



IBEC

INTERNATIONAL BANK
FOR ECONOMIC CO-OPERATION



**ANNUAL REPORT
2018**





TABLE OF CONTENTS

1. About the Bank	3
2. Address of the Chairman of the IBEC Board	4
3. IBEC Governing Bodies	5
4. Key Events of 2018	7
5. Key Financial Results for 2018	8
6. Active Operations	9
6.1. Lending Activities	11
6.2. Landmark Projects of 2018	14
6.3. Financial Market Activities	17
7. Funding Base	20
7.1. Capital	21
7.2. Borrowed Funds	22
8. Settlement Service	23
9. Partner Network and Participation in Business Community Events	25
10. Updated IBEC Strategy until 2020	27
11. Risk Management	29
12. Compliance Control and Internal Audit	30
13. IT Infrastructure	31
14. Human Resource Management	32
15. Contact Information	33

ABOUT THE BANK



Established
on October 22,
1963

ADVANTAGES

A unique geography of the member states contributes to the development of cross-border trade relations between European and Asian countries, as well as regional diversification of risks.

IBEC is not subject to sanctions: the restrictive measures established by EU Council Regulation No. 833/2014 dated July 31, 2014 do not apply to the financial operation of the Bank.

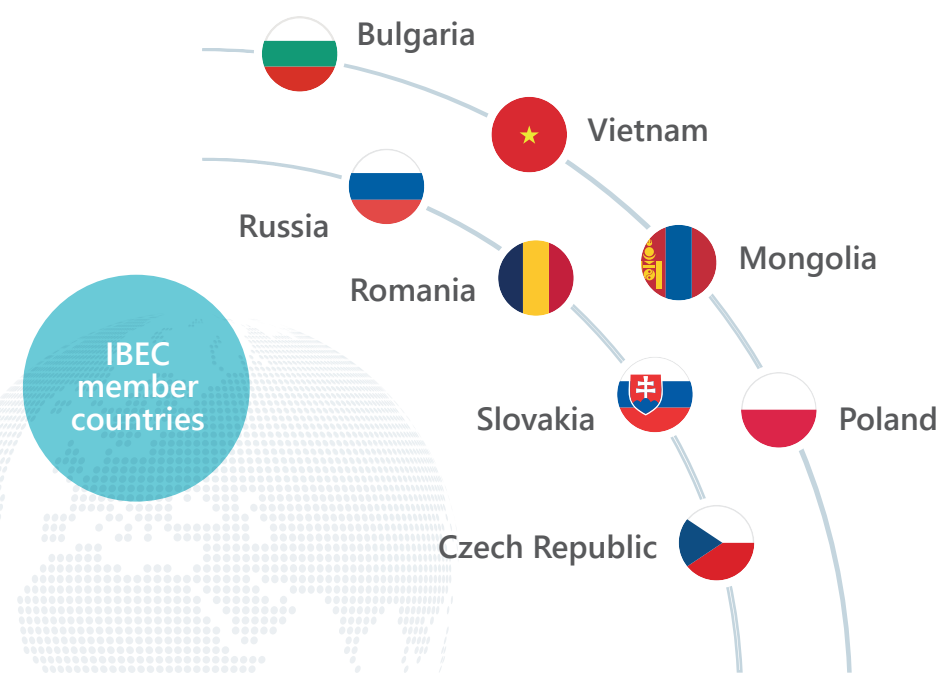
The peculiarity of IBEC distinguishing it from other multilateral development institutions is the ability to perform the settlement function, to open and maintain customer accounts both in basic global currencies and in the currencies of the member states.



INTERNATIONAL STATUS

The International Bank for Economic Co-operation (IBEC) is a multilateral financial institution focused on facilitating the economic development of the Bank's member states, foreign economic relations between business entities of the member states, and on expanding their foreign trade relations with counterparties from third countries.

The Bank operates based on the intergovernmental Agreement on the Establishment and Activities of the IBEC registered with the United Nations Secretariat.





Denis Ivanov,
Chairman
of the Board

ADDRESS OF THE CHAIRMAN OF THE IBEC BOARD

Moscow, July 2019

Dear partners and customers of the Bank!

2018 was the year when the full-scale reform of the Bank began. At the June Council meeting in Bratislava (the Slovak Republic), the Concept for Further Development of the IBEC for 2018–2020 was adopted, which laid the foundation for a new stage in the life of the Bank. The main idea of the Concept is the dynamic development of core business – building up a high-quality portfolio of transactions that meets the interests of all IBEC member states, while at the same time deeply and comprehensively transforming all internal processes and mechanisms of the Bank's activities.

Since the new stage of the Bank's activities required the adjustment of targets and approaches to ensure further growth in the volume of operations, in early December in Varadero (the Republic of Cuba) the Bank Council approved the Updated IBEC Development Strategy for the period until 2020, establishing the main parameters for the further development of IBEC in line with earlier approved Bratislava Concept.

Alongside with dynamic development of its business and active build-up of a high-quality portfolio, IBEC has begun a quantitative

assessment of its impact as a development bank and its contribution to the economic development of the member states: the Bank began to evaluate the so-called "IBEC Development Portfolio", which includes various forms of support to counterparties from the member states, aimed at facilitating social and economic development, increase in welfare and growth of economic cooperation between the member states of the Bank. The main criterion for including a project in the development portfolio is the practical contribution from its

” **IN THE FIRST
YEAR OF
THE REFORM
IBEC LOAN AND
DOCUMENTARY
PORTFOLIO
INCREASED
6 TIMES**

implementation to the development of the economies of the IBEC member states.

Already at the first stage of transformation, in 2018, the volume of the development portfolio almost reached EUR 168 million. Currently, IBEC portfolio includes both interstate and national projects of the Bank's member states. Development assets are focused on financing foreign trade and priority sectors of the economies of the IBEC member states, including telecommunications, infrastructure, pharmaceutical and energy industries.

