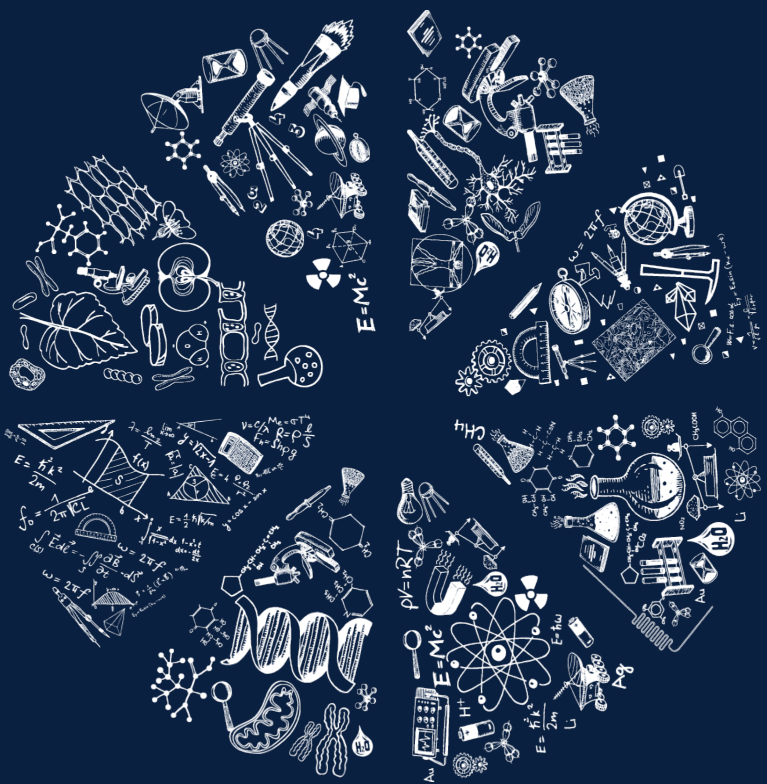
THE INTERNATIONAL BANK FOR ECONOMIC COOPERATION



ANNUAL REPORT 2014

Contents

Bank Overview

Year of Establishment

The International Bank for Economic Cooperation ("IBEC", "the Bank") was established in 1963.

Status

The International Bank for Economic Cooperation is an international institution established and active under the Intergovernmental Agreement for the Organisation and Activities of IBEC, and the Statutes of IBEC. The Agreement was registered with the Secretariat of the United Nations on August 20, 1964.

Member Countries

- Republic of Bulgaria
- Socialist Republic of Vietnam
- Mongolia
- Republic of Poland
- Russian Federation
- Romania
- Slovak Republic
- Czech Republic

Mission

The mission of IBEC, as an intergovernmental organisation, is to facilitate the economic cooperation and development of the economies of the Bank's member countries through the effective implementation of the Bank's activities set forth in the founding documents of IBEC, based on its status of the intergovernmental financial institution.

Goals

- Promoting the development of foreign economic relations between the Bank's member countries, between their businesses, as well as between them and the businesses of other countries.
- Promoting the establishment and activities of joint ventures, primarily those that involve the participation of businesses of the Bank's member countries.
- Aiding the development of the Bank's member countries businesses' economic relations between their and other countries' businesses.

Key Business Principles

- **Reliability.** IBEC combines strong positions on financial markets with international experience.
- **Universality.** IBEC is authorised to carry out a complete range of banking operations and services accepted in the global banking practice and in compliance with its mission and goals.
- **Respect and Trust.** IBEC demonstrates the behaviour that reinforces its reputation with the banking and business communities, and protects confidentiality of information shared by the customers and relating to their business.
- **Equality.** IBEC operates on the basis of full equality and respect for the sovereignty of the Bank's member countries, and devotes appropriate attention to all its customers.
- **Transparency.** IBEC ensures that all banking products and services provided by the Bank are timely publicized, and promptly furnishes information about its performance results.
- **Cooperation.** IBEC offers banking operations conditions optimal for each client.

Membership in Banking Associations

- Asian Bankers Association
- Banking Association for Central and Eastern Europe
- Association of Russian Banks

Statement of the Chairman of the Board of IBEC

Dear Customers and Partners of the Bank,

To sum up the results of the Bank's performance in 2014 I would like to note that satisfaction that despite the slowdown in the economies of the IBEC member countries and poor market conditions, based on the results of the fiscal year the Bank's financial standing is stable.

Among the main achievements of the Bank in 2014, I would like to highlight the increase in profits by 59% and the maintenance of the interest revenue level compared to the same indicators for the year-end 2013. In addition, a positive financial result in follow up of the past years of the Bank's performance has enabled (pursuant to the decision of IBEC's Council) to pay dividends to the IBEC member countries in the amount of 20 million euros in 2014.

These results indicate the efficiency of the Bank's conservative cash management policy. At the same time, it can be said that the achievement of the positive results has been also due to IBEC's intergovernmental status as an additional guarantee for our customers and counterparties; this is particularly important in today's unstable economic situation in the Bank's member countries.

The reporting year is also marked by the implementation of the decision earlier taken by the IBEC member countries on the introduction of amendments to the Bank's founding documents in connection, among other things, with the increase of contributions of the Bank's member countries to the authorised capital of IBEC.

In 2014, the Bank, as a universal financial institution, apart from borrowing and allocating the funds, continued to provide a full range of banking services, including international settlements, opened accounts and provided settlement and cash services to the Bank's customers, provided lending facilities to banks and non-bank organisations primerily from among the IBEC member countries.

As in the previous years, the Bank developed and enhanced mutually advantageous cooperation with intergovernmental commissions, chambers of commerce and industry, bankers' associations and other institutions of IBEC member countries, enabling the Bank to receive information about the projects in the IBEC member countries that are potentially interesting for financing.

Positive changes took place in the Bank's internal environment in 2014. The Bank continued to build a qualitatively new operating model of the Bank, the work on which started in 2013. Thus, in the context of activities in connection with change to the process approach to managing the Bank's business, the IBEC business processes of highest priority in terms of strategy were described and optimised. The optimisation of the business processes will decrease the time spent for their implementation, to delineate areas of responsibility between business units of the Bank, and to mitigate operating risks associated with these business processes.

Therefore, it can be stated that, using its many years' experience and following the modern banking practices, IBEC maintains strong positions on financial markets amid the challenging economic and geopolitical environment.

In conclusion, I would like to thank the Bank's team for its highest professionalism, and the member countries, our customers and partners for their extensive support of the Bank. I believe that in future, using our joint efforts, we will continue to implement the Bank's mission: to facilitate the economic cooperation and development of the economies of the Bank's member countries.

Respectfully yours,
Vladimir Belyy,
Chairman of the Board
Moscow, February 2015

Board of IBEC

RUSSIAN FEDERATION

VLADIMIR VIKTOROVICH BELYY
Chairman of the Board

REPUBLIC OF BULGARIA

ROSSEN IVANOV CHOBANOV
Member of the Board

SOCIALIST REPUBLIC OF VIETNAM

NGUYEN VAN ANH
Member of the Board

MONGOLIA

TSERENPUREV GOTOV
Member of the Board

REPUBLIC OF POLAND

KRZYSZTOF ANTONI MAJCZUK
Member of the Board

ROMANIA

EGIDIU HENTES
Member of the Board

SLOVAK REPUBLIC

JOZEF BOGDAN
Member of the Board

CZECH REPUBLIC

JAROSLAV VLČEK
Member of the Board

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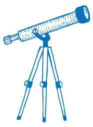
1 Dynamics of Key Financial Indicators for the Past Five Years



Progress is shared

Astronomy

Spiru Haret

1851-1912

Romanian astronomer and mathematician. Among Haret's works his thesis *Sur l'invariabilité des grandes axes des orbites planétaires (On the invariability of the major axis of planetary orbits)* is scientifically most important. This work contributed much to prove a result fundamental for the n-body problem in celestial mechanics and astronomy. Thereafter, the works of Haret served as a basis for the creation of the chaos theory by Henri Poincaré. Haret devoted many years to developing the education in Romania. As Minister of Education, Haret ran deep reforms, building the modern education system in the country.

Milan Rastislav Štefánik

1880-1919

Slovak astronomer. Štefánik wrote his fundamental works in astronomy while working in the Paris Observatory. He took part in the expeditions of the Académie Française in Africa and South America to observe the Halley's Comet and a whole eclipse of the Sun. Štefánik was awarded the National Order of the Legion of Honour for the successful mission. The Observatory in Prague was named after Štefánik.

Dynamics of Key Financial Indicators for the Past Five Years

Comparing the performance results of IBEC for the period from 2010 to 2014, it can be said that the slowdown of the economic growth of the global economy affected the Bank's financial performance in 2014. Among the external factors that affected the activities of IBEC, the following should be mentioned: continuing fluctuations in exchange rates of the national currencies of the IBEC member countries against the US dollar and euro, the reduction of the European Central Bank interest rate that caused decreasing return on assets allocated in the Bank's balance currency.

However, despite the adverse external factors, thanks to the Bank's strong footing in the financial markets, its international expertise, high quality of its products and services as well as reliability and responsibility in managing of customers' funds, the Bank has succeeded to achieve acceptable financial results.

In the reporting year, the total balance amounted to 320 million euros, thus it decreased against the same indicator as at the end of 2013 by 8.7%. This decrease is primarily due to the fact that in the reporting year the dividends for 2013 in the amount of 20 million euros were paid to the IBEC member countries pursuant to the decision of IBEC's Council.

Thus, according to the Bank's performance in 2014, the total balance generally matched the level of 2010 (Figure 1).

Change of IBEC Total Balance
from 31.12.2010 through 31.12.2014 (thousand euros)

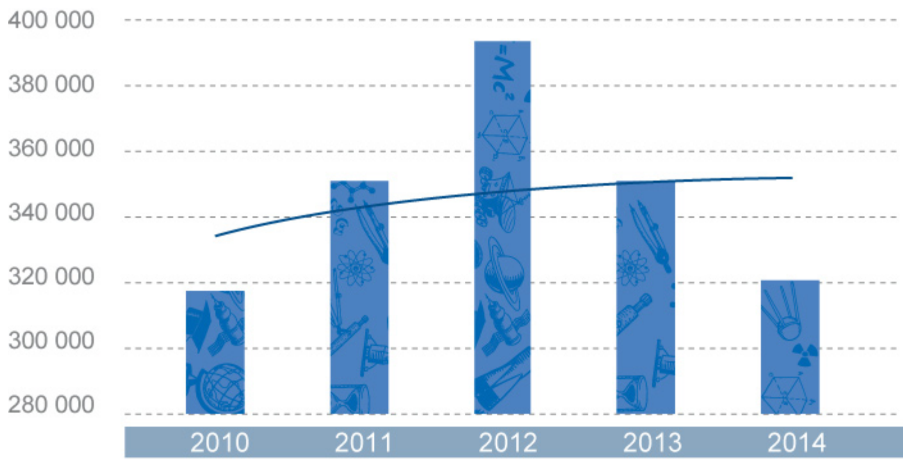


Figure 1

According to the Bank's performance in 2014, the Bank's total equity amounted to 294 million euros; generally, it coincides with the same indicator as at the end of 2010 (Figure 2).

