525**	**888,514**

(Thousands of euros)

12. Loans to customers (continued)

Loans to customers at fair value through other comprehensive income comprise of loans with the legal form of corporate bonds.

	31 December 2021	*31 December 2020*
Pledged under repurchase agreements		
Loans to customers at amortized cost		
Kingdom of the Netherlands	–	30,352
Total loans to customers at amortized cost pledged under repurchase agreements	**–**	**30,352**
Loans to customers at fair value through other comprehensive income		
Hungary	40,750	–
Republic of Bulgaria	–	15,068
Romania	–	2,000
Total loans to customers at fair value through other comprehensive income pledged under repurchase agreements	**40,750**	**17,068**
Less: allowance for impairment of loans to customers	–	(49)
Loans to customers pledged under repurchase agreements	**40,750**	**47,371**

Loans to customers at amortized cost and at fair value through other comprehensive income that are pledged under repurchase agreements comprise of loans with the legal form of bonds.

Movements in the gross carrying amount and respective ECL related to loans to customers at amortized cost for the year ended 31 December 2021 are as follows:

Loans to customers at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Carrying amount at 1 January 2021, gross	**827,246**	**391**	**24,564**	**852,201**
New purchased or originated assets	313,251	16	1,297	**314,564**
Assets derecognized or redeemed (excluding write-offs)	(223,649)	–	–	**(223,649)**
Transfers to Stage 2	(43,614)	43,614	–	**–**
Amounts written off	625	–	–	**625**
Foreign exchange differences	15,495	(371)	2,170	**17,294**
At 31 December 2021, gross	**889,354**	**43,650**	**28,031**	**961,035**

Loans to customers at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2021	**3,657**	**293**	**2,456**	**6,406**
New purchased or originated assets	1,741	1	2,508	**4,250**
Assets derecognized or redeemed (excluding write-offs)	(2,866)	–	(625)	**(3,491)**
Transfers to Stage 2	(131)	131	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	717	–	**717**
Changes to contractual cash flows due to modifications not resulting in derecognition	9	–	–	**9**
Changes to models and inputs used for ECL calculations	525	–	11	**536**
Amounts written off (against the allowance)	–	–	625	**625**
Foreign exchange differences	88	–	292	**380**
At 31 December 2021	**3,023**	**1,142**	**5,267**	**9,432**

(Thousands of euros)

12. Loans to customers (continued)

Movements in the gross carrying amount and respective ECL related to loans to customers at amortized cost for the year ended 31 December 2020 are as follows:

Loans to customers at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Carrying amount at 1 January 2020, gross	**669,721**	**27,182**	**14,317**	**711,220**
New purchased or originated assets	393,554	1,453	252	**395,259**
Assets derecognized or redeemed (excluding write-offs)	(198,615)	(1,593)	–	**(200,208)**
Transfers to Stage 3	–	(25,461)	25,461	**–**
Changes to contractual cash flows due to modifications not resulting in derecognition	(314)	–	–	**(314)**
Amounts written off	–	–	(14,067)	**(14,067)**
Foreign exchange differences	(37,100)	(1,190)	(1,399)	**(39,689)**
At 31 December 2020, gross	**827,246**	**391**	**24,564**	**852,201**

Loans to customers at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2020	**2,055**	**765**	**14,317**	**17,137**
New purchased or originated assets	709	4	–	**713**
Assets derecognized or redeemed (excluding write-offs)	(2,227)	(42)	–	**(2,269)**
Transfers to Stage 3	–	(967)	967	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	28	1,554	**1,582**
Changes to contractual cash flows due to modifications not resulting in derecognition	6	–	–	**6**
Changes to models and inputs used for ECL calculations	3,219	542	–	**3,761**
Amounts written off (against the allowance)	–	–	(14,067)	**(14,067)**
Foreign exchange differences	(105)	(37)	(315)	**(457)**
At 31 December 2020	**3,657**	**293**	**2,456**	**6,406**

Movements in the gross carrying amount and respective ECL related to loans to customers at fair value through other comprehensive income for the year ended 31 December 2021 are as follows:

Loans to customers at fair value through other comprehensive income	*Stage 1*	*Total*
Carrying amount at 1 January 2021, gross	**90,090**	**90,090**
New purchased or originated assets and change in fair value	75,696	**75,696**
Assets derecognized or redeemed (excluding write-offs)	(44,333)	**(44,333)**
Foreign exchange differences	1,219	**1,219**
At 31 December 2021, gross	**122,672**	**122,672**

Loans to customers at fair value through other comprehensive income	*Stage 1*	*Total*
Allowance for ECL at 1 January 2021	**161**	**161**
New purchased or originated assets	489	**489**
Assets derecognized or redeemed (excluding write-offs)	(321)	**(321)**
Changes to models and inputs used for ECL calculations	52	**52**
Foreign exchange differences	16	**16**
At 31 December 2021	**397**	**397**

(Thousands of euros)

12. Loans to customers (continued)

Movements in the gross carrying amount and respective ECL related to loans to customers at fair value through other comprehensive income for the year ended 31 December 2020 is as follows:

Loans to customers at fair value through other comprehensive income	*Stage 1*	*Total*
Carrying amount at 1 January 2020, gross	**40,429**	**40,429**
New purchased or originated assets and change in fair value	106,368	**106,368**
Assets derecognized or redeemed (excluding write-offs) and change in fair value	(56,707)	**(56,707)**
At 31 December 2020, gross	**90,090**	**90,090**

Loans to customers at fair value through other comprehensive income	*Stage 1*	*Total*
Allowance for ECL at 1 January 2020	**98**	**98**
New purchased or originated assets	56	**56**
Assets derecognized or redeemed (excluding write-offs)	(196)	**(196)**
Changes to models and inputs used for ECL calculations	203	**203**
At 31 December 2020	**161**	**161**

The information on overdue loans to customers as at 31 December 2021 and 31 December 2020 is provided below:

	31 December 2021	*31 December 2020*
Total loans with overdue principal and/or interest	28,032	24,564
Less: allowance for impairment of loans to customers	(5,267)	(2,456)
Overdue loans to customers	**22,765**	**22,108**

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.

Modified and restructured loans to customers

For the 2021, the Group has modified the terms and conditions of several loans to customers, including introduction of payment holidays, as part of the measures related to consequences of COVID-19 pandemic. The Group considered effect from these modifications to be insignificant (2020: no modified nor restructured with significant effect).

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(Thousands of euros)

12. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for ECL related to the impairment of loans to customers by country for the year ended 31 December 2021 is as follows:

	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Czech Republic*	*Mongolia*	*Socialist Republic of Vietnam*	*Other*	*Total*
Allowance for ECL at 1 January 2021	**577**	**159**	**172**	**367**	**77**	**–**	**1,121**	**757**	**3,176**	**6,406**
Net (reversal)/charge of impairment allowance for ECL during the year	789	(81)	(599)	(73)	22	13	(138)	(351)	2,438	**2,020**
Restore previously write off against previously accrued allowance	–	–	625	–	–	–	–	–	–	**625**
Foreign exchange differences	28	–	(2)	–	(3)	–	16	48	294	**381**
At 31 December 2021	**1,394**	**78**	**196**	**294**	**96**	**13**	**999**	**454**	**5,908**	**9,432**

A reconciliation of the allowance for ECL related to the impairment of loans to customers by country for the year ended 31 December 2020 is as follows:

	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Other*	*Total*
Allowance for ECL at 1 January 2020	**232**	**332**	**14,552**	**306**	**353**	**177**	**478**	**707**	**17,137**
Net (reversal)/charge of impairment allowance for ECL during the year	378	(173)	(60)	61	(276)	960	327	2,576	**3,793**
Write off against previously accrued allowance	–	–	(14,067)	–	–	–	–	–	**(14,067)**
Foreign exchange differences	(33)	–	(253)	–	–	(16)	(48)	(107)	**(457)**
At 31 December 2020	**577**	**159**	**172**	**367**	**77**	**1,121**	**757**	**3,176**	**6,406**

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(Thousands of euros)

12. 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 2021 and 31 December 2020:

	31 December 2021		*31 December 2020*	
	Loans to customers less impairment allowance	***Share in the total loans, %***	***Loans to customers less impairment allowance***	***Share in the total loans, %***
Pledge of real property (mortgage) and title	126,675	11.8	106,283	11.4
Pledge of equipment and goods in turnover	97,956	9.1	94,843	10.1
Pledge of shares	58,539	5.4	67,445	7.2
State guarantees	45,235	4.2	45,762	4.9
Corporate guarantees	42,724	4.0	72,221	7.7
Pledge of rights of claim	17,961	1.7	12,542	1.3
Pledge of vehicles	7,570	0.7	7,727	0.8
Uncollateralized part of the loans	677,615	63.1	529,062	56.5
Loans to customers	**1,074,275**	**100.0**	**935,885**	**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. As at 31 December 2021, the Group has not recognized a loss allowance of loans to ten borrowers (31 December 2020: eight borrowers) because of the collateral. These loans comprised EUR 155,473 thousand (31 December 2020: EUR 150,652 thousand) in total.

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit-impaired (Stage 3) assets. Dependent on the level of collateral, some Stage 3 exposures may not have individual ECLs when the expected value of the collateral is greater than the LGD, even in if the future value of collateral is forecast using multiple economic scenarios. However, the Stage 3 ECL can be higher than net exposure shown below when the future value of collateral, measured using multiple economic scenarios, is expected to decline.

	Maximum exposure to credit risk	***Value of collateral***	***Net exposure***	***Associated ECL***
31 December 2021	28,032	22,765	5,267	(5,267)
31 December 2020	24,564	22,108	2,456	(2,456)

Concentration of loans to customers

As at 31 December 2021, no loans to customers (31 December 2020: no loans) with a total amount of loans to each of them exceeding 10% of total loans to customers were recorded on the Group's consolidated statement of financial position.