After the adoption of the Concept for Further Development, as the transformation project progressed, the Board took the necessary steps to bring the Bank's work practices to the best standards: approved the introduction of updated business processes, approved new policies and instructions, supported updating of the internal document management system, approved the launch of the HR reform abolishing the outdated system of quota appointments unchanged since 1963. The IBEC Council, within its powers, supported all the initiatives of the Board.

The active growth of the Bank's operations required considerable efforts to create and promote business reputation of IBEC as a reliable and promising partner in the global financial community. The Bank revised the strategy of participation in relevant clubs and associations, based primarily on the need to provide the maximum possible contribution to the development of economies of the member states.

IBEC continues to expand cooperation with the leading development institutions in order to apply the best world practices in its activities, as well as to search for opportunities

for cooperation in the implementation of joint projects. The work on upgrading the Bank's corporate identity and increasing its international recognition carried out in the reporting year, will undoubtedly help IBEC in the further business development in its member states.

In autumn 2018, International Bank for Economic Co-operation celebrated its 55th anniversary. Taking into account the results of the Bank's activities achieved at the first stage of its global transformation, we look with confidence at the prospects for 2019 making every necessary effort to achieve high-quality results in the implementation of new projects as part of the Bank's updated business mission and IBEC modernization.

In 2019, we will continue to follow the Updated Development Strategy and carefully consider the needs of our shareholders and customers. By the end of 2020, IBEC should become a multilateral financial institution – the center for servicing foreign trade of the Bank's member states carrying out its activities based on modern information technologies and developed internal infrastructure aligned with the best global practices.

In conclusion, I would like to note that the success achieved by IBEC would not have been possible without the efforts of the Bank team and the support of the member states, our customers and partners. I would like to thank you for your credence, and express my confidence that together we will overcome all the obstacles and implement the most ambitious plans.

*Sincerely yours,
Denis Ivanov,
Chairman of the Board*

IBEC GOVERNING BODIES

IBEC COUNCIL



MARINELA PETROVA

REPUBLIC OF BULGARIA

Deputy Minister of Finance of the Republic of Bulgaria,
Head of Delegation



LE MINH HUNG

SOCIALIST REPUBLIC
OF VIETNAM

President of the State Bank of Vietnam,
Head of Delegation



**SERGEY ANATOLYEVICH
STORCHAK**

RUSSIAN FEDERATION

Deputy Minister of Finance of the Russian Federation,
Head of Delegation



ATTILA GYÖRGY

ROMANIA

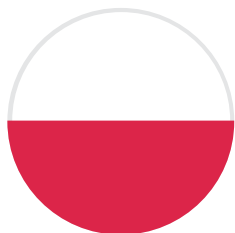
State Secretary of the Ministry
of Public Finance of Romania,
Head of Delegation



**CHIMEDIYN
KHURELBAATAR**

MONGOLIA

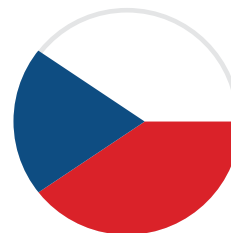
Minister of Finance of Mongolia,
Head of Delegation



**ADAM
GLAPIŃSKI**

REPUBLIC OF POLAND

President of Narodowy Bank Polski,
Head of Delegation



LENKA DUPÁKOVÁ

CZECH REPUBLIC

Deputy Minister of Finance of the Czech Republic,
Head of Delegation



DANA MEAGER

SLOVAK REPUBLIC

State Secretary of the Ministry
of Finance of the Slovak Republic,
Head of Delegation

IBEC GOVERNING BODIES

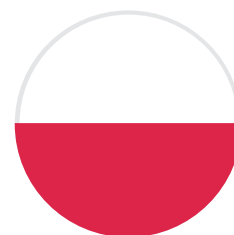
IBEC BOARD



**DENIS YURIEVICH
IVANOV¹**

RUSSIAN FEDERATION

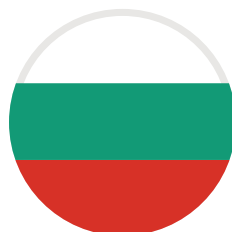
Chairman of the Board



**LIDIA
ANCZAKOWSKA**

REPUBLIC OF POLAND

Member of the Board



**BOYKO VASILEV
KOTSEV²**

REPUBLIC OF BULGARIA

Member of the Board



OLGA VOINEA³

ROMANIA

Member of the Board



THINH THI HONG

SOCIALIST REPUBLIC
OF VIETNAM

Member of the Board



PETER OSWALD⁴

SLOVAK REPUBLIC

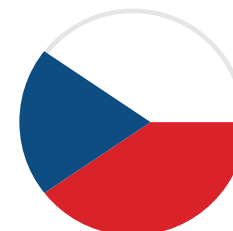
Member of the Board



**GOTOV SAMINDII
TSERENPUREV**

MONGOLIA

Member of the Board



JAN JURSA

CZECH REPUBLIC

Member of the Board

¹ Until April 2018 – Irina Vladimirovna Golovchenko.

² Until July 2018 – Rosen Ivanov Chobanov.

³ Until December 2018 – Egidiu Hentes.

⁴ Until February 2019 – Jozef Bogdan.

KEY EVENTS OF 2018

In 2018, IBEC **expanded the range** of services and products provided. Such support instruments as issuing reimbursement obligations, confirming letters of credit (including letters of credit in Russian rubles), and issuing counter guarantees were used for the first time.

Last year, the Bank attracted long-term funding to finance the **growing volume of loan and documentary operations**. In addition, for the first time in the recent IBEC history, the Bank opened accounts in the national currencies of its member states other than Euro and Russian ruble (Czech koruna, Bulgarian lev, Vietnamese dong, and Romanian leu).

February

D.A. Medvedev, the Prime Minister of Russia, signed the order to **include IBEC in the list of international financial organizations whose securities are authorized for offering and public circulation in the Russian Federation**.

March

Fitch Ratings confirmed IBEC **investment rating (BBB-) with a stable outlook**.