IBEC Equity Change
from 31.12.2010 through 31.12.2014 (thousand euros)

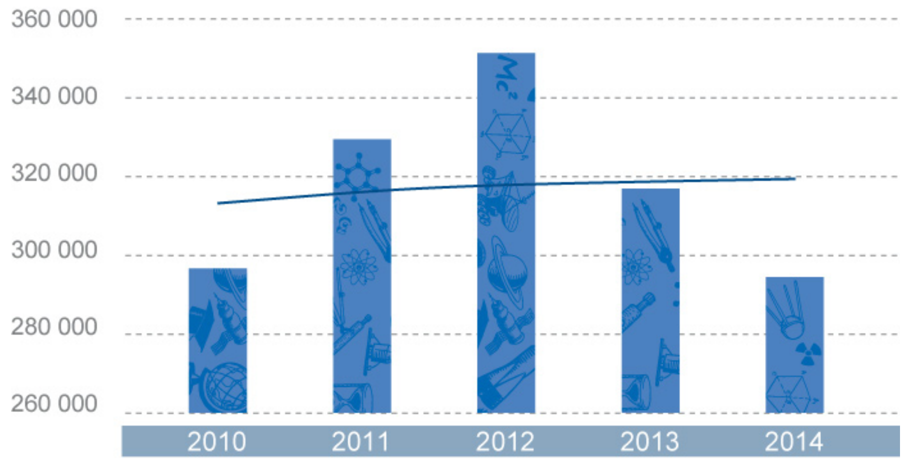


Figure 2

The Bank's total working assets increased as compared to 2010 and according to the Bank's performance in 2014 amounted to over 276 million euros and increased in absolute terms almost by 47 million euros or by 20% (Figure 3).

IBEC Working Assets Change
from 31.12.2010 through 31.12.2014 (thousand euros)

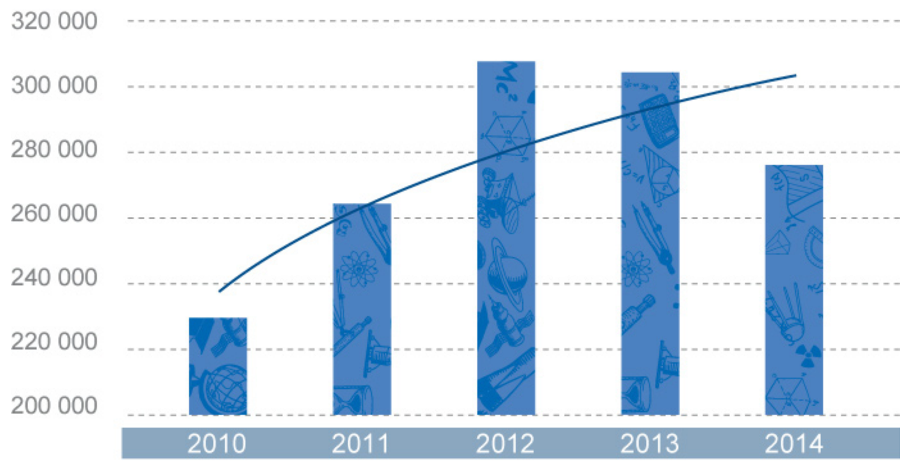


Figure 3

The data on revenues, expenses and profits of the Bank show that IBEC maintained positive performance during the past five years thanks to the system approach to the development of activities as well as to the endeavour to maintain an optimal costs/income ratio.

Based on the performance in 2014, the Bank's earnings amounted to over 23 million euros. In the unstable market environment, the Bank timely liquidated the assets that could have been impaired at the end of the accounting period. Those transactions enabled the Bank to avoid financial losses and to protect the funds of the IBEC member countries.

Around 80% of the Bank's total earnings in 2014 are comprised of the revenues from the operations with the working assets of IBEC. In the reporting year, this indicator grew almost by 10%, excluding the influence of the financial result from the operations carried out in the previous period on the implementation of investment securities. The revenues from the operations with the working assets grew by 7% compared to the same indicator for 2010 (Table 1).

As for the profits, in the reporting year this indicator amounted to 8.8 million euros, and increased by 74% against the same indicator as at the end of 2013.

Table 1

Change in Income and Expenses of IBEC from 31.12.2010 through 31.12.2014

(thousand euros)

	2010	2011	2012	2013	2014
Income	24,396	77,423	27,886	43,979	23,152
Expenses	14,229	31,099	15,069	38,443	14,334

A general tendency of increase in interest income of the Bank continued in the reporting year. Thus the interest income growth exceeded 11% compared to 2010 (Figure 4).

The positive trend during such a long period of time is due to the successful management of securities and deposit portfolios.

IBEC Interest Income Change
from 31.12.2010 through 31.12.2014 (thousand euros)

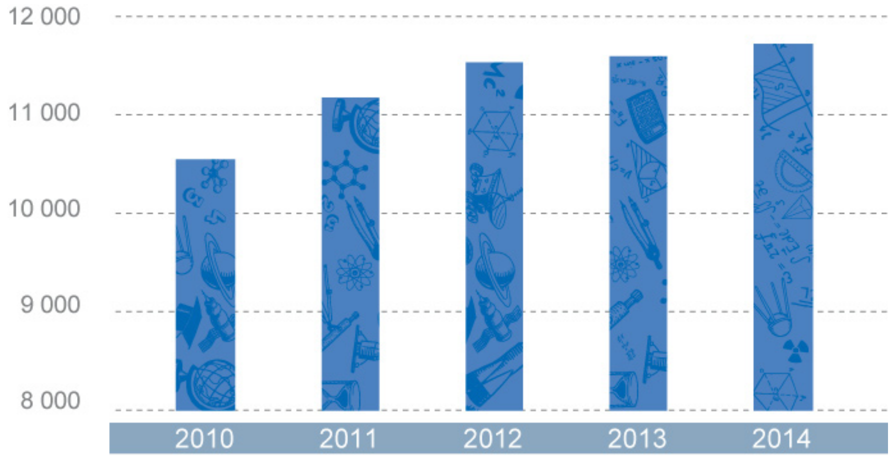


Figure 4

Thus, throughout the past five years, the Bank has been financially sound, and its business has been profitable.

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2 Active Operation

Progress is shared

Botany

Andrej Kmeť

1841-1908

Slovak botanist. He identified several new species of plants and created a herbarium with 72,000 specimens of higher plants. At the present time, the herbarium is kept at the Slovak National Museum. He also collected a collection of seeds of over 500 species. Kmeť is the author of the names of several botanic taxons. All in all, around 40 plants and fungi are named in his honour. In addition, Kmeť was the founder of the Slovak Scientific Society that further formed the basis for the Slovak Academy of Sciences.

Dimitrie Brândză

1846-1895

Romanian scientist, founder of Romanian botany. Brândză left behind a manuscript of monograph *The Flora of Dobrogea*, and a vast herbarium. Dimitrie Brândză is the founder of the Botanical Garden of Bucharest now named in his honour, of the Botanical Institute of Bucharest and of the Natural History Museum under the auspices of the Romanian Academy.

Active Operations

According to the Bank's performance in 2014, the Bank's aggregate total assets including the reserves went down by 7.7% against the same indicator for 2013 and amounted to 360 million euros.

Based on the results of the reporting year, the value of return on assets of IBEC was 2.8%, thus it grew significantly against the value of this indicator as at the end of 2013 which amounted to 1.6%

Credit Project Financing

Credit Project Financing is an important area of activity of IBEC.

In 2014, the Bank focused on three basic lending areas as follows:

– Selection and study of new credit projects, and support to the current projects;
– Handling of troubled debt;
– Improvement of the existing regulatory framework of IBEC in the field of lending.

In the course of selecting and studying new credit projects, IBEC made a complete analysis of 13 loan applications; a credit opinion was prepared by the Bank for each of them.

The support of current projects included the monitoring of financial standing of borrowers and quality of collateral, timely detection of impairment signs and calculation of reserves for possible losses.

As at the end of the reporting year, the loan portfolio of IBEC amounted to over 57 million euros. The change in the Bank's loan portfolio is due to the repayment of the previously issued loans by the borrowers of IBEC in the reporting year.

The structure of IBEC's loan portfolio by industries is represented in various fields such as in the oil and gas industry, infrastructure, leasing and pharmaceutical industry (Figure 5).

Structure of IBEC's Loan Portfolio by Industries as of 31.12.2014

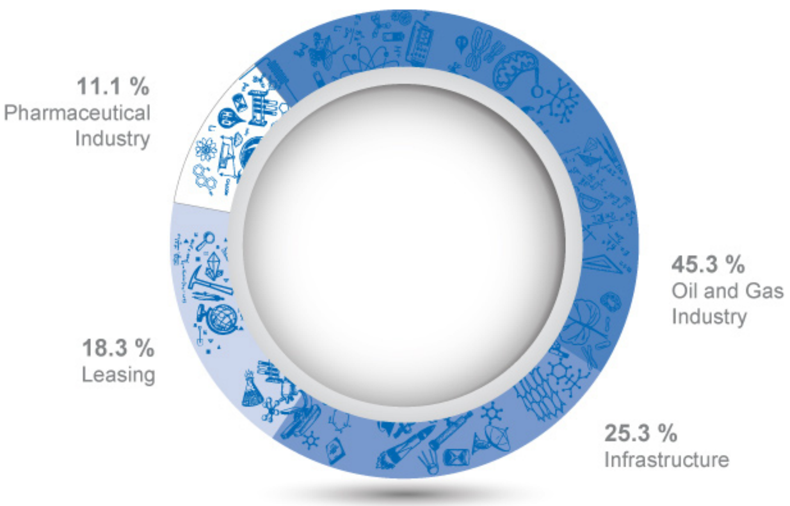

Figure 5

As at the end of 2014, the loan portfolio of IBEC included the projects from Russia, Mongolia, Bulgaria, Slovakia, and a joint project between Russia and Panama (Figure 6).