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(Thousands of euros)

12. Loans to customers (continued)

Analysis of loans to customers by industry

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

	31 December 2021	*31 December 2020*
Production and transmission of electricity and gas	310,967	269,701
Leasing	174,641	89,852
Financial services	102,085	54,825
Automobile industry	75,312	75,312
Manufacturing of refined oil products	60,846	61,344
Real estate	56,155	70,370
Communications	40,231	51,332
Public health	40,060	20,034
Food and beverage	33,909	9,974
Textile manufacture	30,075	29,969
Retail	27,478	63,185
Metallurgic industry	23,442	32,550
Mining	21,120	19,475
Television and radio	18,067	20,058
Agriculture	16,229	17,602
Manufacturing of electrical equipment	15,036	–
Production of pharmaceutical products	11,903	12,759
Software engineering	11,724	7,784
Water collection, treatment and supply	4,918	4,783
Postal activities	4,142	4,471
Manufacturing of paper and paper products	3,330	–
Land transport	2,037	5,330
Transportation and storage	–	11,043
Accommodation	–	10,538
	1,083,707	**942,291**
Less: allowance for impairment of loans to customers	(9,432)	(6,406)
Loans to customers	**1,074,275**	**935,885**

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

13. Investment property

In 2021 and 2020, the following changes occurred in the cost of investment property under operating lease:

	2021	*2020*
At 1 January	**33,004**	**40,218**
Inseparable improvements	43	19
Disposals	(634)	(4,695)
Effect of revaluation	(102)	(1,413)
Transfers (to)/from property and equipment (Note 14)	–	(1,125)
Carrying amount at 31 December	**32,311**	**33,004**

The Group leases out investment properties under operating lease agreements. In 2021, the Group's income from lease of investment property amounted to EUR 2,373 thousand (2020: EUR 2,078 thousand).

The Group regularly reassess the fair value of its investment property to ensure that the current value of the investment property does not significantly differ from its fair value. As at 31 December 2021, investment properties were measured at fair value based on the results of the valuation performed by independent companies of professional appraisers that have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. As at 31 December 2021, management of the Group believes that the fair value of the investment property, determined by reference to market-based evidence and potential ability to generate income, does not significantly differ from its carrying amount at that date. For further details on the fair value of investment property, refer to Note 27.

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

(Thousands of euros)

14. Property, equipment and intangible assets

Movements in property, equipment and intangible assets for the years 2021 and 2020 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Intangible assets*	*Other*	*Capital expenditure*	*Total*
Cost or revalued amount									
At 1 January 2021	**33,342**	**6,764**	**2,642**	**421**	**776**	**4,775**	**117**	**27,101**	**75,938**
Additions	–	–	–	–	–	–	–	3,318	**3,318**
Transfers	29,133	429	282	107	230	205	25	(30,411)	**–**
Disposals	–	(282)	(6)	(13)	0	0	(1)	(8)	**(310)**
Recovery of accumulated depreciation and amortization upon revaluation	(597)	–	–	–	–	–	–	–	**(597)**
Effect of revaluation	260	–	–	–	–	–	–	–	**260**
At 31 December 2021	**62,138**	**6,911**	**2,918**	**515**	**1,006**	**4,980**	**141**	**–**	**78,609**
Accumulated depreciation and amortization									
At 1 January 2021	**–**	**(5,493)**	**(2,202)**	**(257)**	**(695)**	**(1,584)**	**(106)**	**–**	**(10,337)**
Charge for the period	(853)	(397)	(292)	(30)	(28)	(376)	(4)	–	**(1,980)**
Disposals	–	282	5	12	–	–	–	–	**299**
Recovery of accumulated depreciation and amortization upon revaluation	597	–	–	–	–	–	–	–	**597**
At 31 December 2021	**(256)**	**(5,608)**	**(2,489)**	**(275)**	**(723)**	**(1,960)**	**(110)**	**–**	**(11,421)**
Net book value									
At 31 December 2020	**33,342**	**1,271**	**440**	**164**	**81**	**3,191**	**11**	**27,101**	**65,601**
At 31 December 2021	**61,882**	**1,303**	**429**	**240**	**283**	**3,020**	**31**	**–**	**67,188**

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(Thousands of euros)

14. 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 2020	**37,079**	**7,050**	**2,419**	**457**	**772**	**4,510**	**121**	**323**	**52,731**
Additions	–	–	–	–	–	–	–	28,183	**28,183**
Transfers	34	494	226	6	4	265	–	(1,029)	–
Disposals	–	(780)	(3)	(42)	–	–	(4)	(376)	**(1,205)**
Transfers from investment property (Note 13)	1,125	–	–	–	–	–	–	–	**1,125**
Recovery of accumulated depreciation and amortization upon revaluation	(2,467)	–	–	–	–	–	–	–	**(2,467)**
Effect of revaluation	(2,429)	–	–	–	–	–	–	–	**(2,429)**
At 31 December 2020	**33,342**	**6,764**	**2,642**	**421**	**776**	**4,775**	**117**	**27,101**	**75,938**
Accumulated depreciation and amortization									
At 1 January 2020	**(1,943)**	**(5,920)**	**(1,917)**	**(274)**	**(662)**	**(1,195)**	**(105)**	**–**	**(12,016)**
Charge for the period	(636)	(353)	(288)	(24)	(33)	(389)	(5)	–	**(1,728)**
Disposals	112	780	3	41	–	–	4	–	**940**
Recovery of accumulated depreciation and amortization upon revaluation	2,467	–	–	–	–	–	–	–	**2,467**
At 31 December 2020	**–**	**(5,493)**	**(2,202)**	**(257)**	**(695)**	**(1,584)**	**(106)**	**–**	**(10,337)**
Net book value									
At 31 December 2019	**35,136**	**1,130**	**502**	**183**	**110**	**3,315**	**16**	**323**	**40,715**
At 31 December 2020	**33,342**	**1,271**	**440**	**164**	**81**	**3,191**	**11**	**27,101**	**65,601**

In 2020 the Group acquired the historic Lánchíd Palota building for its headquarters in Budapest for EUR 26,800 thousand and classified it in the capital expenditure as it is not put into use. In 2021 the Group classified it in the Buildings.

As at 31 December 2021, the cost of fully depreciated property and equipment still used by the Group was EUR 6,501 thousand (31 December 2020: EUR 5,826 thousand).

(Thousands of euros)

14. Property, equipment and intangible assets (continued)

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

The Group regularly performs revaluation of the fair value of its buildings to ensure that the current book value of buildings owned by the Group does not differ significantly from their fair value. Revaluation of buildings owned by the Group at market value was performed as at 31 October 2021 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 2021, 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 27.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2021 and 31 December 2020 would be as follows:

	2021	*2020*
Cost	**35,043**	**33,834**
Additions	29,133	35
Transfers from/(to) investment property	–	1,174
Accumulated depreciation	(18,823)	(18,264)
Net book value	**45,353**	**16,779**

15. Other assets and liabilities

Other assets comprise:

	31 December 2021	*31 December 2020*
Financial assets		
Accounts receivable on business operations	483	301
Settlements on bank transactions	341	330
Guarantee payments	4	11
Other financial assets	567	634
	1,395	**1,276**
Less allowance for impairment of financial assets	(234)	(216)
Total financial assets	**1,161**	**1,060**
Non-financial assets		
Total non-financial assets	**1,364**	**1,351**
Other assets	**2,525**	**2,411**

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(Thousands of euros)

15. Other assets and liabilities (continued)

An analysis of changes in the ECL allowances during the year ended 31 December 2021 and 31 December 2020 are as follows:

Financial assets	***Total***
Allowance for ECL at 1 January 2021	**216**
New purchased or originated assets	92
Assets derecognized or redeemed (excluding write-offs)	(92)
Foreign exchange differences	18
At 31 December 2021	**234**

Financial assets	***Total***
Allowance for ECL at 1 January 2020	**1,763**
New purchased or originated assets	123
Assets derecognized or redeemed (excluding write-offs)	(155)
Changes to contractual cash flows due to modifications not resulting in derecognition	4
Amounts written off (against the allowance)	(1,304)
Foreign exchange differences	(215)
At 31 December 2020	**216**

Other liabilities comprise:

	31 December 2021	***31 December 2020***
Financial liabilities		
Other accounts payable on business operations	2,868	1,992
Other accounts payable on bank transactions	708	664
Total financial liabilities	**3,576**	**2,656**
Non-financial liabilities		
Settlements with employees	8,965	8,182
Allowance for ECL on credit-related commitments	905	977
Other non-financial liabilities	269	1,406
Total non-financial liabilities	**10,139**	**10,565**
Other liabilities	**13,715**	**13,221**

The Group applies IAS 19 *Employee Benefits* to account for its pension liabilities. As at 31 December 2021, the Bank has a defined benefit plan including two subprograms − compulsory and voluntary. The compulsory insurance subprogram applies to all employees of the Bank. Pursuant to the regulation, benefits under the compulsory subprogram are made of contributions calculated as a certain fixed percentage of the employee's salary.

Employees can join the voluntary insurance subprogram any time at their convenience, and have the right to withdraw any time. Under the program, the Bank co-finances employees' contributions. The voluntary part of the Bank's contributions depends on the related voluntary contributions made by the employee and may not exceed a certain percentage of the employee's salary.

As at 31 December 2021, the Bank's pension liabilities of EUR 5,807 thousand (31 December 2020: EUR 5,002 thousand) were included in non-financial liabilities (settlements with employees) in the consolidated statement of financial position. Pension expenses for 2021 in the amount of EUR 1,376 thousand (2020: EUR 1,362 thousand) were recorded in the consolidated income statement principally as "Employee compensations and employment taxes" within "General and administrative expenses".

(Thousands of euros)

16. Allowances for expected credit losses

The table below shows (decrease)/increase of allowances for ECL on financial instruments recorded in profit or loss for the year ended 31 December 2021 and year ended 31 December 2020.