April

Denis Ivanov was appointed the Chairman of the IBEC Board. The member states unanimously approved the appointment of the new Chairman of the Board and set **the goal to bring the Bank to a qualitatively new level**, to form a modern specialized financial institution with the task to increase the export potential of the member states and to make a tangible contribution to the development of their economies.

June

At the 109th meeting of the Council of the International Investment Bank (IIB) in Yaroslavl (Russia), IBEC and IIB signed **the Agreement on Technical Cooperation** aimed at strategic synergies between the two partner banks in all aspects.

At the 131st meeting of the IBEC Council in Bratislava, **the Concept for Further Development of IBEC for 2018–2020 was approved** as part of the current Strategy for the resumption and development of the Bank's activities for the period from 2016 to 2020. The concept provides for the development of the product line and for the growth of IBEC transactions portfolio, as well as for the modernization of business process, organizational structure and corporate governance.

September

In the presence of the top officials of Russia and Vietnam, V.V. Putin and Nguyễn Phú Trọng, a bilateral General Financing Agreement was signed between IBEC and the Vietnamese Saigon-Hanoi Commercial Joint Stock Bank (SHB).

At the Summit of 10 Countries being members of IIB and IBEC in Varna (Bulgaria), the possibility of creating a banking group based on IIB and IBEC was discussed.

October

Hungary expressed interest in renewing its membership in the Bank, as stated by Péter Szijjártó, the Minister of Foreign Affairs and Foreign Trade of Hungary, at the meeting with D. Ivanov, the Chairman of the IBEC Board.

December

For the first time in the recent history of IBEC, a trade finance transaction was closed in Vietnam.

The Bank closed a securitization transaction for a portfolio of loans to small and medium-sized businesses in order to promote the development of enterprises and organizations of the IBEC member states.

At the 132nd meeting of the IBEC Council in Varadero (the Republic of Cuba), **the Updated Strategy for the period until 2020** was approved along with the transition from the quota system to **a modern personnel selection system**, based on an international competition, and **a new organizational structure of the Bank** that meets the current challenges of the dynamic development of IBEC business.

KEY FINANCIAL RESULTS FOR 2018

The financial result for the past year amounted to **EUR 1.6 million**

The main drivers of its formation were a significant increase in the volume of loan and documentary operations and active operations in the financial markets.

The Bank's assets in 2018 increased by 17.9% and amounted to **EUR 403.6 million**

Due to the expansion of business volumes, the Bank's liabilities increased by more than 3 times to **EUR 105.3 million**, equity amounted to **EUR 298.4 million**.

Balance sheet total

EUR 403.6 million

increase of 17,9%

Loan and documentary portfolio⁵

EUR 143.3 million

increased more than 6 times

Capital adequacy ratio

89.6%

decreased by 52.4 p.p.

* standard established by the IBEC Council: 25%

Capital

EUR 298.4 million

decreased by 3,6%

Performing assets

EUR 329.0 million

increase of 22,9%

Share of the loan and documentary portfolio in the Bank's capital

48%

increased by 41.0 p.p.

NPL

0%

decreased by EUR 39 million

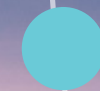
Borrowings⁶

EUR 103.2 million

increased more than 3 times

⁵ The Bank's loan and documentary portfolio includes loans to the customers being non-banking organizations, loans issued to banks for trade financing, syndicated lending, loan and investment securities portfolio, guarantees, letters of credit and reimbursement obligations of the Bank.

⁶ Borrowings include funds of credit organizations, funds of the IBEC customers.

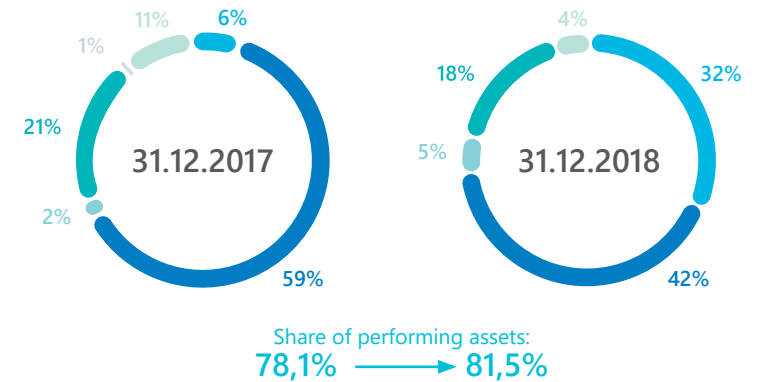


ACTIVE OPERATIONS

*Pedestrian bridge
Kardzhali, Bulgaria*



Assets Structure



Amid significant growth in loan portfolio⁷ (from 6% to 32%), the share of the securities portfolio⁸ decreased in the structure of the Bank's assets (from 59% to 42%), including for ensuring the necessary liquidity to increase the Bank's lending operations.

At the same time, in 2018, a steady trend of increasing the share of performing assets in the total assets of the Bank continued.


- Securities portfolio
- Loan portfolio
- Fixed assets
- Cash and cash equivalents
- Time deposits placed in the banks of member states
- Other assets

⁷ The concept of the IBEC loan portfolio is given in Section 6.1 Lending Activities

⁸ Hereinafter, the Securities Portfolio does not include the volume of securities attributable to the IBEC loan and investment portfolio, the concept of which is given in Section 6.1. Lending Activities