Structure of IBEC's Loan Portfolio by Countries as of 31.12.2014

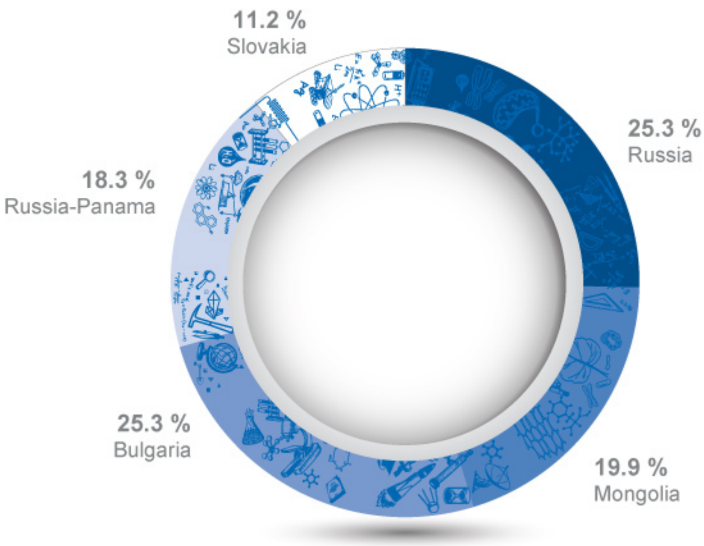

Figure 6

The handling of troubled debt in the reporting year was performed in order to avoid the impairment of the collateral available under some projects as well as to minimize possible losses. As a result, the collateral transfer agreements with two borrowers were signed by the Bank. And IBEC's title to the pledged item of one of the borrowers was registered in the reporting year.

Thus, the claim administration brought positive results. As a result of those efforts, the amount of the undischarged debts decreased by 300 thousand euros as at the year-end.

The efforts for the improvement of the existing regulatory framework of IBEC in the field of lending were related to the updating of applicable regulatory documents used to provide loan facilities to corporate customers of IBEC and to the development of collateral assessment methods. The methodological work with regard to credit operations will continue in 2015 by focusing on the creation of an adequate regulatory framework to handle bad debts.

Activities on Financial Markets

The size of the IBEC securities portfolio as at the end of 2014 amounted to 124 million euros.

The securities portfolio was formed in compliance with the requirements of the conservative Bank's asset management policy and with an ongoing monitoring of risks. The securities transactions, carried out by the Bank in 2014 were aimed at the portfolio structure optimization.

As a result, the securities published by issuers of all the IBEC member countries and other countries were presented in the securities portfolio structure at the end of 2014 (Figure 7).

Structure of the IBEC Securities Portfolio by Issuer Countries as of 31.12.2014

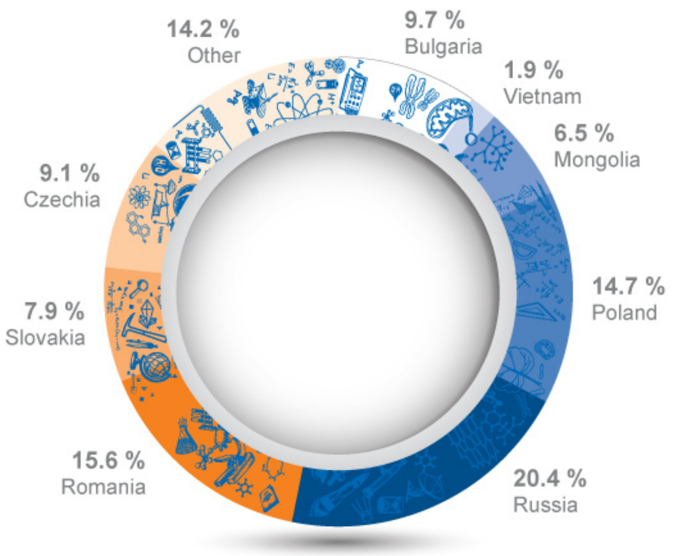

Figure 7

As at the end of 2014, the Bank's securities portfolio contained top-quality bonds and eurobonds of corporate and governmental issuers (Figure 8).

Structure of IBEC Securities Portfolio by Type of Securities as of 31.12.2014

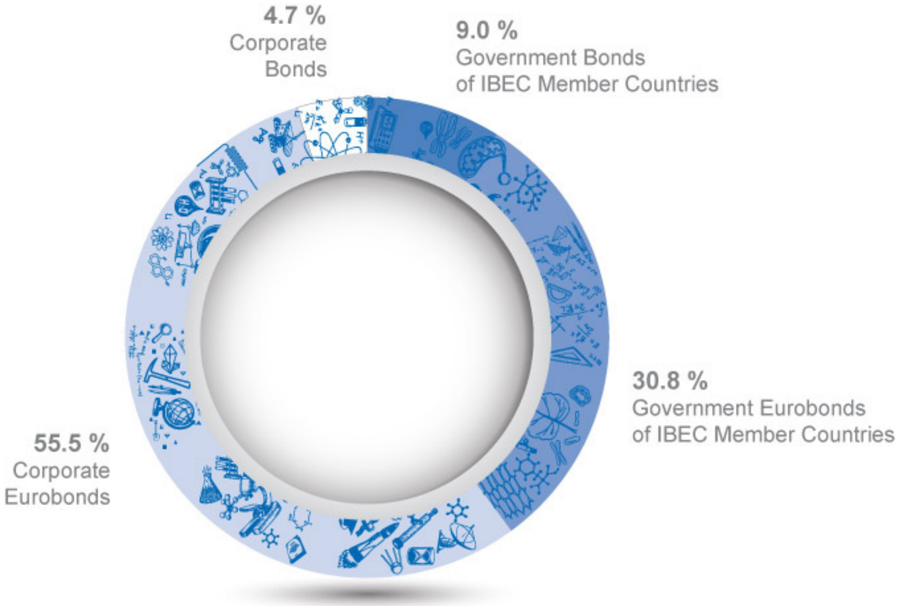

Figure 8

The structure of IBEC securities portfolio by sectors of issuers as at the end of the reporting year is displayed below (Figure 9).

Structure of IBEC Securities Portfolio by Sectors of Issuers as of 31.12.2014

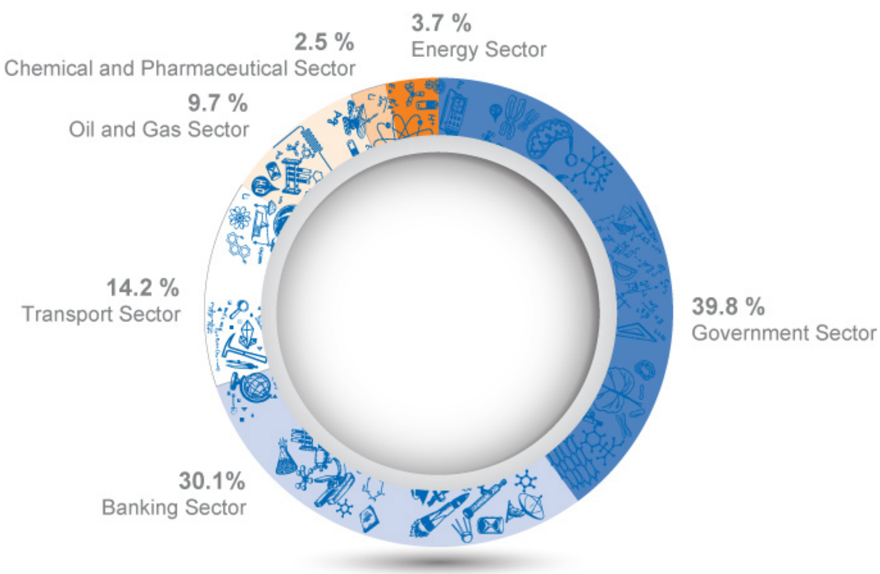

Figure 9

In order to reduce currency risk in 2014 the following changes were made to the currency structure of the Bank's securities portfolio:

- The share of euro-denominated securities, decreased by 9% in comparison to the end of 2013;
- The share of Russian rouble-denominated securities decreased by 95% in comparison to the end of 2013;
- The share of US dollar-denominated securities, increased by 66% in comparison to the end of 2013;
- The Swiss franc-denominated securities were acquired.

As a result of the foregoing changes, the currency structure of the IBEC securities portfolio as at the end of 2014 looks as follows (Figure 10).

Currency Structure of IBEC Securities Portfolio as of 31.12.2014

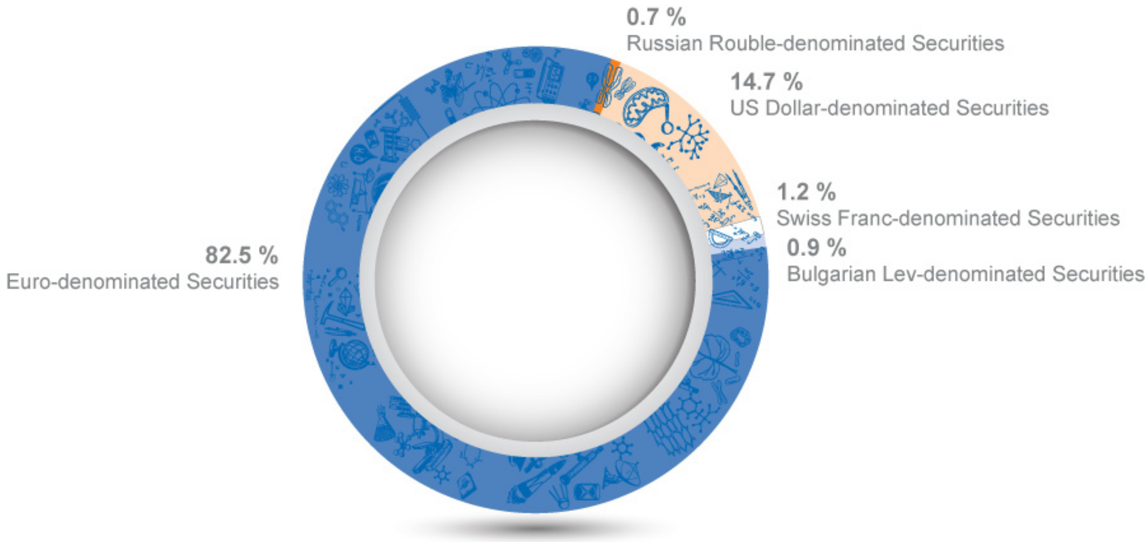

Figure 10

In 2014, the structure of the Bank's securities portfolio by type of assets changed as follows:

- The portfolio of held-to-maturity securities was released in full;
- The volume of the trading securities portfolio decreased by 60% as compared to the same indicator as at the end of 2013;
- The volume of the available-for-sale securities portfolio decreased by 8% in comparison to the end of 2013.