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	2	–	–	**2**
Securities at fair value through other comprehensive income	9	(43)	–	–	**(43)**
Securities at amortized cost	10	(10)	–	–	**(10)**
Loans to banks	11	1,420	(306)	–	**1,114**
Loans to customers	12	(371)	718	1,894	**2,241**
Non-financial liabilities (allowance for ECL on credit-related commitments)	15, 21	(16)	(67)	–	**(83)**
Total allowance for ECL for the 2021 year		**982**	**345**	**1,894**	**3,221**

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	(1)	–	–	**(1)**
Securities at fair value through other comprehensive income	9	7	–	–	**7**
Securities at amortized cost	10	8	–	–	**8**
Loans to banks	11	160	188	–	**348**
Loans to customers	12	1,770	532	1,554	**3,856**
Other financial assets	15	(1)	–	(27)	**(28)**
Non-financial liabilities (allowance for ECL on credit-related commitments)	15, 21	159	–	–	**159**
Total allowance for ECL for the 2020 year		**2,102**	**720**	**1,527**	**4,349**

Movements in allowances for ECL on financial instruments for the year ended 31 December 2021 and 31 December 2020 were as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2021	**6,575**	**666**	**37,636**	**44,877**
New purchased or originated assets	5,514	1	2,508	**8,023**
Assets derecognized or redeemed (excluding write-offs)	(5,679)	(622)	(625)	**(6,926)**
Transfers to Stage 2	(131)	131	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	717	–	**717**
Changes to contractual cash flows due to modifications not resulting in derecognition	9	–	–	**9**
Changes in models and inputs used for ECL assessment	1,138	249	11	**1,398**
Amounts written off (against the allowance)	–	–	625	**625**
Translation differences	232	–	287	**519**
At 31 December 2021	**7,658**	**1,142**	**40,442**	**49,242**

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(Thousands of euros)

16. Allowances for expected credit losses (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2020	**4,861**	**832**	**51,042**	**56,735**
New purchased or originated assets	2,279	4	–	**2,283**
Assets derecognized or redeemed (excluding write-offs)	(5,510)	(42)	(27)	**(5,579)**
Transfers to Stage 2	(118)	118	–	**–**
Transfers to Stage 3	–	(967)	967	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	216	1,554	**1,770**
Changes to contractual cash flows due to modifications not resulting in derecognition	6	–	–	**6**
Changes in models and inputs used for ECL assessment	5,327	542	–	**5,869**
Amounts written off (against the allowance)	–	–	(15,371)	**(15,371)**
Translation differences	(270)	(37)	(529)	**(836)**
At 31 December 2020	**6,575**	**666**	**37,636**	**44,877**

17. 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 2021	*31 December 2020*
Due to banks up to 1 year		
Term deposits of banks and other financial institutions	64,409	51,484
Total due to banks up to 1 year	**64,409**	**51,484**
Due to banks over 1 year		
Repurchase agreements	53,526	95,602
Total due to banks over 1 year	**53,526**	**95,602**
Due to banks and other financial institutions	**117,935**	**147,086**

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

Concentration of deposits from banks and other financial institutions

As at 31 December 2021, the Group has four counterparties (31 December 2020: three counterparties) each accounting for over 10% of the Group's total deposits from banks and other financial institutions in the total amount of EUR 117,526 thousand (31 December 2020: EUR 130,361 thousand).

The table below provides a summary of the financial assets transferred by the Group in such a way that all the transferred financial assets do not qualify for derecognition:

	Corporate bonds	*Total*
Transferred financial asset	*2021*	*2021*
Carrying amount of assets	**58,312**	**58,312**
- Securities at fair value through other comprehensive income	17,562	**17,562**
- Loans to customers	40,750	**40,750**
Carrying amount of associated liabilities	**(53,526)**	**(53,526)**
- Due to banks	(53,526)	**(53,526)**
Net position	**4,786**	**4,786**

(Thousands of euros)

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

Concentration of deposits from banks and other financial institutions (continued)

Transferred financial asset	*Corporate bonds 2020*	*Total 2020*
Carrying amount of assets	**125,232**	**125,232**
- Securities at fair value through other comprehensive income	28,456	**28,456**
- Securities at amortized cost	49,405	**49,405**
- Loans to customers	47,371	**47,371**
Carrying amount of associated liabilities	**(95,602)**	**(95,602)**
- Due to banks	(95,602)	**(95,602)**
Net position	**29,630**	**29,630**

Securities sold under repurchase agreements are transferred to a third party and the Group receives cash in exchange. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional collateral in the form of cash and/or other securities. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

The related liabilities, which are recorded against the cash received for such transactions, are presented in amounts due to banks and other financial institutions in the consolidated statement of financial position as at 31 December 2021 and 31 December 2020.

18. Long-term loans of banks

Long-term loans of banks comprise:

	31 December 2021	*31 December 2020*
Loans of banks	45,749	60,004
SSD	17,034	17,003
Long-term loans of banks	**62,783**	**77,007**

On 19 March 2018, the Group received the first tranche from the BRICS New Development Bank in the amount of USD 12.5 million (EUR 10,273 thousand) under the loan agreement of USD 50.0 million. On 17 July 2018, the Group received the second tranche in the amount of USD 12.5 million (EUR 10,674 thousand). On 6 August 2019, the Group received the third tranche in the amount of USD 12.5 million (EUR 11,147 thousand). On 23 March 2020, the Group received the fourth and final tranche in the amount of USD 12.5 million (EUR 11,681 thousand).

On 14 April 2020 the Group received EUR 20.0 million according to the bilateral loan facility with ROSBANK (Societe Generale Group). On 12 October 2021 the Group repaid the loan in amount of EUR 20.0 million.

In 2017, the Group issued SSD debentures (Schuldscheindarlehen) in the Western European market in the total amount of EUR 23,000 thousand. On 6 April 2020 the Group repaid tranche in amount of EUR 6.0 million.

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(Thousands of euros)

19. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*31 December 2021*	*31 December 2020*
RUB-denominated bonds	0.01-7.75	2023-2027	309,751	286,233
RON-denominated bonds	3.39-3.98	2022-2023	249,830	258,195
HUF-denominated bonds	1.25-2.25	2022-2024	193,105	171,170
CZK-denominated bonds	1.50-4.08	2023-2024	176,501	80,766
EUR-denominated bonds	0.00-0.95	2023-2041	104,752	80,152
Debt securities issued			**1,033,939**	**876,516**

On 19 October 2021, the Group issued RON 200 million (EUR 40,378 thousand) under MTN Programme with the maturity of 2 years, coupon of 3.9% p.a. Bonds were listed on the Euronext Dublin.

On 15 October 2021, the Group issued EUR 50 million under MTN Programme with 2-year maturity, coupon of 0.0% and yield of -0.02%. Bonds were listed on the Euronext Dublin.

On 15 October 2021, the Group had repaid its EUR 80 million and RON 300 million (EUR 60,610 thousand) 3-year bonds, which were listed on Bucharest Stock Exchange.

On 27 September 2021, the Group issued bonds under MTN program in the amount of CZK 1,251 million (EUR 48,270 thousand) with the maturity of 2.5 years with the coupon of 1.5% p.a. Bonds were listed on the Euronext Dublin.

On 29 April 2021, the Group repaid bonds in amount RON 110,000 thousand (EUR 22,319 thousand).

On 26 April 2021, the Group repaid bonds in amount CZK 1,500 million (EUR 58,043 thousand) and issued bonds under MTN program in the amount of CZK 2,499 million (EUR 96,556 thousand) with 3 years maturity and fixed rate at 1.50% p.a. Bonds were listed on the Euronext Dublin.

On 24 March 2021, the Group issued bonds under MTN program in the amount of RON 190 million (EUR 38,876 thousand) with 2 years maturity and with coupon set at 3m Robor + 65 bps. Bonds were listed on the Euronext Dublin.

On 18 March 2021, the Group issued bonds under MTN program in the amount of HUF 8,500 million (EUR 23,189 thousand) with 3 years maturity and fixed rate at 1.90% p.a. Bonds were listed on the Euronext Dublin.

On 2 February 2021, the Group issued bonds under MTN program in the amount of EUR 25 million with 3 years maturity and fixed rate at 0.12% p.a. Bonds were listed on the Euronext Dublin.

On 25 January 2021, the Group issued bonds under MTN program in the amount of EUR 30 million with 20 years maturity and fixed rate at 0.95% p.a. Bonds were listed on the Euronext Dublin.

On 17 November 2020, under regular put option the Group bought back RUB denominated bonds series 04 in the amount of RUB 5,000 million (EUR 54,574 thousand) setting up the new interest rate at 0.01% p.a. till the maturity date.

On 7 October 2020, the Group issued its 4th series bonds under MTN program in the amount of RON 340 million (EUR 69,759 thousand) with 3 years maturity and fixed rate at 3.393% p.a.

On 28 September 2020 the Group issued its 3rd series bonds under the MTN program in the amount of HUF 15,000 million (EUR 41,177 thousand) with 3 years maturity and fixed interest rate at 2.25% p.a.

On 25 September 2020 the Group repaid its first issued dual tranche bond listed on Bucharest Stock Exchange in the amount of RON 300 million (EUR 61,503 thousand) and EUR 60 million.

On 11 September 2020 the Group issued its new RUB denominated bonds in the amount of RUB 7 billion (EUR 78,742 thousand) with 2.5 year maturity and fixed interest rate at 5.95% p.a.

(Thousands of euros)

19. Debt securities issued (continued)

On 10 September 2020 under regular put option the Group bought back RUB denominated bonds series BO-001P-01 in the amount of RUB 7,303 thousand (EUR 82 thousand) keeping the interest rate at 0.01% p.a. till the maturity date.

On 19 May 2020, the Group had tapped the Russian market second time and placed RUB denominated bonds series BO-001P-04 in the amount of RUB 7 billion (EUR 88,230 thousand) with 3 year maturity and fixed coupon rate at 6.75% p.a.

On 19 May 2020, the Group had executed second transaction under the MTN program in the amount of CZK 621 million (EUR 22,770 thousand) and three years maturity with coupon set at 3m Pribor + 90 bps. Both bonds were listed on the Euronext Dublin.