LENDING ACTIVITIES



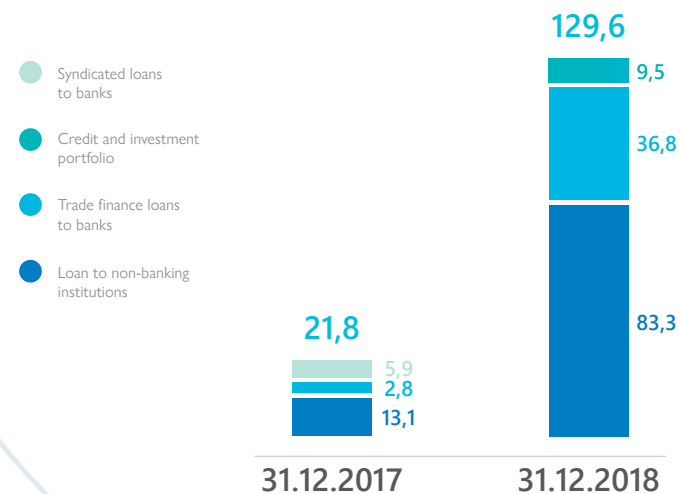
Dragon Bridge
Da Nang, Vietnam



IBEC loan portfolio complies with the Bank's updated business profile and includes:

- loans to banks issued for **trade financing**;
- **syndicated lending** to banks to support the economies of the IBEC member states;
- loans to the customers being **non-banking organizations**;
- loan and **investment securities portfolio**. This category includes corporate debt securities of the issuers from the member states of the Bank acquired at initial offering in order to participate in financing socially significant infrastructure projects in the member states of the Bank, as well as to promote the development of small and medium-sized businesses.

Loan Portfolio Structure, EUR million



” **AT THE END OF 2018,
THE VOLUME OF THE IBEC
LOAN PORTFOLIO
INCREASED 6 TIMES FROM
EUR 21.8 MILLION
TO EUR 129.6 MILLION**

At the same time, its qualitative and quantitative characteristics significantly improved:

The volume of trade finance loans to banks increased
(up to **EUR 36.8 million**)

by more than
13 times

The volume of loans to non-banking organizations increased
(up to **EUR 83.3 million**)

by **6 times**

Bank formed a loan and investment securities portfolio
in the amount of

**EUR
9.5 million**

Active development of lending activities, including trade financing, contributed to geographical diversification of the loan portfolio: among borrowers there are residents of member countries of the Bank, as well as borrowers from third countries, loans to which are provided under the projects with the counterparties from the IBEC member states, which contributes to the expansion of export and import operations of the companies from the member states, their entry into new markets.

**5 out of 8
member
countries
of the Bank**

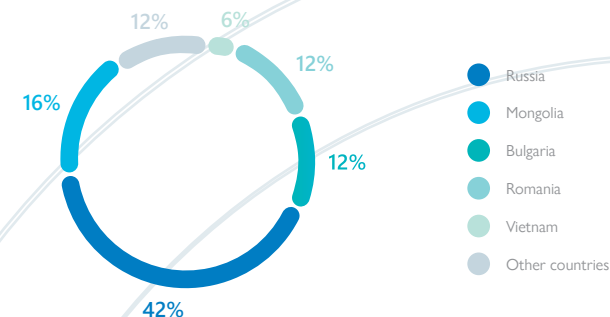
The share of overdue debt decreased (**EUR 39.2 million** as of December 31, 2017) as a result of writing off its volume mainly due to the previously created provisions. At the same time, the Bank continues systematic collection of problem debts.

from
64.2%
to **zero**

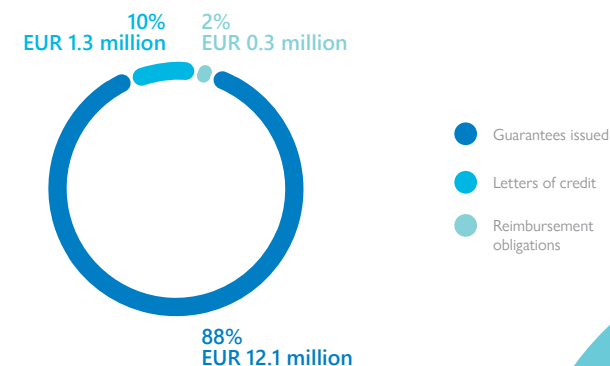
In order to support foreign trade operations of economic entities of the member states, IBEC increased its documentary portfolio in the reporting period to

**EUR
13.7 million**

Country Structure of Loan Portfolio



IBEC Documentary Portfolio





LANDMARK PROJECTS OF 2018



Gobi Desert Bridge
Mongolia

” FINANCING MODERNIZATION OF EQUIPMENT



Bulgaria

- 1 Syndicated loan for equipment modernization and financing of other capital costs of **Bulgarian Telecommunications Company EAD** – the largest telecommunications company in Bulgaria – **EUR 10 million**. This project aims to promote the development of the telecommunications market in Bulgaria.
- 2 Acquisition of Eurobonds of the Bulgarian energy company **Bulgarian Energy Holding**, a state-owned company with leading positions in the electricity and gas market not only in Bulgaria but also in the Balkans – **EUR 20.2 million**. Borrowed funds are used to develop and modernize energy infrastructure of Bulgaria and South-East Europe region.
- 3 In addition, for the first time IBEC acted as a confirming bank on a letter of credit opened by a Belarusian bank in favor of a beneficiary from Bulgaria in the amount of **EUR 1.2 million**. The implemented transaction is aimed at supporting the export of Bulgarian equipment for the production of baby food in the Republic of Belarus.



Vietnam

Special-purpose trade financing of **Saigon-Hanoi Commercial Joint Stock Bank (SHB)** to support the import of agricultural products to Vietnam from the markets of the Asian region – **USD 9.7 million**. This transaction was implemented by IBEC providing financing under an import letter of credit opened to SHB and was the first step towards the practical implementation of the agreements signed by the parties in September 2018 in the presence of the heads of states.



Mongolia

Trade financing within the framework of the concluded General Agreement between IBEC and **Golomt Bank LLC** aimed at supporting foreign trade operations of economic entities of the IBEC member states in the sectors of industrial production and processing of raw materials – **USD 14.3 million** in total.