As a result of the foregoing changes as at the end of 2014, the bulk of the securities portfolio was comprised of the securities for sale (Figure 11).

Structure of IBEC Securities Portfolio
by Type of Assets as of 31.12.2014

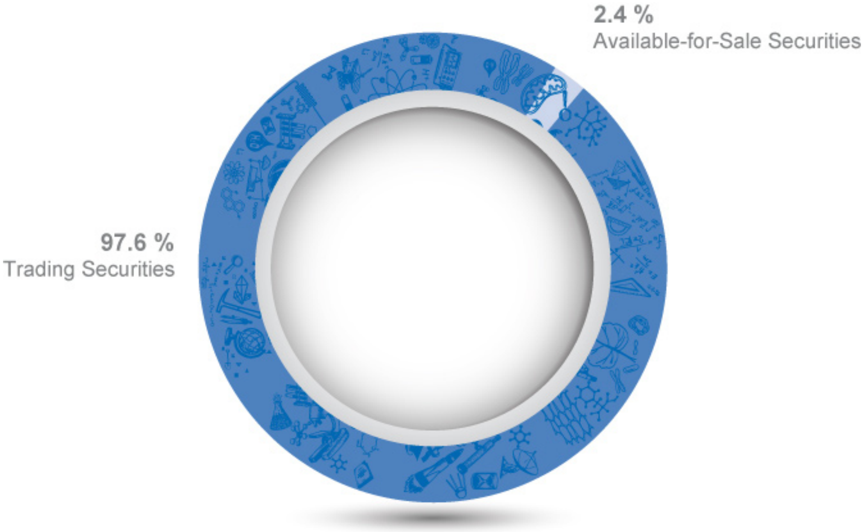

Figure 11

In 2014, the Bank carried out operations in the exchange and OTC markets. And during the reporting year the Bank was participating in several initial bond offerings of the government bonds and eurobonds of the IBEC member countries, as well as of the Corporate eurobonds.

Thus, by carrying out the securities transactions in 2014, the Bank succeeded not only to save money of the Bank's member countries, ensure an acceptable return level, minimize portfolio management risks, but also to improve securities portfolio diversification parameters.

Deposit Portfolio

In 2014, IBEC continued placing its temporarily available funds in interbank deposits at banks of the IBEC member countries. The funds were placed in compliance with the approved quotas. As of December 31, 2014, the volume of the placed funds amounted to approximately 85 million euros.

In the reporting year, the Bank thoroughly monitored financial market trends. A downward interest rate trend in the financial market, specifically, the reduction of the base rate of the European Central Bank affected the deposit operations of IBEC.

In 2014, the list of active counterparties among bulgarian and mongolian banks was expanded; the cooperation in the field of deposit banking with the vietnamese banks continued.

In the reporting year, deposits were placed both in the Bank's balance sheet currency (euro) and in other currencies. In order to hedge currency risks and maintain open currency position within the approved limits when placing deposits in currencies other than the balance sheet currency, currency swap transactions were carried out with the banks of the IBEC member countries.

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3 The Bank's Borrowed Funds

Progress is shared

Biology

Stamen Gigov Grigorov

1878-1945

Bulgarian physician and microbiologist who created anti-tuberculosis vaccine and developed the best at that time method of treatment for this disease named Cura Bulgara. By containing the cholera epidemic, Grigorov saved the lives of thousands of soldiers of the Bulgarian Army in World War I, in which he participated as the chief of the military field hospital on the Southern Front.

Gansukhiyn Tserenchunt

1977

Mongolian oncologist. Tserenchunt carries out a research on the causes of cancer diseases based on the new method of analysis immunohistochemistry and molecular biology. In 2014, Tserenchunt was recognized by the World Academy of Sciences as the world's best scientist for his successful studies in this filed.

The Bank's Borrowed Funds

In the reporting year, the Bank carried out borrowing activity in russian and international markets. Due to the slowdown of the economic growth in the country of location of IBEC, the structure of the funds raised by the Bank significantly changed. Repurchase transactions began to prevail in it at the end of the reporting year.

The change of the structure of the raised funds is graphically displayed below (Figures 12, 13).

As of December 31, 2014, the volume of the funds raised under repurchase agreements increased by 1.5 times compared to the results for 2013 and amounted to 18.1 million euros, or 68% of funds raised by the Bank.

Structure of Portfolio of Funds Raised by IBEC as of 31.12.2013

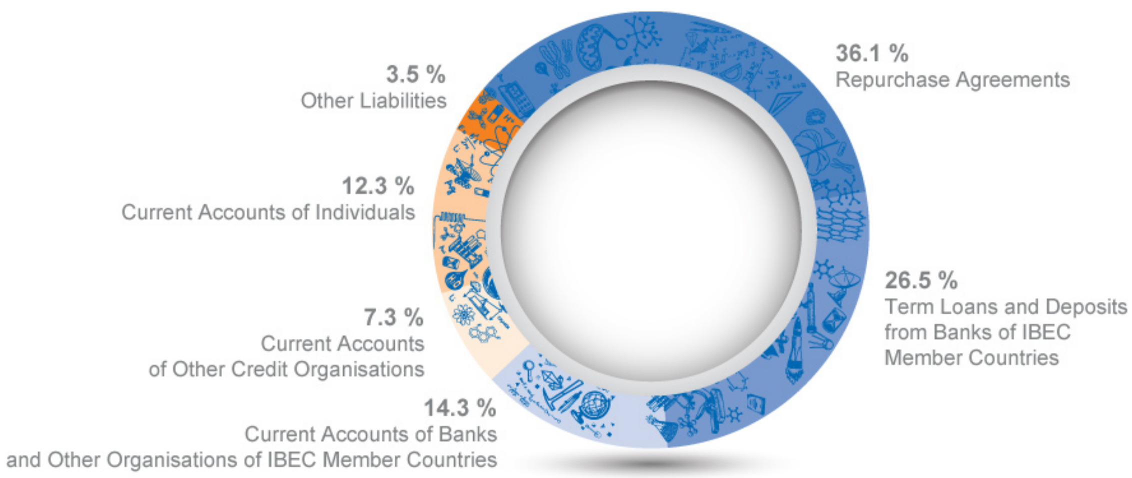

Figure 12

Structure of Portfolio of Funds Raised by IBEC as of 31.12.2014

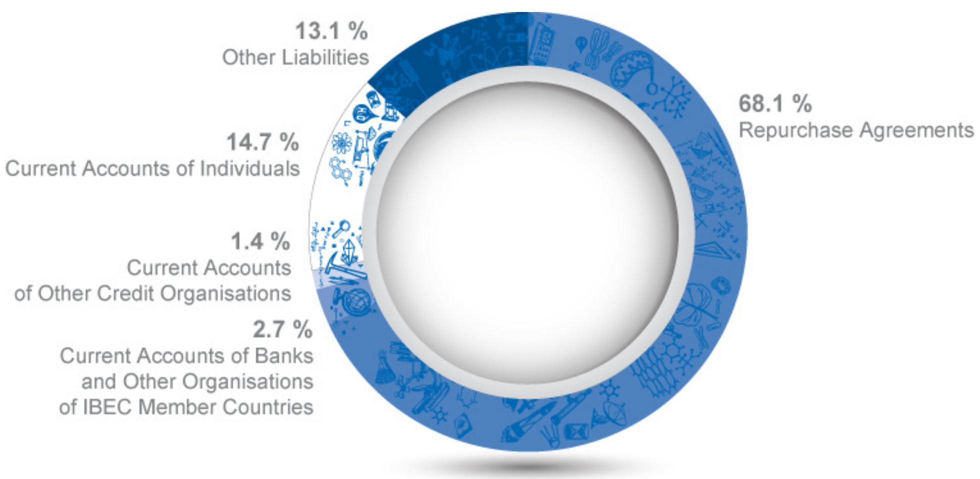

Figure 13

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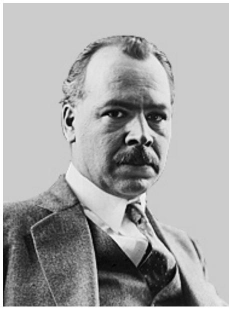
4 The Bank's Equity

Progress is shared
Genetics

Nikolai Ivanovich Vavilov

1887-1943



Russian and Soviet geneticist and plant-breeder, President of the Lenin All-Union Academy of Agricultural Sciences, Vavilov is the founder of the plant immunity theory, he was the first to discover the Law of Homologous Series in Hereditary Variability. Vavilov initiated the establishment of several research and development institutions in biology and related sciences, including the All-Union Plant Research Institute.

Gregor Johann Mendel

1822-1884

Czech geneticist, founder of the heredity theory, later called as Mendelism in his honour. His discovery of the inheritance of monogenic traits that follows the particular patterns became the first step on the way to modern genetics. Being inspired by the research of plant traits change, he made experiments with a selective crossbreeding of common pea plants in the experimental monastery garden and formulated the laws that explain the mechanism of inheritance, known as *Mendel's Laws*.

The Bank's Equity

The size of the equity as at the end of the reporting year amounted to 294 million euros. In 2014, the paid part of the authorized capital of IBEC remained constant at 187 million euros (Table 2).

Table 2

Structure of the Paid Part of the Authorised Capital by IBEC Member Countries as of 31.12.2014

	Specific Weight, %	Paid Part, thousand euros
Republic of Bulgaria	7.56	14,137
Socialist Republic of Vietnam	0.38	708
Mongolia	1.33	2,495
Republic of Poland	12.01	22,453
Russian Federation	51.59	96,462
Romania	7.12	13,305
Slovak Republic	6.67	12,474
Czech Republic	13.34	24,947
	100.00	**186,981**

The share of the paid part of the Bank's authorised capital prevails in the equity structure of IBEC (Figure 14).