On 29 April 2020, the Group had placed its RUB denominated bonds. The series BO-001P-02 has been issued in the amount of RUB 7 billion (EUR 87,320 thousand) with 5 year maturity and fixed coupon rate at 7.75% p.a. The series BO-001P-03 has been issued in the amount of RUB 5 billion (EUR 62,368 thousand) with 5 year maturity and fixed coupon rate at 7.75% p.a.

On 16 April 2020, the Group had executed debut transaction under newly registered MTN program amounting to RON 110 million (EUR 22,678 thousand) with one year maturity. The fixed coupon of the issuance stands at 4.55%.

On 12 March 2020, the Group had repurchased its RUB-denominated bonds series 01 in the total amount of RUB 9,987,876 thousand (EUR 124,155 thousand) under regular Issuer's put option.

At the issue dates of the non-EUR-denominated bonds, the Group entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7) and exchanging interest expense from debt securities issued, denominated in RUB, RON, HUF, CZK to the currency required by the Group (EUR, USD) to finance credit projects in the required currency. The Group applies hedge accounting for the forward foreign exchange risk of the bond issues:

- In Romanian lei (RON) placed on 1 November 2019, 7 October 2020, 24 March 2021 and 19 October 2021;
- In Hungarian forint (HUF) placed on 18 October 2019, 28 September 2020 and 18 March 2021;
- In Russian ruble (RUB) placed on 29 April 2020, 19 May 2020 and 11 September 2020;
- In Czech korunas (CZK) placed on 19 May 2020, 26 April 2021 and 27 September 2021.

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

The Group primarily used the proceeds from issuance of debt instruments and placement of bonds to expand its loan portfolio and establish additional liquidity buffers as a measure to mitigate the effects of COVID-19 pandemics and uncertainties on global financial markets.

20. Equity

Subscribed and paid-in capital

On 18 August 2018, new statutory documents of the International Investment Bank entered into force. Pursuant to the amended statutory documents, the Bank's authorized capital amounts to EUR 2,000,000 thousand (31 December 2020: EUR 2,000,000 thousand), which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

As at 31 December 2021, the unpaid portion of the Bank's authorized capital consists of the callable capital (contributions that have not been made yet by the Bank's member countries) in the amount of EUR 699,631 thousand (31 December 2020: EUR 745,790 thousand) and the amount of unallocated equity contributions (quotas that are available to new or existing Member countries) totaling EUR 875,500 thousand (31 December 2020: EUR 875,500 thousand).

(Thousands of euros)

20. Equity (continued)

Subscribed and paid-in capital (continued)

During the year 2021, the Bank's member countries made additional contributions to the Bank's equity in total amount EUR 46,159 thousand (the Government of Slovak Republic: EUR 4,433 thousand, the Government of Hungary: EUR 8,254 thousand, the Government of Mongolia: EUR 700 thousand, the Government of Russian Federation: EUR 30,960 thousand and the Government of Republic of Cuba: EUR 1,812 thousand). The paid-in capital of the International Investment Bank totaled EUR 424,869 thousand (31 December 2020: EUR 378,710 thousand).

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

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

	Revaluation reserve for securities	*Cash flow hedge reserve*	*Revaluation reserve for property and equipment*
At 1 January 2020	**6,157**	**(809)**	**10,861**
Net change in the fair value of securities at FVOCI	16,628	–	–
Change in the allowance for ECL on securities at FVOCI	58	–	–
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the consolidated income statement	(14,618)	–	–
Revaluation of buildings	–	–	(2,429)
Effective portion of changes in fair value arising from CCIRS	–	(30,976)	–
Net amount reclassified to net losses from operations with foreign currencies and derivatives	–	31,537	–
At 31 December 2020	**8,225**	**(248)**	**8,432**
At 1 January 2021	**8,225**	**(248)**	**8,432**
Net change in the fair value of securities at FVOCI	(3,660)	–	–
Change in the allowance for ECL on securities at FVOCI	199	–	–
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the consolidated income statement	(4,822)	–	–
Revaluation of buildings	–	–	259
Effective portion of changes in fair value arising from CCIRS	–	(12,605)	–
Net amount reclassified to net losses from operations with foreign currencies and derivatives	–	(16,939)	–
At 31 December 2021	**(58)**	**(29,792)**	**8,691**

Revaluation reserve for securities

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

Revaluation reserve for property and equipment

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

Cash flow hedge reserve

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

(Thousands of euros)

21. Commitments and contingencies

Legal

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

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

Insurance

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

Taxation

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

Credit-related commitments

At any time the Group may have outstanding commitments to extend loans. These commitments take the form of approved loan agreements. As at 31 December 2021, credit-related commitments of the Group 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 2021 and 31 December 2020:

	31 December 2021	***31 December 2020***
Undrawn loan facilities	104,627	182,769
Guarantees issued	70,498	42,863
Reimbursement obligations	–	1,455
	175,125	**227,087**
Less: allowance for impairment of credit-related commitments	(905)	(977)
Credit-related commitments	**174,220**	**226,110**

(Thousands of euros)

21. Commitments and contingencies (continued)

Credit-related commitments (continued)

Movements in the gross carrying amount and respective ECL related to undrawn loan facilities for the year ended 31 December 2021 are as follows:

Undrawn loan facilities	*Stage 1*	*Stage 2*	*Total*
Carrying amount at 1 January 2021, gross	**182,702**	**67**	**182,769**
New purchased or originated credit-related commitments	275,745	–	**275,745**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(357,167)	(67)	**(357,234)**
Translation differences	3,347	–	**3,347**
At 31 December 2021, gross	**104,627**	**–**	**104,627**

Undrawn loan facilities	*Stage 1*	*Stage 2*	*Total*
Allowance for ECL at 1 January 2021	**563**	**67**	**630**
New purchased or originated credit-related commitments	441	–	**441**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(706)	(67)	**(773)**
Changes to models and inputs used for ECL calculations	7	–	**7**
Translation differences	(1)	–	**(1)**
At 31 December 2021	**304**	**–**	**304**

Movements in the gross carrying amount and respective ECL related to undrawn loan facilities for the year ended 31 December 2020 are as follows:

Undrawn loan facilities	*Stage 1*	*Stage 2*	*Total*
Carrying amount at 1 January 2020, gross	**92,285**	**67**	**92,352**
New purchased or originated credit-related commitments	522,007	–	**522,007**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(425,528)	–	**(425,528)**
Translation differences	(6,062)	–	**(6,062)**
At 31 December 2020, gross	**182,702**	**67**	**182,769**

Undrawn loan facilities	*Stage 1*	*Stage 2*	*Total*
Allowance for ECL at 1 January 2020	**62**	**67**	**129**
New purchased or originated credit-related commitments	522	–	**522**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(185)	–	**(185)**
Changes to models and inputs used for ECL calculations	175	–	**175**
Translation differences	(11)	–	**(11)**
At 31 December 2020	**563**	**67**	**630**

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(Thousands of euros)

21. Commitments and contingencies (continued)

Credit-related commitments (continued)

Movements in the gross carrying amount and respective ECL related to guarantees issued for the year ended 31 December 2021 are as follows:

Guarantees issued	***Stage 1***	***Total***
Carrying amount at 1 January 2021, gross	**42,863**	**42,863**
New purchased or originated credit-related commitments	30,076	**30,076**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(4,480)	**(4,480)**
Translation differences	2,039	**2,039**
At 31 December 2021, gross	**70,498**	**70,498**

Guarantees issued	***Stage 1***	***Total***
Allowance for ECL at 1 January 2021	**343**	**343**
New purchased or originated credit-related commitments	463	**463**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(217)	**(217)**
Translation differences	12	**12**
At 31 December 2021	**601**	**601**

Movements in the gross carrying amount and respective ECL related to guarantees issued for the year ended 31 December 2020 are as follows:

Guarantees issued	***Stage 1***	***Total***
Carrying amount at 1 January 2020, gross	**73,669**	**73,669**
New purchased or originated credit-related commitments	10,764	**10,764**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(33,949)	**(33,949)**
Translation differences	(7,621)	**(7,621)**
At 31 December 2020, gross	**42,863**	**42,863**

Guarantees issued	***Stage 1***	***Total***
Allowance for ECL at 1 January 2020	**588**	**588**
New purchased or originated credit-related commitments	371	**371**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(574)	**(574)**
Translation differences	(42)	**(42)**
At 31 December 2020	**343**	**343**

Movements in the gross carrying amount and respective ECL related to reimbursement obligations for the year ended 31 December 2021 are as follows:

Reimbursement obligations	***Stage 1***	***Total***
Carrying amount at 1 January 2021, gross	**1,455**	**1,455**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(1,455)	**(1,455)**
At 31 December 2021, gross	**–**	**–**

Reimbursement obligations	***Stage 1***	***Total***
Allowance for ECL at 1 January 2021	**4**	**4**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(4)	**(4)**
At 31 December 2021	**–**	**–**

(Thousands of euros)

21. Commitments and contingencies (continued)

Credit-related commitments (continued)

Movements in the gross carrying amount and respective ECL related to reimbursement obligations for the year ended 31 December 2020 are as follows:

Reimbursement obligations	***Stage 1***	***Total***
Carrying amount at 1 January 2020, gross	**17,032**	**17,032**
New purchased or originated credit-related commitments	3,032	**3,032**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(18,654)	**(18,654)**
Translation differences	45	**45**
At 31 December 2020, gross	**1,455**	**1,455**

Reimbursement obligations	***Stage 1***	***Total***
Allowance for ECL at 1 January 2020	**154**	**154**
New purchased or originated credit-related commitments	39	**39**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(213)	**(213)**
Changes to models and inputs used for ECL calculations	24	**24**
At 31 December 2020	**4**	**4**

22. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 31 December 2021, the Group's non-cancelable operating lease rentals amount to EUR 777 thousand and will be settled within 1 month − 1 year and 1-2 years EUR 121 thousand (31 December 2020: EUR 1,103 thousand and will be settled 1 month − 1 year).