Syndicated loan for financing of capital costs associated with **modernization of Romanian telecommunications company RCS & RDS S.A. (DIGI Communications Group)**, a leading provider of telecommunications services in Romania and Hungary – **EUR 15.0 million**. Modernization is carried out as part of the development strategy of the Romanian company aimed at expanding domestic and foreign presence in the services market. Thus, through this project, the Bank helps the Romanian company not only develop in the domestic market but also penetrate the markets of Western Europe and successfully compete with other major telecommunications operators.



Romania

FOCUS ON SUPPORTING TECHNOLOGICAL EXPORTS OF MEMBER COUNTRIES

Russia

1 Granting a loan to **State Transport Leasing Company (STLC) PJSC** for the purchase of equipment for the implementation of stages I and II of construction of the Lavna coal transshipment complex in the seaport of Murmansk that is carried out as part of the federal target program Development of the Transport System of Russia (2010–2020 years) – **USD 22.7 million**.

This IBEC project contributes to the development of the transport infrastructure in Russia and facilitates the export of vehicles to the Russian Federation from other member states of the Bank.

2 Providing counter guarantees on behalf of **FC Grand Capital LLC**. The transactions aimed at supporting foreign trade operations of a counterparty from the pharmaceutical industry – **RUB 960 million**.

This instrument was used for the first time in IBEC practice and has already firmly established its position in the line of popular products.

By providing this counter guarantee, **IBEC helps to increase the availability of medicines** in Russia, thus improving the quality of healthcare in the country.

3 Together with MSP Bank JSC and a number of development banks, **IBEC, for the first time in its practice, closed a transaction for securitization of a portfolio of loans to small and medium-sized businesses** buying back bonds of LLC «SFO MOS MSP 1» at initial placement – **EUR 8.9 million**.

4 The Bank also closed a pilot transaction to confirm the ruble letter of credit issued by a Belarusian bank in order to ensure payment for deliveries of Russian spare parts for gas processing equipment filters to the Republic of Belarus.

Non-Member States

Trade financing was provided to **Belagroprombank OJSC** and **BelVEB Bank OJSC** to support the export of petrochemical products and industrial and technical products from the Russian Federation to the Republic of Belarus in the total amount of **EUR 11 million**.

1 Acquisition of Eurobonds of the Czech energy companies **EP Infrastructure, a.s.** and **Energo-Pro, a.s.** at initial placement – **EUR 18.8 million**. The funding obtained this way is allocated to develop and modernize the energy sector of the Czech economy and to integrate the energy infrastructure of the Central and Eastern European countries.

EP Infrastructure (EPIF) is a leading European energy infrastructure utility specializing in gas transportation, gas and electricity distribution, heat and electricity production and gas storage. The company is one of the five largest industrial groups in the Czech Republic.

Energo-Pro, a.s. is a hydro-power company operating in Central and Eastern Europe, at the Black Sea and in the Caucasus.

2 For the first time, IBEC issued an irrevocable reimbursement commitment aimed at supporting **TECNOPACK CE S.R.O.** as part of the implementation of a contract for the supply of spare parts for production equipment to the Republic of Belarus. The reimbursement commitment was issued in favor of **Raiffeisen Bank AG**, Austria, on the basis of the reimbursement authority received from one of the largest Belarusian banks, Belagroprombank OJSC. This is the first interbank reimbursement operation in the actively expanding portfolio of documentary operations and trade finance, as well as the first trade finance operation implemented with the participation of a counterparty from third countries.

Czech Republic

This instrument continues to be actively used for various transactions, including to support Czech exports. Specifically, the deal to issue a reimbursement commitment under a letter of credit opened in favor of the Czech company TATRA TRUCKS A.S. to pay for the supply of chassis to the Republic of Belarus. Thus, the total amount of support for Czech projects through issuing reimbursement commitments amounted to about EUR 1 million.

Thus, in 2018, IBEC significantly diversified the range of support instruments and continued to pursue the course towards expanding the trade finance portfolio and expanding the partner network while maintaining industry diversification. Last year, the Bank implemented transactions in the chemical, fuel, food, pharmaceutical, energy, agricultural, construction and trade sectors.

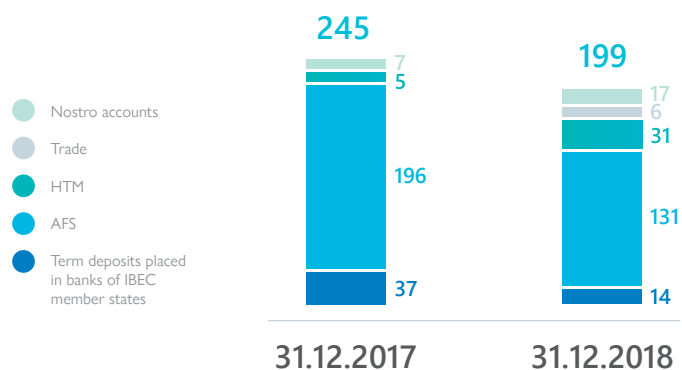


FINANCIAL MARKET ACTIVITIES

Świętokrzyski Bridge
Warsaw, Poland

” THE TURNOVER OF THE BOND PORTFOLIO LAST YEAR AMOUNTED TO EUR 300 MILLION

Treasury Assets Structure,
EUR million⁹



The bond portfolio is managed using several management models and includes directly treasury and development assets. IBEC is actively involved in initial offerings, providing financing needs of the borrowers from the member states in accordance with the Bank's mission. Development assets are represented by bonds of the issuers from the Czech Republic, Bulgaria, Mongolia, Romania and Russia. The treasury part of the portfolio includes assets of the liquidity buffer and strategic liquidity provision.

The credit quality of the portfolio¹⁰ in 2018 was maintained on average at the BBB- investment rating; as of the end of the year, about 71% of the securities in the Bank's portfolio had investment-grade credit ratings, while 5% of the highly liquid securities had AA and above.