Structure of IBEC's Equity as of 31.12.2014

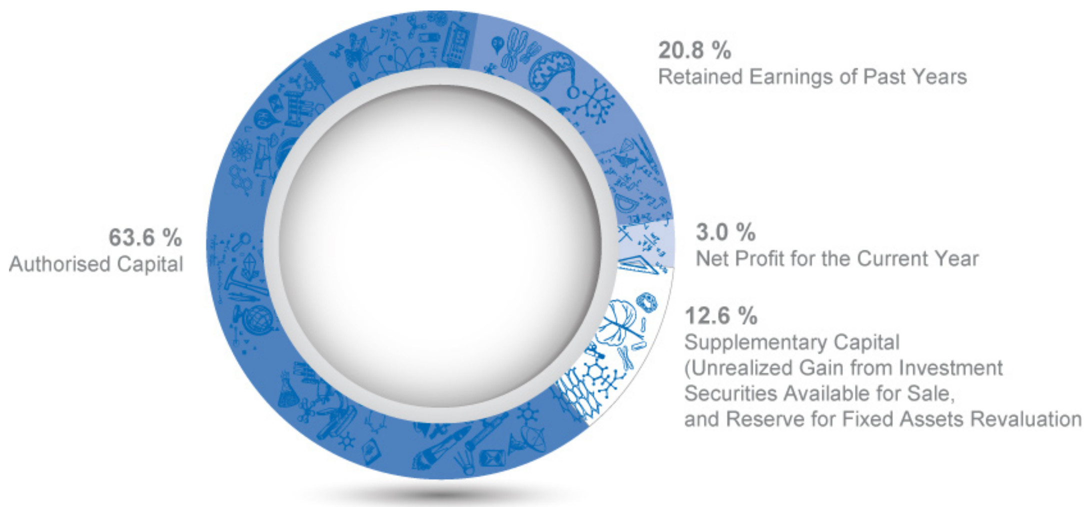


Figure 14

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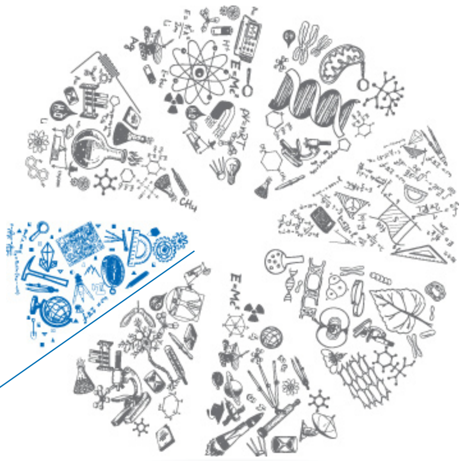
5 Settlement and Cash Services for Customers



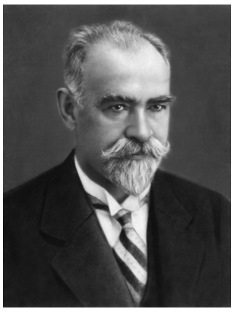
Progress is shared

Geography

Anastas Todorov Ishirkov

1868-1937

Bulgarian geographer, the founder of geographical science in Bulgaria Ishirkov made a considerable contribution to the development of the geographical science as a whole and anthropogeography and political geography in particular. In his works, he paid special attention to the problems of population and residential communities in Bulgaria. The Bulgarian Geographic Society was established on the initiative of Ishirkov in 1918.



Ján Matej Korabinský

1740-1811

Slovak geographer, the founder of Slovak statistical geography. Korabinský is the author of encyclopaedia *Geographical and Historical Lexicon of Hungary, Complete Atlas of the Austro-Hungarian Empire*, and of many other encyclopaedic publications and hydrological, economic and ethnographic maps.

Settlement and Cash Services for Customers

In the course of relations with the corporate customers in 2014, IBEC focused on establishing and developing long-term partnership relations as well as on customising the range of available products and services to suit customers' needs. In the accounting period, a comprehensive programme was implemented to expand the IBEC's customer base and improve the priority business processes associated with the serving of the corporate customers.

Thus in 2014, the proposals were prepared to improve priority business processes associated with the settlement and cash services as well as with the search for new customers and partners.

The implementation of these proposals will facilitate the acquisition of new clients and increase the clients retention rate.

In the reporting year, the work aimed at building the database of potential customers, prospective in terms of IBEC's statutory objectives, was carried out by the Bank. With this regard, a target group of customers was specified and a portrait of the IBEC potential customer was created.

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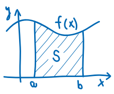
6 Correspondent Relations



Progress is shared

Mathematics

Ngô Bảo Châu

1972

Vietnamese mathematician, specialising in the field of multidimensional spaces, best known for proving the fundamental lemma for unitary groups. At the age of 33, he became the youngest professor in Vietnam. Ngô Bảo Châu was awarded the Fields Medal at the International Congress of Mathematicians in 2010.

Sharabiin Myangat

ca. 1685/86 or 1692-1764/1765

Mongolian mathematician and astronomer, one of the most prominent mathematicians of his time. Myangat is famous for his works on infinite series expansion of trigonometric functions. Myangat participated in drafting and editing the calendar and in the study of the armillary sphere. His work *The Quick Method for Obtaining the Precise Ratio of Division of a Circle* was a significant contribution to the development of mathematics.

Correspondent Relations

The wide correspondent network evolved as a result of continuous relationship enables the Bank to provide the settlement and cash services for its customers and counterparties all across the world quickly and efficiently.

In 2014, IBEC continued to develop business relations with the counterparty banks. In this regard, the establishment and development of business relations with the banks of IBEC member countries in accordance with the goals and tasks specified by the IBEC Development Strategy was the priority area of activity.

As a result, new general agreements were signed, the subject matter of which was the cooperation in the foreign exchange and money markets, term transactions in the financial markets, conclusion and performance of repurchase agreements and banknote transactions.

As at the end of the reporting year, the network of IBEC counterparty banks comprised 118 banks, 104 of which are the banks of IBEC member countries (Figure 15).

IBEC Counterparty Banks Base Structure as of 31.12.2014

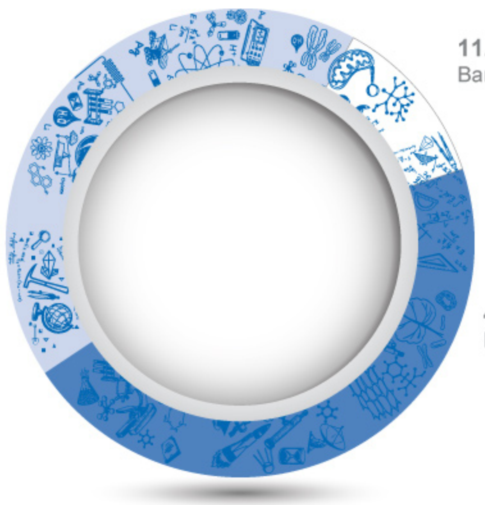


Figure 15

Therefore, the existing network of the IBEC counterparty banks provides the ability to operate efficiently in carrying out banking operations.

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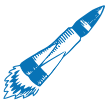
7 Business Cooperation



Progress is shared

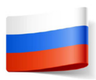
Astronautics

Jugderdemidiyn Gurragcha

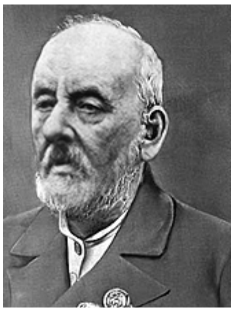
1947

The first Mongolian to fly in space. Gurragcha took the flight from March 22 till 30, 1981 as a cosmonaut researcher aboard Soyuz 39 Spacecraft. Thereafter, he held various public offices, including the office of Mongolian Defence Minister from 2000 till 2004.

Konstantin Eduardovich Tsiolkovsky



1857-1935



Russian and soviet scientist and inventor, the founder of the theoretical cosmonautics. Tsiolkovsky laid the foundations for rocketry, justified the use of rockets for space flights, came to the conclusion about the necessity of using ‘Cosmic Rocket Trains’ being the prototypes of multi-stage rockets.

Business Cooperation

In order to establish and enhance the economic relations with businesses in the IBEC member countries, in 2013 the Bank continued to develop business relations with the institutions and government organisations in the IBEC member countries.

IBEC continued to successfully develop the cooperation with the banking associations, including the Asian Bankers Association, Banking Association for Central and Eastern Europe and the Association of Russian Banks, as there member. In the context of this area of activity, the IBEC representatives participated in a permanent conference of the Asian Bankers Association.

In the reporting year, in the context of development of cooperation with the state banks and publicly-owned banks, a cooperation agreement with the Development Bank of Mongolia was signed.

The Bank performed information exchange within the framework of existing cooperation agreements with the chambers of commerce and industry and foreign investment and international commerce agencies of the IBEC member countries.

In 2014, the meetings of the Bank's officers were held with the representatives of the Chamber of Commerce and Industry of the Russian Federation, the Polish-Russian Chamber of Commerce and the Romanian-Russian Chamber for Economic and Cultural Cooperation, relating to the issues of funding of joint projects.

At the invitation of the Chamber of Commerce and Industry of the Russian Federation in December 2014, IBEC participated in the presentations of the investment potential of constituent entities of the Russian Federation.

In the reporting year, in the context of the Bank's cooperation with intergovernmental commissions for trade and economic, and research and development cooperation, IBEC participated in the XII Session of the Working Party for Interbank Cooperation of the Russian-Vietnamese Intergovernmental Commission.

In 2014, the Vietnamese-Russian Business Forum with the participation of the Bank's representatives was held to promote and enhance the trade and investment cooperation between Vietnam and Russia.

The representatives of IBEC took part in other banking conferences and forums in order to establish contacts and identify requirements in financing of the participating businesses of the IBEC member countries, including in the conferences "Prospect of Development of Economic Cooperation between Russia and Poland" and in the VII Annual Moscow Forum of Business Partnerships "Russia-Europe: Cooperation without Frontiers".

The expansion of business cooperation with the organisations from the Bank's member countries provides the Bank with new opportunities to foster economic cooperation and development of economies in the IBEC member countries.