23. Interest income and interest expenses

Net interest income comprises:

	2021	***2020***
Interest income		
Interest income calculated using the EIR method		
Loans to customers	44,196	32,335
Loans to banks	4,371	5,041
Securities at fair value through other comprehensive income	3,569	4,802
Securities at amortized cost	1,222	1,302
Deposits with banks and other financial institutions, including cash and cash equivalents	339	691
Other	10	10
Other interest income		
Cross-currency interest rate swaps covering long-term currency risks	21,177	19,903
Investments at fair value through profit or loss	657	107
Total interest income	**75,541**	**64,191**
Interest expenses		
Interest expenses calculated using the EIR method		
Debt securities issued	(39,083)	(34,544)
Long-term loans of banks	(1,799)	(1,265)
Due to banks and other financial institutions	(130)	(836)
Current customer accounts	(315)	(256)
Other	(205)	(224)
Other interest expenses		
Cross-currency interest rate swaps covering long-term currency risks	(10,509)	(9,677)
Total interest expenses	**(52,041)**	**(46,802)**
Net interest income	**23,500**	**17,389**

(Thousands of euros)

24. Net losses from operations with foreign currencies and derivatives

Net losses from operations with foreign currencies and derivatives comprise:

	2021	*2020*
Derivative financial instruments and operations with foreign currencies		
Net gains/(losses) from operations with foreign currencies and derivatives	9,203	(16,847)
Net (losses)/gains from revaluation of derivative financial instruments	(38,346)	27,102
Total derivative financial instruments and operations with foreign currencies	**(29,143)**	**10,255**
Translation differences		
Net gains/(losses) from revaluation of assets and liabilities in foreign currencies	26,995	(11,568)
Net losses from operations in foreign currencies and with derivatives	**(2,148)**	**(1,313)**

25. General and administrative expenses

General and administrative expenses comprise:

	2021	*2020*
Employee compensations and employment taxes	15,233	15,601
IT expenses, inventory and occupancy expenses	2,475	2,340
Depreciation and disposal of property, equipment and intangible assets	1,980	1,731
Professional services	476	886
Expenses related to business travel, representative and accommodation expenses	362	325
Other	593	584
General and administrative expenses	**21,119**	**21,467**

26. Risk management

Risk management framework

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

The Group's risk management activities are intended to:

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

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

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.

(Thousands of euros)

26. Risk management (continued)

Risk management system

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

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

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

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

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

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

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

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

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 proposals for setting credit risk limits in respect of 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 its qualitative and quantitative assessment, prepares recommendations for the Management Board and committees of the Group to mitigate risk impact on the Group's performance. To assess the impact on the financial stability of the Group of low probable but possible adverse events, The Risk Management Department regularly conducts stress testing, the results of which are reported to management.

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

(Thousands of euros)

26. 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 identify potential primary evidence of impairment of pledged assets.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Group's limits applied to transactions on money, currency and equity markets, 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 Group is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

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

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

The risk appetite is approved by the Board of Directors of the Bank on an annual basis for the next year and is 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 in the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis in the course of funds placement, the Risk Management Department monitors financial and non-financial risks affecting the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of the Finance Committee and, if necessary, also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

(Thousands of euros)

26. 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 discharges them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of potential credit risk exposures such as individual borrower or counterparty default risk.

System of credit risk management

The Group's regulatory documents establish the following:

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

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.

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(Thousands of euros)

26. 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, Compliance Control Department, Structured and Debt Financing Department and ALM Unit. 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 "no objection" vote from the country of origin of the borrower or making a decision by the Board of Directors / Board of Governors, within their competencies.

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

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

Collateral and other credit enhancements

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

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

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

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

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

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

(Thousands of euros)

26. Risk management (continued)

Credit risk (continued)

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

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

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

The Group's portfolio of loans to banks and customers (less allowance for impairment) by type of collateral is analyzed in Notes 11 and 12.

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 12.

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

Derivative financial instruments

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

Credit quality per class of financial assets

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

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

Impairment assessment

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

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(Thousands of euros)

26. Risk management (continued)

Credit risk (continued)

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

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

Key inputs required for ECL calculation are as follows:

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

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

- GDP growth rates;
- External credit rating;
- 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.

(Thousands of euros)

26. Risk management (continued)

Credit risk (continued)

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.

The tables below provide an analysis of the Group's internal expected credit loss rating scale as of 31 December 2021 and how it correspond to the external ratings of the S&P credit rating service.

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

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(Thousands of euros)

26. Risk management (continued)

Credit risk (continued)

The table provides overview of the exposure amount and allowance for credit losses by long-term loans to banks and trade financing loans (Note 11) and loans to customers (Note 12) class broken down into stages as per IFRS 9 requirements as at 31 December 2021 and 31 December 2020:

31 December 2021	*Amount*				*Allowance for impairment*			
Internal risk rating category	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Trade financing loans and long-term loans to banks								
Good	16,042	–	–	**16,042**	139	–	–	**139**
Fair	55,787	–	–	**55,787**	1,420	–	–	**1,420**
Special attention	50,250	–	–	**50,250**	1,586	–	–	**1,586**
Loans to customers at amortized cost								
Strong	212,490	–	–	**212,490**	87	–	–	**87**
Good	411,970	43,257	–	**455,227**	638	848	–	**1,486**
Fair	211,760	–	–	**211,760**	1,421	–	–	**1,421**
Special attention	53,232	–	28,032	**81,264**	877	–	5,267	**6,144**
Expected loss	–	294	–	**294**	–	294	–	**294**
Loans to customers at fair value through other comprehensive income								
Very strong	14,850	–	–	**14,850**	7	–	–	**7**
Strong	40,750	–	–	**40,750**	31	–	–	**31**
Good	32,025	–	–	**32,025**	48	–	–	**48**
Fair	35,047	–	–	**35,047**	311	–	–	**311**
	1,134,203	**43,551**	**28,032**	**1,205,786**	**6,565**	**1,142**	**5,267**	**12,974**

31 December 2020	*Amount*				*Allowance for impairment*			
Internal risk rating category	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Trade financing loans and long-term loans to banks								
Good	18,834	–	–	**18,834**	239	–	–	**239**
Fair	35,953	–	–	**35,953**	1,097	–	–	**1,097**
Special attention	21,898	17,641	–	**39,539**	281	306	–	**587**
Loans to customers at amortized cost								
Strong	209,694	–	–	**209,694**	123	–	–	**123**
Good	338,337	–	–	**338,337**	536	–	–	**536**
Fair	214,002	–	–	**214,002**	2,224	–	–	**2,224**
Special attention	65,311	–	24,564	**89,875**	774	–	2,456	**3,230**
Expected loss	–	293	–	**293**	–	293	–	**293**
Loans to customers at fair value through other comprehensive income								
Good	73,084	–	–	**73,084**	65	–	–	**65**
Fair	17006	–	–	**17,006**	96	–	–	**96**
	994,119	**17,934**	**24,564**	**1,036,617**	**5,435**	**599**	**2,456**	**8,490**

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.

(Thousands of euros)

26. Risk management (continued)

Liquidity risk (continued)

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

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

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

The liquidity buffer is formed primarily of liquidity reserves, namely securities recognized in the Group's balance sheet and included in the Lombard lists of the European Central Bank and the 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 2021, the liquidity buffer amounts to EUR 360.8 million (31 December 2020: EUR 216.3 million).

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

	31 December 2021	*31 December 2020*
Less than 1 month	12,822	10,450
1 to 3 months	3,643	11,306
3 months to 1 year	46,342	69,217
1 to 5 years	41,516	92,617
Credit-related commitments	**104,323**	**183,590**

Credit-related commitment in the amount of EUR 41,516 thousand (2020: EUR 92,617 thousand) is included in the term of 1 to 5 years based on professional judgment and experience of relationship with the counterparty. However, in accordance with contractual terms this commitment can be requested upon request if other conditions for the disbursement are fulfilled by the counterparty.

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(Thousands of euros)

26. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of financial assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted debt securities at fair value through other comprehensive income, securities at fair value through profit or loss 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 2021							*31 December 2020*						
	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*
Financial assets														
Cash and cash equivalents	89,123	48	–	–	–	–	**89,171**	86,198	6	–	–	–	–	**86,204**
Deposits with banks and other financial institutions	–	335	–	58,626	–	–	**58,961**	–	–	358	29,076	–	–	**29,434**
Derivative financial assets	31	332	130	10,840	–	–	**11,333**	2,970	–	3,134	13,096	–	–	**19,200**
Investments at fair value through profit or loss	11,713	–	–	–	–	–	**11,713**	9,063	–	–	–	–	–	**9,063**
Securities at fair value through other comprehensive income	218,492	17,562	–	–	–	–	**236,054**	224,297	152	28,304	–	–	–	**252,753**
Securities at amortized cost	–	157	361	46,852	39,411	–	**86,781**	28	4,254	356	28,156	62,258	–	**95,052**
Loans to banks	5,517	2,067	12,515	50,434	48,401	–	**118,934**	3,199	3,953	17,842	67,409	–	–	**92,403**
Loans to customers	15,081	25,656	102,726	573,187	334,917	22,708	**1,074,275**	9,729	18,964	74,596	326,674	483,814	22,108	**935,885**
Other financial assets	182	444	533	2	–	–	**1,161**	164	366	530	–	–	–	**1,060**
Total financial assets	**340,139**	**46,601**	**116,265**	**739,941**	**422,729**	**22,708**	**1,688,383**	**335,648**	**27,695**	**125,120**	**464,411**	**546,072**	**22,108**	**1,521,054**
Financial liabilities														
Due to banks and other financial institutions	(26,410)	(66,525)	(25,000)	–	–	–	**(117,935)**	(15,000)	(25,685)	(105,361)	(1,040)	–	–	**(147,086)**
Derivative financial liabilities	–	(12,703)	(13,768)	(46,861)	–	–	**(73,332)**	(46)	–	(3,803)	(35,844)	–	–	**(39,693)**
Current customer accounts	(16,445)	–	–	–	–	–	**(16,445)**	(12,871)	–	–	–	–	–	**(12,871)**
Long-term loans of banks	–	(2,904)	(2,846)	(38,791)	(18,242)	–	**(62,783)**	–	(230)	(20,149)	(34,778)	(21,850)	–	**(77,007)**
Debt securities issued	(267)	(69,465)	(167,166)	(767,434)	(29,607)	–	**(1,033,939)**	(542)	(1,954)	(225,100)	(648,920)	–	–	**(876,516)**
Other financial liabilities	(1,262)	(1,224)	(508)	(582)	–	–	**(3,576)**	(83)	(1,855)	(430)	(185)	(103)	–	**(2,656)**
Total financial liabilities	**(44,384)**	**(152,821)**	**(209,288)**	**(853,668)**	**(47,849)**	–	**(1,308,010)**	**(28,542)**	**(29,724)**	**(354,843)**	**(720,767)**	**(21,953)**	–	**(1,155,829)**
Net position	**295,755**	**(106,220)**	**(93,023)**	**(113,727)**	**374,880**	**22,708**	**380,373**	**307,106**	**(2,029)**	**(229,723)**	**(256,356)**	**524,119**	**22,108**	**365,225**
Accumulated net position	**295,755**	**189,535**	**96,512**	**(17,215)**	**357,665**	**380,373**		**307,106**	**305,077**	**75,354**	**(181,002)**	**343,117**	**365,225**	