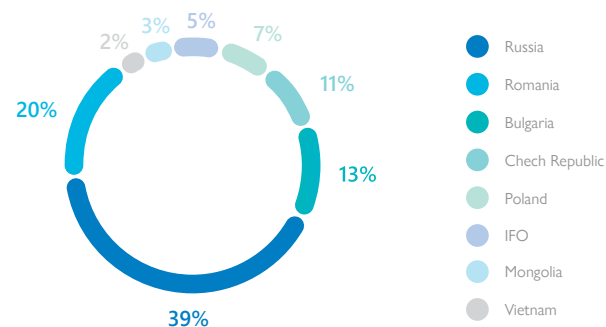
Market risk and average duration of portfolios were systematically reduced during 2018; the average duration of the entire portfolio at the end of the reporting period was 4.5 years.

⁹ Securities measured at fair value through other comprehensive income. HTM – securities measured at amortized cost (excluding loan and investment portfolio of securities). Trade – securities measured at fair value through profit or loss.

¹⁰ Hereinafter, the Securities Portfolio does not include the volume of securities attributable to the IBEC loan and investment portfolio, the concept of which is given in Section 6.1. Lending Activities.

In the currency markets, the Bank conducts interbank lending, REPO, spot and forward conversion transactions, currency and cross-currency swaps with a wide range of counterparties, including pan-European and local banks of the IBEC member states. Each year, the Bank increases its network of counterparties for carrying out treasury operations in the currency markets.

Country Structure of Securities Portfolio¹¹



In the past year, the size of open foreign exchange positions was insignificant, within **EUR 2 million**, while the Bank's main structural currency position was hedged.

The Bank conducts conversion operations for customers satisfying their needs for settlements in major world currencies and in the currencies of the IBEC member states. The Bank's network of correspondent accounts includes the central banks of Germany and Russia (for settlements in Euro and Russian rubles), as well as the largest banks in the member states.

” THE VOLUME OF TRANSACTIONS TO PLACE FUNDS ON BANK TIME DEPOSITS IN CREDIT ORGANIZATIONS OF THE IBEC MEMBER STATES WAS STEADILY DECLINING AND, ACCORDING TO THE RESULTS OF 2018, AMOUNTED TO EUR 14.3 MILLION

¹¹ Hereinafter, the Securities Portfolio does not include the volume of securities attributable to the IBEC loan and investment portfolio, the concept of which is given in Section 6.1. Lending Activities.



FUNDING BASE



Zhivopisny Bridge
Moscow, Russia

CAPITAL

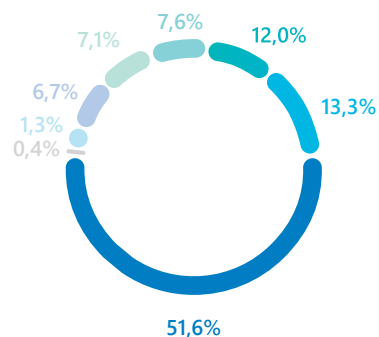
A significant share (67.0%) of the Bank's equity is the paid authorized capital (EUR 200 million)

The Bank intends to maintain the volume of attracted resources in strict accordance with the dynamics of the volume of business, paying particular attention to the sustainability of funding sources and the adequacy of their duration to the urgency of active operations.

A significant amount of the Bank's funding base continues to be its own funds (73.9% of the total IBEC funding base) invested in highly liquid low-risk assets in order to ensure their safety and an acceptable level of profitability.

IBEC Paid-In Capital Structure as of 31/12/2018 and % in capital¹²

Russia	EUR 103 179 thousand
Czech Republic	EUR 26 684 thousand
Poland	EUR 24 016 thousand
Bulgaria	EUR 15 121 thousand
Romania	EUR 14 232 thousand
Slovakia	EUR 13 342 thousand
Mongolia	EUR 2 668 thousand
Vietnam	EUR 758 thousand



¹² Values are rounded to tenths.

★ In 2018, the sovereign ratings of 4 out of 8 IBEC member states were upgraded; the average weighted rating increased from BBB to BBB+, which, among other things, contributed to strengthening the Bank's reliability and increasing credence given by international lending institutions.

Weighted average rating of member countries	BBB	BBB	Baa2	BBB+ stable	BBB+ stable	Baa2 stable
	BBB- 2016	BBB 2017				
Bulgaria	BBB- 2016	BBB 2017	Baa2	BBB+ stable	BBB+ stable	Baa2 stable
Vietnam	BB-	BB-	B1	BB+ stable ★	BB+ stable	Ba3 stable ★
Mongolia	B-	B-	Caa1	B+ stable ★	B+ stable	B3 stable ★
Poland	A-	BBB+	A2	A+ stable	A+ stable ★	A2 stable
Russia	BBB-	BB+	Ba1	BBB+ stable	BBB+ stable ★	Ba1 stable
Romania	BBB-	BBB-	Baa3	BBB+ stable	BBB+ stable	Baa3 stable
Slovakia	A+	A+	A2	A+ stable	A+ stable	A2 stable
Czech Republic	A+	AA-	A1	AA+ stable ★	AA+ stable	A1 stable
	Fitch	S&P	Moody's	Fitch	S&P	Moody's
	31.12.2016 / 31.12.2017			31.12.2018		

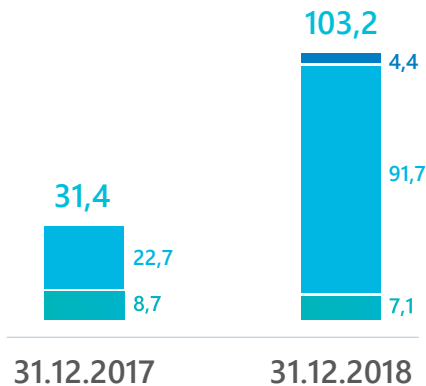
“ AT THE END OF 2018, THE BANK'S CAPITAL (EQUITY) AMOUNTED TO EUR 298.4 MILLION

BORROWED FUNDS

Due to the growth in the volume of the loan and documentary business in the past year, **the volume of external financing** more than tripled amounting to **EUR 103.2 million**, primarily due to borrowing on the interbank market (from EUR 22.7 million to EUR 96.1 million), including secured short- and medium-term (up to 2 years) borrowings through interbank lending and REPO transactions.