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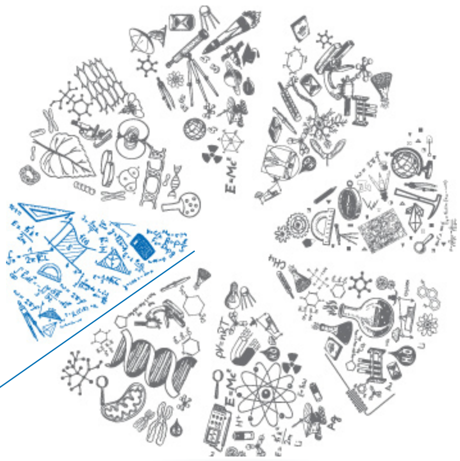
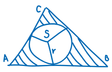
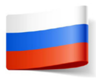


Progress is shared



Mathematics

Nikolai Ivanovich Lobachevsky

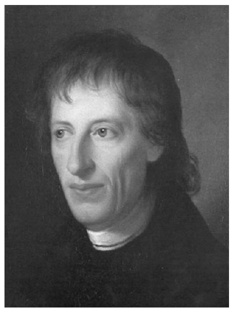


1792-1856

Prominent Russian mathematician. By replacing Euclid's parallel lines axiom by his own axiom, Lobachevsky created a geometric theory that that heralded a new epoch in the development of mathematics. Apart from the creation of the non-Euclidean geometry, Lobachevsky obtained several valuable results in other branches of mathematics: developed several theorems on trigonometric series, clarified the notion of continuous function, and provided a test for the convergence of series.

Bernard Bolzano

1781-1848



Czech mathematician. Bolzano was one of the founders of the Set Theory. In his work *Paradoxien des Unendlichen (The Paradoxes of the Infinite)*, Bolzano was the first to introduce the notions of ‘*set*’ and ‘*one-to-one correspondence*’, and proved the statement that every bounded infinite set of real numbers has at least one limit point. This statement became known later as the Bolzano-Weierstrass Theorem.

Risk Management

In 2014, IBEC continued to work in the context of the existing risk management system that corresponds to the nature and scale of the IBEC business and to the level of undertaken risks. The risk management system includes an appropriate organisational structure and information and methodological system that represent tools, methods, procedures and techniques of identification, assessment, restriction and control of the risks taken by the Bank.

The Bank follows conservative policies and refrains from carrying out potential high risk transactions no matter howsoever profitable they might be. An overall review of the risk profile and the condition of the risk management system is performed by the IBEC Council. The function of the risk management is organisationally separated from other business units and directly subordinated to the Bank's Management. An independent structural unit operates at the Bank and performs independent assessment and control of banking risks.

There were no significant changes in the risk management system in 2014 compared to 2013. The most significant risks for the Bank are credit and market risks. In order to ensure a comprehensive assessment of risks, the Bank also analyses non-financial risks that occur in the course of business, such as legal, reputation and strategic risks. In 2014, the Bank continued to apply in practice the rules and procedures developed by IBEC for the operational risk management. Activities in the field of limitation were one of the priority areas in the field of risk management in 2014. In order to limit risks, the Bank revised its approaches in regard to the limits established for active operations with the counterparty banks and issuers.

Capital adequacy ratio is one of the main indicators of the Bank's financial position to reflect an overall assessment of the Bank's reliability and exposure to risks. Maintenance of a high capital adequacy ratio is one of Bank's priorities and guarantees protection of interests of the Bank's member countries, its partners and customers. Pursuant to the IBEC Risk Management Policy approved by the IBEC Council, the capital adequacy ratio standard is established at the level of 25%.

According to the Bank's performance in 2014, the value of this indicator is 120%, and in 2013 it was 158%. Thus, the Bank's capital adequacy ratio is maintained at the proper level.

9 Internal Control and Audit

Progress is shared

Geology

Witold Leon Julian Zglenicki

1850-1904

Polish geologist and engineer. Zglenicki was first to explore and discover huge volumes of oil on the bottom of the Caspian Sea. On his initiative, the construction of water supply pipelines began in Baku. All modern rigs originate from the inventions of Zglenicki. Zglenicki discovered deposits of iron, iron pyrites, molybdenum and many other fossil minerals in Azerbaijan.

Jan Krejčí

1825-1887

Czech geologist, geographer and natural scientist. The main Krejčí's work is *Geologie čili nauka o tvarech zemských se zvláštním ohledem na krajiny Československé (Geology, or the Science of the Forms of the Earth with Special Respect to the Czechoslovak Landscapes)*. He made archaeological excavations in Central Europe. In addition Krejčí left many works on mineralogy, orography and zoology.

Internal Control and Audit

Internal Control System

The internal control system of the Bank is an important element of the Bank's corporate management system. It is aimed at detecting and decreasing the probability of events that negatively affect the efficient management of the Bank's financial resources, soundness of assets and maintenance of an adequate level of risk that does not threaten the interests of member countries and customers of the Bank.

In 2014, the Bank's internal control actions were performed with respect to the types the Bank's activities in view of the risk-oriented approach when drawing up the plan of the internal audit.

Thematic inspections were planned based on the analysis of results of the previous inspections, changes in various lines of business the Bank and related risks, as well as on the number of personnel in the structural unit responsible, within their competence, for the performance of the internal control at the Bank.

Auditing of the Bank's Activities

The auditing of IBEC's financial statements and the acknowledgement of their authenticity are performed by independent auditors from among the Big Four companies engaged by the Bank on a tender basis.

In 2014, the work was done to form the combined risk assessment database that contains the risk occurrences detected by the Risk Management Division as well as information on audits made by the Internal Control Division – statistics of comments, non-compliances, consistency of non-compliances, also monitoring of compliance with the recommendations on the conducted control activities was done.

In accordance with the Bank's strategic plans, the automation of the process of drawing up the Internal Audit Action Plan at IBEC began in view of the risk-oriented approach.

Therefore, the activities performed by the Bank in regard to the internal control at IBEC enable to control the activities of the Bank's business units and the Bank's business as a whole and to facilitate continuous improvement management system at IBEC.

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10 Anti–Money Laundering and Combating the Financing of Terrorism

Progress is shared

Chemistry

Bronisław Leonard Radziszewski

1838-1914

Polish chemist, author of over 200 scientific works in the field of organic chemistry; he specialized in studying of aromatics. A chemical reaction is named after Radziszewski. Radziszewski also studied luminescence phenomenon. He succeeded to prove that some solutions can fluoresce when oxygenated.

Nicolae Teclu

1839-1916

Romanian chemist, whose areas of research included resistance of paper and wood fibres, mineral pigments, combustion of gases. Teclu is the inventor of a gas burner with a mechanism to control the respective amounts of methane gas and air. Teclu also created laboratory tools for the detection of methane gas, and for the preparation of ozone.

Anti–Money Laundering and Combating the Financing of Terrorism

Being aware of the importance of anti-money laundering and combating the financing of terrorism (hereafter – AML/CFT), in the reporting year on a permanent basis IBEC performed comprehensive measures aimed at AML/CFT.

Thus, for the purpose of non-involvement of IBEC in the operations that may be associated with money laundering and financing of terrorism, in 2014 the transactions performed by IBEC customers through their accounts at the Bank were checked, analysis of information on customers and their counterparties was made, identification of the documents provided by the customers when opening accounts and updating information were studied as well as other documents provided at the Bank request.

In 2014, the Bank expanded the cooperation with Rosfinmonitoring (Federal Financial Monitoring Service), the authorized body of the Russian Federation for the AML/CFT issues, in regard to the refinement of the specialised software intended for automatic analysis of IBEC customers' transactions, and in regard to the organisation of further training of IBEC officers with respect to the AML/CFT issues using the resources of the International Training and Methodology Centre for Financial Monitoring.

In the past year, IBEC introduced changes to the Bank's AML/CFT legal regulatory documents, including to the IBEC Rules of Internal Control of Anti-Money Laundering and Combating the Financing of Terrorism (hereafter – RIC AML/CFT) and to the Programme for identification of IBEC's customers, representatives of customers, beneficial owners, and identification of beneficiaries.

These activities were aimed at:

– Optimisation of the procedures for interaction of the Bank's business units when detecting transactions controllable in pursuance of the practice of IBEC;
– Systematisation of the work on the documentation and keeping the documents information received in the course of implementation of the RIC AML/CFT;
– Regulation of the procedure for the identification and updating of the data on representatives of customers and beneficial owners;
– Bringing the legal regulatory documents regulating the Bank's activities for the purpose of AML/CFT in line with the best international practices and based on the legislation of the country of residence of IBEC.

In 2014, the Bank implemented comprehensive measures to join IBEC to the US Foreign Account Tax Compliance Act (FATCA); therefore, the Bank became a member of the International Internal Control System, received a unique Global Intermediary Identification Number (GIIN) and made required amendments to the internal legal regulatory documents.

Thus, in the reporting year, IBEC paid special attention to any suspicious operations and transactions deviated from normal banking practice, and performed comprehensive actions aimed at the enhancement of the Bank's AML/CFT activities.

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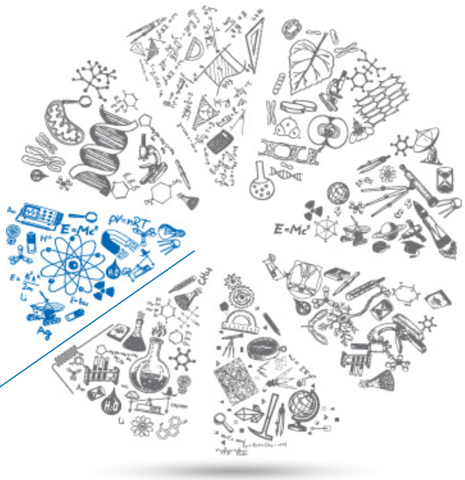
11 IBEC Areas of Activity for the Nearest Future

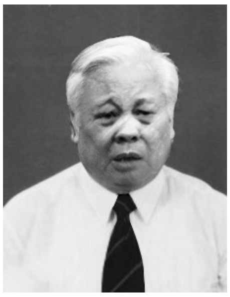


Progress is shared
Physics

Nguyên Văn Hieû

1938

Vietnamese physicist who worked in the USSR for a long time, expert in quantum field theory and theoretical elementary particle physics. Nguyên Văn Hieû was awarded the Lenin Prize in Science and Engineering for his series of works *Inclusive Processes in Strong Interactions of High Energy Elementary Particles and Discovery of Scale Invariance in these Processes*.



Maria Skłodowska-Curie

1867-1934

Polish physicist, a Nobel Prize winner in Physics (1903) and in Chemistry (1911), she was the first person ever to win Nobel Prize twice in multiple sciences. Maria Skłodowska-Curie is the first to discover the radioactivity phenomenon. Together with Pierre Curie she discovered radium and polonium, emanation of radium and studied properties of radioactive substances. The outstanding results of their studies triggered a complete revolution in the doctrine of the structure of matter and transmutation of elements.

IBEC Areas of Activity for the Nearest Future

In 2014, the Bank continued to carry out activities to implement the IBEC Development Strategy.

In order to achieve the tasks and goals set forth by the Strategy, IBEC will continue to perform in the following areas in 2015.