(Thousands of euros)

26. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2021 and 31 December 2020 based on contractual undiscounted repayment obligations except for gross settled derivatives that are shown by contractual maturity. Debt securities issued with put options (offers) are presented as if investors will exercise their options at the earliest possible date. The Group assumes that it will have to make payment on current bond offers.

At 31 December 2021	*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	26,409	66,526	25,000	–	–	**117,935**
Current customer accounts	16,445	–	–	–	–	**16,445**
Net settled derivative financial instruments	–	–	192	–	–	**192**
Gross settled derivative financial instruments:						
- Contractual amounts payable	2,207	105,858	227,881	987,026	–	**1,322,972**
- Contractual amounts receivable	(1,688)	(93,447)	(229,504)	(982,658)	–	**(1,307,297)**
Long-term loans of banks	–	3,158	3,592	42,338	19,101	**68,189**
Debt securities issued	285	72,012	194,553	813,085	34,332	**1,114,267**
Other financial liabilities	1,262	1,224	508	582	–	**3,576**
Total undiscounted financial liabilities	**44,920**	**155,331**	**222,222**	**860,373**	**53,433**	**1,336,279**

At 31 December 2020	*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	15,000	25,686	105,616	1,040	–	**147,342**
Current customer accounts	12,871	–	–	–	–	**12,871**
Net settled derivative financial instruments	(2,953)	–	–	–	–	**(2,953)**
Gross settled derivative financial instruments:						
- Contractual amounts payable	8,969	2,797	224,938	797,157	–	**1,033,861**
- Contractual amounts receivable	(8,943)	(3,439)	(236,902)	(799,052)	–	**(1,048,336)**
Long-term loans of banks	–	449	21,171	39,417	23,443	**84,480**
Debt securities issued	669	3,852	251,169	713,087	53	**968,830**
Other financial liabilities	83	1,855	430	185	103	**2,656**
Total undiscounted financial liabilities	**25,696**	**31,200**	**366,422**	**751,834**	**23,599**	**1,198,751**

Market risk

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

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

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

The 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)

26. 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 2021 and 31 December 2020, final data on the value at risk (VaR) assessment in relation to currency and price risks assumed by the Group are represented as follows:

	2021	***2020***
Fixed income securities price risk	2,634	3,374
Currency risk	67	111

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

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

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

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(Thousands of euros)

26. Risk management (continued)

Market risk (continued)

The Group has assets and liabilities denominated in several foreign currencies. The financial position and the cash flows are exposed to the effects of fluctuations in foreign currency exchange rates. Non-monetary financial instruments and financial instruments denominated in functional currency are not exposed to currency risk. The Group's exposure to currency risk as at 31 December 2021 and 31 December 2020 is presented below:

	31 December 2021						
	EUR	***USD***	***RUB***	***HUF***	***RON***	***Other currencies***	***Total***
Non-derivative financial assets							
Cash and cash equivalents	71,866	163	15,147	125	1,810	60	**89,171**
Deposits with banks and other financial institutions	58,961	–	–	–	–	–	**58,961**
Investments at fair value through profit or loss	3,251	–	8,462	–	–	–	**11,713**
Securities at fair value through other comprehensive income	67,142	149,931	18,981	–	–	–	**236,054**
Securities at amortized cost	64,754	22,027	–	–	–	–	**86,781**
Long-term loans to banks	49,650	69,284	–	–	–	–	**118,934**
Loans to customers	661,528	118,952	164,623	80,289	48,883	–	**1,074,275**
Other financial assets	773	36	66	286	–	–	**1,161**
Total non-derivative financial assets	**977,925**	**360,393**	**207,279**	**80,700**	**50,693**	**60**	**1,677,050**
Non-derivative financial liabilities							
Due to banks and other financial institutions	(117,526)	–	–	(409)	–	–	**(117,935)**
Current customer accounts	(16,414)	(31)	–	–	–	–	**(16,445)**
Long-term loans of banks	(17,034)	(43,573)	–	(2,176)	–	–	**(62,783)**
Debt securities issued	(104,752)	–	(309,751)	(193,105)	(249,830)	(176,501)	**(1,033,939)**
Other financial liabilities	(2,188)	(186)	(437)	(676)	(39)	(50)	**(3,576)**
Total non-derivative financial liabilities	**(257,914)**	**(43,790)**	**(310,188)**	**(196,366)**	**(249,869)**	**(176,551)**	**(1,234,678)**
Net balance sheet position (excluding derivative financial instruments)	**720,011**	**316,603**	**(102,909)**	**(115,666)**	**(199,176)**	**(176,491)**	**442,372**
Derivative financial instruments							
Claims	443,795	8,838	176,680	183,291	227,364	167,448	**1,207,416**
Liabilities	(777,702)	(290,708)	(95,266)	(73,541)	(32,198)	–	**(1,269,415)**
Net balance sheet position, including derivative financial instruments	**386,104**	**34,733**	**(21,495)**	**(5,916)**	**(4,010)**	**(9,043)**	**380,373**

(Thousands of euros)

26. Risk management (continued)

Market risk (continued)

	31 December 2020						
	EUR	***USD***	***RUB***	***HUF***	***RON***	***Other currencies***	***Total***
Non-derivative financial assets							
Cash and cash equivalents	82,706	1,194	1,426	167	580	131	**86,204**
Deposits with banks and other financial institutions	29,434	–	–	–	–	–	**29,434**
Investments at fair value through profit or loss	1,379	–	7,684	–	–	–	**9,063**
Securities at fair value through other comprehensive income	127,799	113,795	11,159	–	–	–	**252,753**
Securities at amortized cost	70,593	24,459	–	–	–	–	**95,052**
Long-term loans to banks	44,151	48,252	–	–	–	–	**92,403**
Loans to customers	628,161	116,973	88,384	50,723	51,644	–	**935,885**
Other financial assets	874	6	47	133	–	–	**1,060**
Total non-derivative financial assets	**985,097**	**304,679**	**108,700**	**51,023**	**52,224**	**131**	**1,501,854**
Non-derivative financial liabilities							
Due to banks and other financial institutions	(136,642)	(9,759)	–	(685)	–	–	**(147,086)**
Current customer accounts	(12,842)	(29)	–	–	–	–	**(12,871)**
Long-term loans of banks	(37,017)	(39,990)	–	–	–	–	**(77,007)**
Debt securities issued	(80,152)	–	(286,233)	(171,170)	(258,195)	(80,766)	**(876,516)**
Other financial liabilities	(1,431)	(228)	(450)	(406)	(85)	(56)	**(2,656)**
Total non-derivative financial liabilities	**(268,084)**	**(50,006)**	**(286,683)**	**(172,261)**	**(258,280)**	**(80,822)**	**(1,116,136)**
Net balance sheet position (excluding derivative financial instruments)	**717,013**	**254,673**	**(177,983)**	**(121,238)**	**(206,056)**	**(80,691)**	**385,718**
Derivative financial instruments							
Claims	296,372	26,007	178,041	173,673	233,535	80,777	**988,405**
Liabilities	(689,680)	(244,933)	–	(50,362)	(23,923)	–	**(1,008,898)**
Net balance sheet position, including derivative financial instruments	**323,705**	**35,747**	**58**	**2,073**	**3,556**	**86**	**365,225**

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(Thousands of euros)

26. Risk management (continued)

Market risk (continued)

Interest rate risk

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

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

The Group's sensitivity by currency as of 31 December 2021 and 31 December 2020 is presented below:

	2021		*2020*	
	1-scenario: Parallel shock up (+1 b.p.)	***2-scenario: Parallel shock down (-1 b.p.)***	***1-scenario: Parallel shock up (+1 b.p.)***	***2-scenario: Parallel shock down (-1 b.p.)***
EUR	(40)	40	(46)	46
USD	24	(24)	7	(7)
RUB	5	(5)	(9)	9
HUF	(36)	36	(37)	37
RON	3	(3)	4	(4)
CZK	–	–	–	–

The table below shows the Group's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

31 December 2021	***Non-derivative financial assets - carrying value***	***Non-derivative financial liabilities - carrying value***	***Derivatives Nominal amount***
LIBOR USD (1 months)	4,728	–	–
LIBOR USD (3 months)	13,485	–	–
LIBOR USD (6 months)	126,012	(43,573)	–
Cross currency swaps			
LIBOR USD (3 months) to EUR	–	–	19,411
EUR to LIBOR USD (3 months)	–	–	8,440

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.