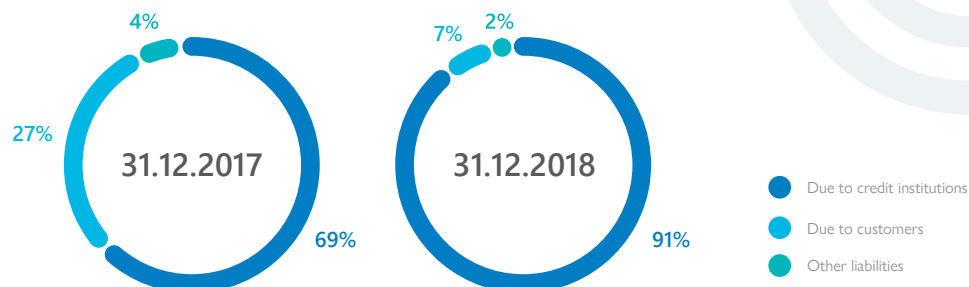
Debt Financing Structure, EUR million

- Long-term financing from credit institutions
- Short-term financing from credit institutions
- Customer funds



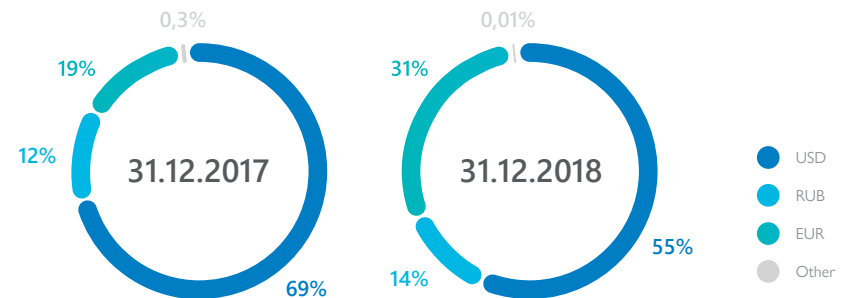
The share of customer funds (non-banking organizations and individuals) in the borrowed funding significantly decreased from 27% to 7% with a slight decrease in absolute terms.

Bank Liabilities



The US dollar continues to dominate the currency structure of the Bank's liabilities, but in 2018 its share dropped to 55%, mainly due to an increase in the funding share in euro to 31%.

Currency Structure of Financial Liabilities¹³



In order to maintain a balanced currency structure of the Bank's assets and liabilities, assets in currencies other than Euro are mainly funded by borrowing instruments in the same currencies, and therefore the US dollar continues to have a significant share in the borrowing structure.

For funding purposes, currency swap transactions that hedge currency risk are used. These instruments are selected based on economic efficiency and currency position.

” IN 2018, THE MATURITY SWAP STRUCTURE WAS EXPANDED FROM 1 YEAR TO 5 YEARS

¹³ Excluding derivative financial instruments.

A large steel truss bridge spans a wide river at sunset. The bridge's intricate steel framework is silhouetted against a bright orange and yellow sky. The sun is positioned directly behind one of the bridge's piers, creating a strong lens flare and reflecting the warm colors on the water's surface. The bridge is supported by several large, rectangular stone piers. In the background, a hilly shoreline with some vegetation is visible under the twilight sky. In the top right corner, there are three concentric, semi-transparent blue circles.

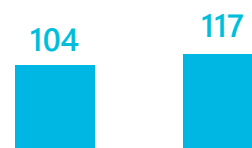
SETTLEMENT SERVICE

Anghel Saligny Bridge
Romania

” **SERVICING NON-BANKING CUSTOMERS IS A UNIQUE SPECIALIZATION OF THE IBEC BUSINESS DISTINGUISHING IT FROM OTHER MULTILATERAL DEVELOPMENT BANKS**

The number of customers and accounts increased over the year by 13% and 9%, respectively, while for the first time in the recent history of IBEC accounts were opened in 2018 in the national currencies of member states other than Euro and Russian ruble (Czech koruna, Bulgarian lev, Vietnamese dong, and Romanian leu).

Number of Non-Banking Organization Customers

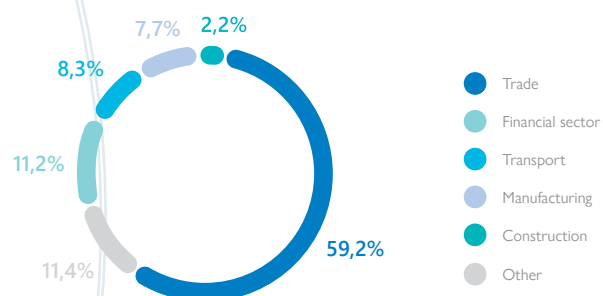


2017 2018

Number of accounts:
238 → 259

Net fee and commission income from customer service operations in 2018 **increased by 22.2%** compared to the same period of the previous year and amounted to about **EUR 0.4 million**

Distribution of Customer (Organization) Funds by Sectors of Economy



Balances on the current accounts of organizations of the IBEC member states amounted to **72.8%** of the total funds of the customers being legal entities.

As of December 31, 2018, the country structure of the customer base includes 7 IBEC member countries (at the beginning of the year, the similar indicator was 6).



PARTNER NETWORK AND PARTICIPATION IN BUSINESS COMMUNITY EVENTS

*Bridge of the Slovak
National Uprising
Bratislava, Slovakia*



Establishment of **long-term sustainable relations with financial and non-financial institutions** not only provides IBEC with the opportunity to expand the geography of its activities and diversify risks but also creates a platform for the implementation of large joint projects, and also contributes to the development of integration relations in the Bank's member states.