Development of interaction with IBEC member countries by:

– Practically implementing the available agreements for cooperation of IBEC with economic and financial institutions of the Bank's member countries;
– Establishing the relationships with financial and economic institutions of IBEC member countries, including intergovernmental commissions for trade and economic, and research and development cooperation of the IBEC member countries for the purpose of obtaining information on the projects beneficial for the development of the economies of the IBEC member countries;
– Participating in the activities held by the banking associations in which IBEC is a member.

Development of the network of counterparties and expansion of the customer base of IBEC by:

– Maintaining the range of the Bank's products and services in accordance with the requirements of priority customer segments;
– Organising negotiations with potential counterparties from among the leading operators of money and currency markets;
– Initiating the signing of new general agreements for cooperation with counterparties;
– Initiating the opening of limits for the counterparties in accordance with the established procedure, considering an opportunity to increase the limits for the active counterparties.

Carrying out transactions with securities in line with the conservative policy based on the principles of reliability before profit and the priority of country diversification, minimisation of risks and supporting sufficient liquidity of financial instruments, including:

– Obtaining securities with investment-grade credit ratings, including high investment-grade credit ratings;
– Participating in IPOs of the issuers of the Bank's member countries, provided the situation is favourable;
– Developing operations within the available-for-sale portfolios, provided the situation is favourable;
– Using additional instruments to increase portfolio yield with optimising the Bank's securities portfolio structure;
– Developing securities operations on the internal markets of IBEC member countries, including using their national currencies.

While managing the securities portfolio, the Bank will seek to widen the circle of the Bank's counterparties in securities markets, look for new opportunities to carry out operations on the lead trading platforms and increase the effectiveness of securities portfolio of IBEC. If the market situation is favourable, the Bank will intend to study an opportunity to develop operations with new financial instruments, including securities of issuers other than the Bank's member countries, credit notes, and other financial instruments.

Carrying out deposit operations for the purposes of:

– Borrowing funds to carry out active transactions;
– Ensuring the profitability of transactions;

- Hedging currency risk when placing the deposits in the currencies other than euro;
- Maintaining the profitability of banking transactions depending on the situation in financial markets;
- Providing the liquidity and protection of equity.

When carrying out the transactions, the Bank will seek to widen the circle of counterparty banks and development of cooperation in the inter-bank market of the IBEC member countries. The Bank will monitor new forms of cooperation in the inter-bank market of the IBEC member countries looking for opportunities to increase and further develop the resource base.

Carrying out comprehensive activities aimed at AML/CFT, including:

- Monitoring of customers' transactions to detect the transactions subject to mandatory control as well as the transactions that are indicative of an unusual type of business of the customer, and submission of the information on the detected transactions to the Rosfinmonitoring;
- Expansion of the area of interaction with the Rosfinmonitoring in regard to the increase of qualifications of the officers in the field of AML/CFT and refinement of the software for automatic detection of mandatory controllable transactions;
- Updating of the Bank's legal regulatory documents insofar as the AML/CFT legislation of the country of residence of the Bank is amended.

The activities planned to be implemented in 2015 will facilitate the effective performance of IBEC and enable the Bank to achieve its strategic goals.

IBEC’s Annual Financial Statements for 2014 According to IFRS Accompanied by Independent Auditor’s Report

Contents

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Auditors' Report

To the Members and the Council of the International Bank for Economic Cooperation

We have audited the accompanying financial statements of International Bank for Economic Cooperation («the Bank»), which comprise Statement of Financial Position as at December 31, 2014, Statements of Profit and Loss and Other Comprehensive Income and Statement of Changes in Equity and Cash Flow Statements for 2014, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Auditee's Responsibility for the Financial Statements

The Auditee's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the authenticity of these financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the system of internal control relevant to the preparation of fair financial statements, 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the reliability these financial statements.

ZAO PricewaterhouseCoopers Audit, Butyrsky Val Street, 10, Moscow, Russian Federation, 125047
T: +7 495 967 6000, F: +7 495 967 6001, www.pwc.ru

pwc

Auditors' Report (continued)

Basis for Qualified Opinion

The building in the amount of 82 million euros located in Moscow, Russian Federation, and beneficially owned by the Bank is recognised in the Statement of Financial Position as an Item of Property, Plant and Equipment as at December 31, 2014. The building is recognised at a revalued amount in accordance with IAS 16 "Property, Plant and Equipment". The last revaluation of this building was recorded in the financial statements as at December 31, 2009. In our opinion, the fair value of said building as at December 31, 2014 is overstated at least by 7 million euros.

Also, a part of the above-mentioned building leased to third parties and comprising 39 percent of the total area of the building (33 percent as at December 31, 2003) was not classified as an Item of Investment Property as at December 31, 2014 and as at December 31, 2013 as required in accordance with IFRS 40 Investment Property.

Consequently as a result of the incorrect classification of the investment property and overstatement of the fair value of the Property, Plant and Equipment and investment property, the misstatements are as follows:

In the Statement of Financial Position:

- Item "Property, Plant and Equipment" is overstated by the amount of 36 million euros as at December 31, 2014 and by 27 million euros as at December 31, 2013;

- Item "Investment Property" is absent and, consequently, it is understated by the amount of 29 million euros as at December 31, 2014 and by 27 million euros as at December 31, 2013;

- Item "Provision for Revaluation of Property, Plant and Equipment" is overstated by the amount of 16 million euros as at December 31, 2014 and by 13 million euros as at December 31, 2013;

- Item "Retained Earnings Less Net Profit" for the Year is understated by the amount of 13 million euros as at December 31, 2014 and by 13 million euros as at December 31, 2013;

In the Statements of Profit and Loss and Other Comprehensive Income:

- Item "Impairment of Investment Property" is absent and, consequently, the impairment of investment property is not recognised by the amount of 3 million euros for 2014;

- Item "Profit for Reporting Year" is overstated by the amount of 3 million euros for 2014;

- In the Statement of Other Comprehensive Income a decrease in the revaluation of the Property, Plant and Equipment by 4 million euros for 2014 is not recognised;

- Item "Total Comprehensive Income" is overstated by 7 million euros for 2014.

Auditors' Report (continued)

Qualified Opinion

In our opinion, save for the financial statements affected by the circumstances stated in the part that contains the basis for qualified opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2014, and its financial results and its cash flows for 2014 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

April 9, 2015
Moscow, Russian Federation

A. V. Efremov, Director (Qualification Certificate No. 01-00255),
ZAO PricewaterhouseCoopers Audit

Auditee: International Bank for Economic Cooperation

Legal Entity Identifier: 253400HA8YB1HUTNC692

11, Masha Poryvaeva Street, Moscow, Russia, GSP-6, 107996

Independent Auditor: ZAO PricewaterhouseCoopers Audit

Certificate of State Registration No. 008.890 issued by Moscow Registration Chamber 28 February 1992.

Certificate of Record in the Uniform State Register of Legal Entities issued by 22 August 2002, No. 1027700148431

Certificate of Membership in Self-Regulatory Organization of Auditors Russian Audit Chamber No. 870.
Principal Number of Registration Entry in the Register of Auditors and Audit Organizations: 10201003683

Statement of Financial Position as at December 31, 2014

(in thousand euros)

	Note	2014	2013
Assets			
Cash and cash equivalents	8	10,920	10,721
Trading securities	9	3,000	7,461
Due from credit institutions	11	84,747	92,915
Loans to customers	12	17,612	20,706
Investment securities:	10		
– available-for-sale		120,612	131,401
– held-to-maturity		–	2,244
Property, Plant and Equipment	13	82,300	83,556
Other assets	14	1 160	1,868
Liabilities		**320,351**	**350,872**
Обязательства			
Due to credit institutions	15	18,645	21,640
Due to customers	16	4,522	11,057
Other liabilities	14	3,481	1,178
Total liabilities		**26,648**	**33,875**
Equity			
Authorised Capital	17	186,981	186,981
Unrealized gains on available-for-sale investment securities	18	(1,443)	10,669
Provision for Revaluation of Property, Plant and Equipment		38,338	38,338
Retained earnings less net profit for the year		61,009	75,473
Net profit for the year		8,818	5,536
Total equity		**293,703**	**316,997**
Total equity and liabilities		**320,351**	**350,872**

V. V. Belyy — Chairman of the Board

I. V. Timoshin — Chief Accountant

March 5, 2015

The accompanying notes from 1 through 28 are an integral part of these financial statements.

Statement of Profit and Loss and other Comprehensive Income for 2014

(in thousand euros)

	Note	2014	2013
Interest income			
Loans to customers		933	1 473
Due from credit institutions		3,786	3,685
Investment securities		6,636	6,079
Cash and cash equivalents		6	22
		11,361	**11,259**
Trading securities		371	349
Total interest income		**11,732**	**11,608**
Interest expenses		(318)	(279)
Net interest income		**11,414**	**11,329**
Allowance for loan impairment	12	(602)	(22,331)
Net interest income (expense) after allowance for loan impairment		**10,812**	**(11,002)**
Net fee and commission income	20	351	1 941
Net fee and commission expenses	20	(49)	(85)
Net gains (losses) from securities before redemption		(70)	
Net gains (losses) from trading securities		(1,844)	(125)
Net gains (losses) from available-for-sale investment securities	21	8,210	24,178
Net gains (losses) from foreign currencies:			
– dealing		32	250
– translation differences		(622)	(2,870)
Dividend income		–	264
Rental income		4,182	5,776
Other banking income		559	87
Administrative and management expenses	22	(11,874)	(12,824)
Other provisions	23	(853)	(52)
Other banking expenses		(16)	(2)
Profit for the reporting year		**8,818**	**5,536**
Other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods			
Unrealized losses for available-for-sale investment securities		(4,294)	(737)
Realized gains from available-for-sale investment securities, brought forward to profits and losses		(7,818)	(29,224)
Total comprehensive income (loss) for the year		**(3,294)**	**(24,425)**

The accompanying notes from 1 through 28 are an integral part of these financial statements.