(Thousands of euros)

27. Fair value measurements

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

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

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs which have a significant effect on the recognized fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy. The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2021 and 31 December 2020:

	Level 1 31 December 2021	*Level 2 31 December 2021*	*Level 3 31 December 2021*	*Total 31 December 2021*
Assets measured at fair value				
Derivative financial assets	–	11,333	–	**11,333**
Corporate bonds at fair value through profit or loss	8,462	–	–	**8,462**
Investments at fair value through profit or loss	–	3,251	–	**3,251**
Government bonds at fair value through other comprehensive income	38,385	–	–	**38,385**
Corporate bonds at fair value through other comprehensive income	152,665	45,004	–	**197,669**
Loans to customers at fair value through other comprehensive income	122,672	–	–	**122,672**
Investment property	–	–	32,311	**32,311**
Property and equipment – buildings	–	–	61,882	**61,882**
Liabilities measured at fair value				
Derivative financial liabilities	–	73,332	–	**73,332**
Assets for which fair values are disclosed				
Cash and cash equivalents	146	89,025	–	**89,171**
Deposits with banks and other financial institutions	–	–	58,961	**58,961**
Securities at amortized cost	88,766	–	–	**88,766**
Loans to banks at amortized cost	–	–	119,193	**119,193**
Loans to customers at amortized cost	160,468	–	823,513	**983,981**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	117,935	**117,935**
Current customer accounts	–	–	16,445	**16,445**
Long-term loans of banks	–	–	62,783	**62,783**
Debt securities issued	–	1,003,771	–	**1,003,771**

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(Thousands of euros)

27. Fair value measurements (continued)

Fair value hierarchy (continued)

	Level 1 31 December 2020	*Level 2 31 December 2020*	*Level 3 31 December 2020*	*Total 31 December 2020*
Assets measured at fair value				
Derivative financial assets	–	19,200	–	**19,200**
Corporate bonds at fair value through profit or loss	7,684	–	–	**7,684**
Investments at fair value through profit or loss	–	1,379	–	**1,379**
Government bonds at fair value through other comprehensive income	83,755	–	–	**83,755**
Corporate bonds at fair value through other comprehensive income	155,520	21,162	–	**176,682**
Loans to customers at fair value through other comprehensive income	90,090	–	–	**90,090**
Investment property	–	–	33,004	**33,004**
Property and equipment − buildings	–	–	33,342	**33,342**
Liabilities measured at fair value				
Derivative financial liabilities	–	39,693	–	**39,693**
Assets for which fair values are disclosed				
Cash and cash equivalents	326	85,878	–	**86,204**
Deposits with banks and other financial institutions	–	–	29,434	**29,434**
Securities at amortized cost	99,751	–	–	**99,751**
Loans to banks at amortized cost	–	–	92,110	**92,110**
Loans to customers at amortized cost	64,060	–	803,331	**867,391**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	147,086	**147,086**
Current customer accounts	–	–	12,871	**12,871**
Long-term loans of banks	–	–	77,007	**77,007**
Debt securities issued	–	891,806	–	**891,806**

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 2021	*Fair value 31 December 2021*	*Unrecognized gain/(loss) 31 December 2021*	*Carrying amount 31 December 2020*	*Fair value 31 December 2020*	*Unrecognized gain/(loss) 31 December 2020*
Financial assets						
Cash and cash equivalents	89,171	89,171	–	86,204	86,204	–
Deposits with banks and other financial institutions	58,961	58,961	–	29,434	29,434	–
Securities at amortized cost	86,781	88,766	1,985	95,052	99,751	4,699
Loans to banks at amortized cost	118,934	119,193	259	92,403	92,110	(293)
Loans to customers at amortized cost	951,603	983,981	32,378	845,795	867,391	21,596
Financial liabilities						
Due to banks and other financial institutions	117,935	117,935	–	147,086	147,086	–
Current customer accounts	16,445	16,445	–	12,871	12,871	–
Long-term loans of banks	62,783	62,783	–	77,007	77,007	–
Debt securities issued	1,033,939	1,003,771	30,168	876,516	891,806	(15,290)
Total unrecognized change in unrealized fair value			**64,790**			**10,712**

(Thousands of euros)

27. 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 2021 and 31 December 2020 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 2021 and 31 December 2020.

Investment property

According to management, at 31 December 2021, fair values of investment properties were determined using the market approach and the discounted cash flow method.

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

(Thousands of euros)

27. Fair value measurements (continued)

Methodologies and assumptions (continued)

Property and equipment − buildings

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

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

As at the valuation date (31 December 2021), the significant unobservable inputs used in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 2,066 per. sq. m (range minimum) to EUR 3,626 per sq. m (range maximum), and lease rates ranging from EUR 321 per sq. m. a year (minimum) to EUR 385 per sq. m. a year (maximum).

Transfers between the levels of the fair value hierarchy are deemed to have made as at the end of the reporting period. There were no transfers of financial instruments between Level 1 and Level 2 in the year ended 31 December 2021 and 2020.

Changes in Level 3 assets and liabilities at fair value

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

	At 1 January 2021	*Losses recorded in profit or loss / other comprehensive income*	*Additions/ (disposals)*	*At 31 December 2021*
Assets				
Property and equipment − buildings	33,342	(593)	29,133	61,882
Investment property	33,004	(102)	(591)	32,311
Total	**66,346**	**(695)**	**28,542**	**94,193**

	At 1 January 2020	*Losses recorded in profit or loss / other comprehensive income*	*Additions/ (disposals)*	*Transfer to property and equipment*	*At 31 December 2020*
Assets					
Property and equipment − buildings	35,136	(2,953)	34	1,125	33,342
Investment property	40,218	(1,413)	(4,676)	(1,125)	33,004
Total	**75,354**	**(4,366)**	**(4,642)**	**–**	**66,346**

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(Thousands of euros)

28. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 31 December 2021 and 31 December 2020:

2021	*Gross amount of recognized financial assets*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
			Financial instruments	*Cash collateral received*	
Financial assets					
Deposits with banks and other financial institutions	35,110	35,110	–	(35,110)	–
Derivative financial assets	10,880	10,880	(10,854)	–	**26**
Financial instruments pledged under repurchase agreements	58,312	58,312	(53,526)	–	**4,786**
Total	**104,302**	**104,302**	**(64,380)**	**(35,110)**	**4,812**
Financial liabilities					
Derivative financial liabilities	45,964	45,964	(10,854)	(35,110)	–
Repurchase agreements	53,526	53,526	(53,526)	(335)	–
Total	**99,490**	**99,490**	**(64,380)**	**(35,445)**	–

2020	*Gross amount of recognized financial assets*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
			Financial instruments	*Cash collateral received*	
Financial assets					
Derivative financial assets	14,442	14,442	(13,412)	(1,040)	–
Financial instruments pledged under repurchase agreements	125,232	125,232	(95,602)	–	**29,630**
Total	**139,674**	**139,674**	**(109,014)**	**(1,040)**	**29,630**
Financial liabilities					
Derivative financial liabilities	13,412	13,412	(13,412)	–	–
Repurchase agreements	95,602	95,602	(95,602)	(358)	–
Total	**109,014**	**109,014**	**(109,014)**	**(358)**	–

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(Thousands of euros)

29. Segment information

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

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

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

31 December 2021	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income calculated using the EIR method	48,567	5,123	17	**53,707**
Other interest income	–	21,834	–	**21,834**
Fee and commission income	1,461	–	–	**1,461**
Net gains from operations with investments at fair value through other comprehensive income	2,270	2,552	–	**4,822**
Net gains from operations with investments at fair value through profit or loss	–	1,423	–	**1,423**
Net gains from operations with investments amortized cost	–	480	–	**480**
Income from lease of investment property	–	–	2,373	**2,373**
Other segment income/(expense)	695	–	501	**1,196**
Total income	**52,993**	**31,412**	**2,891**	**87,296**
Interest expenses calculated using the EIR method	(27,600)	(13,932)	–	**(41,532)**
Other interest expenses	–	(10,509)	–	**(10,509)**
Net allowance for credit losses on financial instruments	(2,707)	(514)	–	**(3,221)**
Fee and commission expense	(19)	(360)	(2)	**(381)**
Net losses from operations with foreign currencies and derivatives	–	(2,166)	18	**(2,148)**
Losses from revaluation of investment property	–	–	(102)	**(102)**
Other segment expenses	(52)	(6)	(348)	**(406)**
Segment results	**22,615**	**3,925**	**2,457**	**28,997**
Other unallocated expenses				**(21,119)**
Profit for the year				**7,878**
Development portfolio	1,193,359	168,184	–	**1,361,543**
Other segment assets	–	325,744	101,959	**427,703**
Total segment assets	**1,193,359**	**493,928**	**101,959**	**1,789,246**
Total segment liabilities	**741,453**	**564,356**	**12,340**	**1,318,149**
Other segment information				
Capital expenditures	–	–	(27,102)	**(27,102)**

The Group's management separates the "Development portfolio" assets allocated within operating segments. The criterion for the separation is whether the investment corresponds the Group'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.

(Thousands of euros)

29. Segment information (continued)

31 December 2020	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income calculated using the EIR method	37,376	6,792	13	**44,181**
Other interest income	–	20,010	–	**20,010**
Fee and commission income	2,047	–	–	**2,047**
Net gains from operations with investments at fair value through other comprehensive income	–	14,618	–	**14,618**
Income from lease of investment property	–	–	2,078	**2,078**
Gains from sale of investment property	–	–	647	**647**
Other segment income/(expense)	107	(71)	108	**144**
Total income	**39,530**	**41,349**	**2,846**	**83,725**
Interest expenses calculated using the EIR method	(22,164)	(14,961)	–	**(37,125)**
Other interest expenses	–	(9,677)	–	**(9,677)**
Net allowance for credit losses on financial instruments	(46)	(265)	(10)	**(321)**
Fee and commission expense	(4,246)	(131)	28	**(4,349)**
Net losses from operations with foreign currencies and derivatives	–	(1,267)	(46)	**(1,313)**
Losses from operations with investments at fair value through profit or loss	–	(77)	(213)	**(290)**
Losses from revaluation of investment property	–	–	(1,413)	**(1,413)**
Other segment expenses	(49)	(20)	(402)	**(471)**
Segment results	**13,025**	**14,951**	**790**	**28,766**
Other unallocated expenses				**(21,467)**
Profit for the year				**7,299**
Development portfolio	941,730	147,362	–	**1,089,092**
Other segment assets	86,789	344,214	100,915	**531,918**
Total segment assets	**1,028,519**	**491,576**	**100,915**	**1,621,010**
Total segment liabilities	**591,183**	**563,368**	**11,843**	**1,166,394**
Other segment information				
Capital expenditures	–	–	26,800	**26,800**

In 2021, the Group's revenue from lease operations with three external counterparties (31 December 2020: two external counterparties) exceeded 20% of the Group's total revenue (2021: EUR 1,547 thousand; 2020: EUR 1,065 thousand).