MAJOR PARTNERSHIP AGREEMENTS SIGNED IN 2018

- **Mongolia** Comprehensive Co-operation Agreements between IBEC and Trade and Development Bank LLC (TDB), as well as IBEC and **Golomt Bank LLC**

- **Russia** Strategic Cooperation Agreement between the IBEC and **ROSBANK PJSC**

- **Vietnam** Bilateral Master Financing Agreement between IBEC and **Saigon-Hanoi Commercial Joint Stock Bank**

 Agreement for Implementing Trade finance transactions with **Saigon-Hanoi Commercial Joint Stock Bank**

 Trilateral Memorandum of Understanding between IIB, IBEC and the manufacturing company **Viglacera Corporation**

- **Poland** Agency Agreement with the **Polish-Russian Chamber of Commerce and Industry**

- **Hungary** Strategic Cooperation Agreement with **OTP Bank**

In 2018, in order to **increase recognition and strengthen the Bank's international image in the business environment**, IBEC representatives took an active part in conferences, forums, meetings and business missions on a wide range of foreign trade issues, including:

- anniversary 20th meeting of the Board of Governors of the Black Sea Trade and Development Bank (BSTDB),
- 37th Conference of the Banking Association of Central and Eastern Europe (BACEE),
- St. Petersburg International Economic Forum (SPIEF) 2018,
- XIII International Conference organized by the Eurasian Development Bank (EDB).



A photograph of the Troja Bridge in Prague at night. The bridge features a complex, illuminated steel lattice structure with warm yellow lights. Below the bridge, white, wavy light patterns are projected onto the water. The bridge's reflection is visible in the calm water below. In the background, city lights and buildings are visible across the river.

UPDATED IBEC STRATEGY UNTIL 2020

*Troja Bridge
Prague, Czech Republic*

” AT THE 132ND MEETING OF THE IBEC COUNCIL IN DECEMBER 2018, THE BANK’S UPDATED STRATEGY WAS APPROVED

The strategy implies **securing for IBEC its own niche in the system of international development institutions**, active development of the business, expansion of the Bank’s product and service line.

COMPLEX TRANSFORMATION OF IBEC

The Strategy provides for the qualitative **transformation of the Bank’s business model**, as well as for the development of the IBEC infrastructure for the subsequent **increase in operational activities**: updating business processes and information technology infrastructure, personnel policy and the Bank’s organizational model.

BUSINESS BUILD-UP

The Strategy aims to **dynamically expand business** based on the updated business profile and operational capabilities of the Bank, as well as to expand partnerships.

Given the specialization of IBEC as an international center for servicing foreign trade of member states, the Bank will carry out the following operations:

- trade finance transactions;
- special-purpose financing to support export-import operations of companies in the Bank’s member states, including with counterparties from third countries, as well as local trading operations;
- settlement transactions;
- customer operations on financial markets.

GEOGRAPHIC PRESENCE EXPANSION

Within the framework of the Updated Strategy, the Bank is considering the possibility:

- of taking measures to **resume Hungary presence** among IBEC shareholders;
- **of attracting new countries to the Bank**. IBEC focuses on the countries that have close economic ties with member states of the Bank or those, which are their key foreign trade partners;
- of using the BACEE (Banking Association of Central and Eastern Europe) platform to create a marketplace based on modern fintech solutions.

COOPERATION WITH IIB (INTERNATIONAL INVESTMENT BANK)

The Updated Strategy also suggests that IBEC will pay attention to **cooperation with IIB for the benefit of member states**, which largely overlap. Cooperation with IIB is also driven by complementarity of the business profiles of the banks – settlement (IBEC) and investment (IIB).

RISK MANAGEMENT

The Bank's risk management policy is based on the principle of reasonable conservatism, which means the Bank's refusal from potential transactions with a very high or uncertain risk level, regardless of their degree of profitability.

The Bank manages risks based on an ongoing process of determining, assessing and monitoring, as well as by setting risk limits and taking other internal control measures.

In order to improve the risk management system in the reporting year, IBEC carried out a number of activities:

- **internal risk management procedures were changed and improved** in accordance with the best international practices (the Provisioning Policy was approved taking into account the transition to IFRS 9, the new IBEC Risk Management Strategy was developed, risk appetite indicators were introduced, an approach was developed to take into account the level of risk in the pricing of loan products);
- the Bank's Board **approved a new internal procedure** for handling collateral for loan operations;
- **reporting forms** and the risk management methodology **were improved**;
- risk management **team was strengthened**.

” **THE RISK MANAGEMENT PROCESS IS A KEY TO MAINTAINING THE BANK'S STABLE OPERATIONS**



COMPLIANCE CONTROL AND INTERNAL AUDIT

COMPLIANCE CONTROL

Last year, as part of the process of internal transformation and development of the IBEC infrastructure, **the analysis of compliance risks was brought to a new level.** Due to the implementation of methods to identify facts of presence of conditional signs of fictitious activity of potential customers, the first line of compliance protection was significantly strengthened and the customer base was comprehensively audited.

IBEC INTERNAL AUDIT SYSTEM

is aimed at identifying and reducing the likelihood of events that negatively affect the effective management of the Bank's financial resources, at ensuring the safety of assets and maintaining risks at a level that does not threaten the interests of the Bank's member countries and customers.



IT INFRASTRUCTURE

In the past year, the Bank began the process of **technological transformation**:

- **supplier** of a new ABS was selected;
- **software** for accounting, calculations, risk management **was improved**;
- **necessary** hardware and software **update** was implemented;
- functionality of the IBEC **remote banking service system** was expanded, its users were switched over to the use of cryptographic protection hardware.





HUMAN RESOURCE MANAGEMENT

In 2018, IBEC implemented a number of **qualitative changes** in the human resource management:

- the IBEC Council approved the transition from a quota system of appointment to **a modern personnel selection system** based on an international competition;
- **composition of the Bank's management was strengthened:** the position of Executive Deputy Chairman of the Board was introduced;
- Bank's organizational structure was supplemented by units with the **functionality necessary** to develop IBEC activity under current conditions; it was not represented earlier in the Bank or was represented in a limited format (financial management, compliance control, security service, marketing, public relations, etc.).



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