Geographical information

Allocation of the Group's revenue from transactions with external customers based on the location of these customers for the year ended 31 December 2021 and 31 December 2020 is presented in the table below:

	31 December 2021			*31 December 2020*		
	Member countries	*Other countries*	*Total*	*Member countries*	*Other countries*	*Total*
Interest income calculated using the EIR method	40,555	13,152	**53,707**	32,138	12,043	**44,181**
Other interest income	3,290	18,544	**21,834**	4,099	15,911	**20,010**
Income from lease of investment property	2,373	–	**2,373**	2,078	–	**2,078**

In 2021 interest income calculated using the EIR method of member countries include revenue from transactions with customers from Russian Federation EUR 15,412 thousand and Romania EUR 6,557 thousand (2020: Russian Federation EUR 8,279 thousand and Romania EUR 6,851 thousand). Non-current assets of the Group are located in member countries.

(Thousands of euros)

29. Segment information (continued)

Geographical information (continued)

Information on risk concentration by geographical region is based on the geographical location of the Group's counterparties. The geographical concentration of the Group's financial assets and liabilities as at 31 December 2021 and 31 December 2020 is presented below:

	31 December 2021										
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Republic of Cuba*	*Other countries*	*Total*
Financial assets											
Cash and cash equivalents	15,150	350	1,810	–	296	–	–	–	–	71,565	**89,171**
Deposits with banks and other financial institutions	2,966	335	–	–	–	–	–	–	–	55,660	**58,961**
Derivative financial assets	–	–	–	–	465	–	–	–	–	10,868	**11,333**
Investments at fair value through profit or loss	8,462	–	–	–	–	–	–	–	–	3,251	**11,713**
Securities at fair value through other comprehensive income	–	–	10,003	–	–	–	–	–	–	226,051	**236,054**
Securities at amortized cost	20,682	–	–	–	–	–	–	9,988	–	56,111	**86,781**
Long-term loans to banks	–	–	–	–	–	39,554	30,716	–	48,664	–	**118,934**
Loans to customers	228,374	104,912	138,059	104,622	141,117	58,624	23,865	15,023	–	259,679	**1,074,275**
Other financial assets	51	–	–	–	912	40	–	46	–	112	**1,161**
Financial assets	**275,685**	**105,597**	**149,872**	**104,622**	**142,790**	**98,218**	**54,581**	**25,057**	**48,664**	**683,297**	**1,688,383**
Financial liabilities											
Due to banks and other financial institutions	–	(59,838)	–	–	(409)	–	–	–	–	(57,688)	**(117,935)**
Derivative financial liabilities	(3,056)	–	(3,304)	–	–	–	–	–	–	(66,972)	**(73,332)**
Long-term loans of banks	–	–	–	–	(2,176)	–	–	–	–	(60,607)	**(62,783)**
Debt securities issued	(309,751)	–	(249,830)	–	(297,857)	–	–	(176,501)	–	–	**(1,033,939)**
Other financial liabilities	(407)		–	–	(2,903)	–	–	(79)	–	(187)	**(3,576)**
Financial liabilities	**(313,214)**	**(59,838)**	**(253,134)**	–	**(303,345)**		–	**(176,580)**	–	**(185,454)**	**(1,291,565)**

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(Thousands of euros)

29. Segment information (continued)

Geographical information (continued)

	31 December 2020										
	Russian Federation	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Hungary***	***Mongolia***	***Socialist Republic of Vietnam***	***Czech Republic***	***Republic of Cuba***	***Other countries***	***Total***
Financial assets											
Cash and cash equivalents	1,383	341	580	–	583	–	–	59	–	83,258	**86,204**
Deposits with banks and other financial institutions	116	–	–	–	–	–	–	–	–	29,318	**29,434**
Derivative financial assets	2,990	–	–	–	–	–	–	–	–	16,210	**19,200**
Investments at fair value through profit or loss	7,684	–	–	–	–	–	–	–	–	1,379	**9,063**
Securities at fair value through other comprehensive income	–	13,795	44,105	–	33,502	–	–	976	–	160,375	**252,753**
Securities at amortized cost	20,753	–	–	–	–	–	–	9,986	–	64,313	**95,052**
Long-term loans to banks	–	–	–	–	–	15,446	34,327	–	38,953	3,677	**92,403**
Loans to customers	125,944	109,807	132,638	107,527	112,035	57,479	37,416	–	–	253,039	**935,885**
Other financial assets	37	14	12	16	809	7	–	–	–	165	**1,060**
Financial assets	**158,907**	**123,957**	**177,335**	**107,543**	**146,929**	**72,932**	**71,743**	**11,021**	**38,953**	**611,734**	**1,521,054**
Financial liabilities											
Due to banks and other financial institutions	–	(39,759)	(20,205)	–	(685)	–	–	(10,000)	–	(76,437)	**(147,086)**
Derivative financial liabilities	–	–	(21)	–	–	–	–	–	–	(39,672)	**(39,693)**
Long-term loans of banks	(20,015)	–	–	–	–	–	–	–	–	(56,992)	**(77,007)**
Debt securities issued	(286,233)	–	(338,347)	–	(171,170)	–	–	(80,766)	–	–	**(876,516)**
Other financial liabilities	(213)	–	–	–	(2,128)	–	–	–	–	(315)	**(2,656)**
Financial liabilities	**(306,461)**	**(39,759)**	**(358,573)**	**–**	**(173,983)**	–	**–**	**(90,766)**	**–**	**(173,416)**	**(1,142,958)**

Other countries include non-member countries.

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(Thousands of euros)

30. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures.* In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and settlements with related parties were carried out on conditions similar to those which prevail in transactions between independent parties.

Volumes of related party transactions, outstanding balances at 31 December 2021 and 31 December 2020, and related expenses and income for the year ended 31 December 2021 and 31 December 2020 are as follows:

	Related party	*31 December 2021* *Carrying amount*	*31 December 2020* *Carrying amount*
Consolidated statement of financial position			
Other assets	Key management personnel	50	–
Current customer accounts	Key management personnel	1,710	2,081
Other liabilities	Key management personnel	1,717	1,360

	Related party	*2021* *Expense*	*2020* *Expense*
Consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(52)	(42)
Net interest expense after allowance for loan impairment		**(52)**	**(42)**
Expenses from operating activities		**(52)**	**(42)**
Employee benefits	Key management personnel	(2,245)	(2,340)
Compensation for travel expenses and medical insurance	Key management personnel	(68)	(57)
Operating expenses		**(2,313)**	**(2,397)**
Net expense for the period		**(2,365)**	**(2,439)**

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

	31 December 2021	*31 December 2020*
Consolidated of financial position		
Investments at fair value through profit or loss	8,462	7,684
Securities at fair value through other comprehensive income	–	47,897
Securities at amortized cost	30,670	30,739
Loans to banks	48,664	39,259
Loans to customers	336,642	299,140
Other assets	–	30
Commitment and contingencies		
Undrawn loan facilities	63,311	134,379
Consolidated income statement		
Interest income calculated using the EIR method	16,972	12,367
Fee and commission income	652	689
Net gains/(losses) from operations with investments at fair value through profit or loss	188	(77)
Net gains from operations with securities at fair value through other comprehensive income	4,119	6,730
Other income/(expenses)	519	(138)

(Thousands of euros)

31. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Long-term loans of banks*	*Total liabilities arising from financing activities*
Carrying amount at 31 December 2019		**793,537**	**56,735**	**850,272**
Additions	20	473,113	31,564	**504,677**
Repayment	20	(300,552)	(6,000)	**(306,552)**
Interest paid		(33,681)	(2,003)	**(35,684)**
Translation differences		(90,445)	(4,554)	**(94,999)**
Interest accrued		34,544	1,265	**35,809**
Carrying amount at 31 December 2020		**876,516**	**77,007**	**953,523**
Additions	20	351,624	2,227	**353,851**
Repayment	20	(220,734)	(20,000)	**(240,734)**
Interest paid		(35,885)	(1,656)	**(37,541)**
Translation differences		23,335	3,406	**26,741**
Interest accrued		39,083	1,799	**40,882**
Carrying amount at 31 December 2021		**1,033,939**	**62,783**	**1,096,722**

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 2021, interest of EUR 14,104 thousand (31 December 2020: EUR 13,169 thousand) received under cross-currency interest rate swap agreements, shifting interest expenses on issued debt securities denominated in currencies other than the euro, is recorded in the "Interest paid" line of the consolidated statement of cash flows.

32. Capital adequacy

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

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 31 December 2021, this minimum level was 8% (31 December 2020: 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 2021 (31 December 2020: 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 2021 and 31 December 2020.

	31 December 2021	*31 December 2020*
Capital		
Tier 1 capital	488,781	436,627
Tier 2 capital	8,633	16,407
Total regulatory capital	**497,414**	**453,034**
Risk-weighted assets		
Credit risk	1,215,572	1,079,122
Market risk	240,488	219,388
Operational risk	52,328	47,112
Total risk-weighted assets	**1,508,388**	**1,345,622**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	32.98%	33.67%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	32.40%	32.45%

(Thousands of euros)

33. Events after the reporting period

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

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

On 03 February 2022, the Government of Republic of Cuba made an additional contribution of EUR 177,7 thousand to the Bank's equity. As a result, the paid-in capital of the International Investment Bank grew to EUR 425,047 thousand and Republic of Cuba increased its share to 1.73%.

(End).