Statement of Changes in Equity for 2014

(in thousand euros)

	Note	Authorised Capital	Unrealized gains (losses) on available-for-sale investment securities	Provision for Revaluation of Property, Plant and Equipment	Retained profit	Total equity
Balance as at December 31, 2012						
Profit for the year						
Other comprehensive income/expense		–	(29,961)	–	–	(29,961)
Comprehensive income (expense) for the year		**–**	**(29,961)**	**–**	**5,536**	**(24,425)**
Redistribution of paid-in authorized capital arising from Cuba membership withdrawal		(2,528)	–	–	2,528	–
Redistribution of paid-in authorized capital arising from the Republic of Hungary membership withdrawal		(12,038)	–	–	12,038	–
Increase in authorized capital		58,091	–	–	(58,091)	–
Dividends to the Bank's member countries		–	–	–	(10,000)	(10,000)
Balance as at December 31, 2013		**186,981**	**10,669**	**38,338**	**81,009**	**316,997**
Profit for the year		–	–	–	8,818	8,818
Other comprehensive income/expense		–	(12,112)	–	–	(12,112)
Comprehensive income (expense) for the year		**–**	**(12,112)**	**–**	**8,818**	**(3,294)**
Dividends to the Bank's member countries 17	17	–	–	–	(20,000)	(20,000)
Balance as at December 31, 2014		**186,981**	**(1,443)**	**38,338**	**69,827**	**293,703**

The accompanying notes from 1 through 28 are an integral part of these financial statements.

Cash Flow Statement for 2014

(in thousand euros)

	Note	2014	2013
Cash flows from operating activities			
Profit for the year		**8,818**	**5,536**
Adjustments for:			
Accrued interest receivable		656	(1,752)
Accrued interest payable		(21)	(81)
Other accrued interest receivable		(14)	(243)
Other accrued interest payable		379	(849)
Depreciation		1,476	1,476
Provisions for loan impairment		602	22,331
Other provisions		853	52
Translation differences		622	2,870
Revaluation of trading securities		1,850	188
Net gains (losses) from investment securities		(8,140)	(24,178)
Dividend income		–	(264)
Other differences		(434)	(44)
Cash flows from operating activities before changes in operating assets and liabilities		**6,647**	**5,042**
(Increase)/decrease in operating assets:			
Trading securities		1,595	(5,211)
Due from credit institutions		9,643	7,470
Loans to customers		3,286	(140)
Other assets		969	(305)
Increase/(decrease) in operating liabilities:			
Due to credit institutions		(3,276)	(2,970)
Due to customers		(6,226)	(3,613)
Other liabilities		(987)	(89)
Net cash from operating activities		**11,651**	**184**
Cash flows from investment activities			

The accompanying notes from 1 through 28 are an integral part of these financial statements.

Cash Flow Statement for 2014 (continued)

(in thousand euros)

	Note	2014	2013
Available-for-sale investment securities		7,271	7,389
Held-to-maturity securities		2,009	(2,500)
Purchase of Property, Plant and Equipment	13	(231)	(352)
Proceeds from disposal of Property, Plant and Equipment		–	50
Dividend income		–	264
Net cash received from (used in) investing activities		9,049	4,851
Cash flows from financing activities			
Dividends paid to IBEC member-countries	17	(19,771)	(9,829)
Net cash used in financing activities		(19,771)	(9,829)
Net increase (decrease) in cash and cash equivalents before translation differences		929	(4,794)
Effect of exchange rate changes on cash and cash equivalents		(730)	(453)
Net decrease in cash and cash equivalents		**199**	**(5,247)**
Cash and cash equivalents as at December 31 of the previous year	**8**	**10,721**	**15,968**
Cash and cash equivalents as at December 31 of the reporting year	**8**	**10,920**	**10,721**

The accompanying notes from 1 through 28 are an integral part of these financial statements.

(in thousand euros)

1. Bank's Principal Activities

The International Bank for Economic Cooperation ("IBEC" or the "Bank") was established 1963 with its headquarters in Moscow, Russian Federation.

The Bank an international institution established and active under the Intergovernmental Agreement for the Organisation and Activities of IBEC (hereafter – the Agreement), and the Statutes of IBEC. The Agreement was registered with the Secretariat of the United Nations on August 20, 1964. The Bank's member countries are the following eight countries located in Europe and Asia: the Republic of Bulgaria, the Socialist Republic of Vietnam, Mongolia, the Republic of Poland, the Russian Federation, Romania, the Slovak Republic, and the Czech Republic. The Bank carries out its business from its head office in Russia, Moscow, Masha Poryvaeva Street, 11.

The mission of IBEC is to facilitate the economic cooperation and development of the economies of the Bank's member countries through the effective implementation of all the Bank's activities set forth in the founding documents of IBEC, based on its status of the intergovernmental financial institution.

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

- Opening and keeping customer accounts, receiving funds from customers and placing funds in accounts with the Bank, handling document control and performing export and import payment and settlement transactions, performing conversion arbitrage, cash, guarantee and documentary, operations, provision of banking consulting etc;
- Attracting deposits and credits, issuance of securities;
- Lending bank loans and guarantees, placing deposits and other borrowed funds, financing capital investments, accounting of promissory notes, purchasing and selling securities, participating in the capital of banks and financial and other institutions;
- Other banking operations.

2. Economic Environment in which the Bank Operates

According to the recent data of the International Monetary Fund (IMF) on the global economy outlook published in the beginning of 2015, the global economic activity has entered a slowdown phase. In addition, many countries both in the developed and emerging markets still have to overcome the consequences of the global financial crisis, such as an excessive debt and high unemployment rate. As a result of the interaction of these two factors: (i) the overcoming of the legacy of the crisis harder than expected and (ii) the reduction of potential growth pace, the forecast of economic growth had been repeatedly revised down during the past three years.

(in thousand euros)

2. Economic Environment in which the Bank Operates (continued)

At the same time, the developed countries have been gradually moving forward in 2014 toward the overcoming of the crisis and reached good growth rates; however, even for the leaders of the growth – USA and Great Britain – the potential growth pace still is not high. In the eurozone in 2014, the growth is nearly stopped, even in the main countries. This is partly due to the temporary factors, but the recovery is restrained by the legacy of the crisis, primarily in the south of the eurozone, and by a low potential growth almost in all the countries.

At the same time, the economic activity in many emerging market countries to which most of the IBEC member countries belong, was going down as ever due to the less favourable financial conditions, although the share of such countries in the global growth has been still significant. The countries with developing economy have the following threats for their further development: lower than expected inflation rates in the developed countries, the geopolitical tension that grew in the second half of 2014 and related volatility in financial markets.

According to the IMF analysts, the global economic growth pace was 3.3 percent in 2014 with a prospective growth by 3.5 percent in 2015. Generally, the forecast for the emerging and developed market countries has been also revised down but continues to be more favourable: at a growth by 4.4 percent in 2014 and further based on the results of 2015 a growth by 4.3 percent may be likely maintained due to the external demand on the part of the developed countries. However, analysts say that the global economic upturn prospects are weak, and there will be still significant risks of growth reduction in the mid-run.

Against this background, in most of the IBEC member countries in 2014, there was a tendency of economic growth slowdown with a predictable moderate increase in the growth in 2015 for some countries, with a possible negative adjustment.

3. Basis for Presentation of Financial Statements

These financial statements have been prepared in accordance with International Financial Reporting Statements Standards (IFRS) and IBEC's Principal Accounting and Financial Reporting Policy.

The Bank has neither subsidiaries or affiliates and, therefore, these financial statements have been prepared on a non-consolidated basis.

The financial statements are presented in euros, which is the Bank's functional and presentation currency. All the data presented in these financial statements are rounded to the nearest thousand euros.

The financial statements are prepared on the going concern basis. Using this assumption, the Bank's Board of Management considers the current intentions, the profitability of operations and the available financial resources.

(in thousand euros)

4. Accounting Policy

Basic Approaches to Valuation

Valuation is a process of determining the value at which accounting items must be recorded in the Bank's financial statements. The Bank uses the following methods of valuation (recognition) of financial assets and liabilities.

Fair value is the price for which an asset could be sold, or a liability transferred, between parties in an arm's length transaction at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a 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 such asset or liability. The initial value is a sum of all paid monies or their equivalents of a fair value of other resources furnished to acquire the asset at the date its acquisition including transaction costs.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

The amortised cost of a financial asset or financial liability is computed as the amount initially recognised minus partial principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any amount written-off (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset (liability) and of accruing the interest income over the relevant period. The effective interest rate is the rate that exactly discounts expected amounts of future cash payments from the date of interest payment or regular review of the interest rate to the current net book value of the financial assets or liability.

The amortised cost of a financial asset corresponds to the book value, based on the materiality principle.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and payment documents at the Bank's cash desk, accounts with the Bank of Russia and on correspondent accounts.

Financial assets

Initial recognition of financial instruments

According to IFRS (IAS) 32 and IFRS (IAS) 39, the Bank classifies financial assets as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition.

(in thousand euros)

4. Accounting Policy (continued)

All standard purchases and sales of financial assets are recognised on the trade date, being the date a commitment is made to purchase or sell the asset. All regular way purchases and sales of financial assets include transactions that require delivery within the time frame established by legislation convention in the market place ("regular way" purchases and sales).

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held by the Bank for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

– A financial asset that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;

– Other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available-for-sale provided that it meets definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading securities. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Securities for trading (trading securities) are securities acquired for the purpose of generating a profit from short-term fluctuations in price or dealer's margin, or securities that are part of a portfolio actually used for short-term profit taking. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after acquisition.

Trading securities are recorded at fair value. Interest income on trading securities is calculated using effective interest rate and charged to the Statement of Comprehensive Income as part of interest income.

(in thousand euros)

4. Accounting Policy (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised by IBEC at the settlement date. Long-term assets are presented in the financial statements at amortised cost using the effective interest method. Profits and losses from such assets are recognised in the Statement of Comprehensive Income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity financial assets

This category includes held-to-maturity investment securities with fixed maturities that the Bank has the positive intention and ability to hold them to maturity. The Bank determines its intention and ability to hold financial assets to maturity at initial recognition of financial assets and at every accounting date.

Held-to-maturity securities are recognised in the financial statements at amortised cost using the effective interest rate method less impairment provision calculated as the difference between their carrying value and the present value of expected future cash flows discounted at the securities' original effective interest rate.

Profits and losses from investment in financial assets are recognised in the Statement of Profit and Loss and other Comprehensive Income when such assets are redeemed or impaired, as well as through the amortisation process.

Available-for-sale financial assets

This category includes available-for-sale securities that are intended to be held by the Bank for an indefinite period of time and that can be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets under direct and reverse repurchase agreements, loaned financial assets

Direct and reverse repurchase agreements are the type of collateralized lending in the form of securities.

The securities transferred without being derecognised under a repurchase agreement ("direct repurchase agreement") are recognised in the financial statements in the category of financial assets in which they were recognised.

The securities transferred being derecognised under direct repurchase agreements are recognised in the financial statements as other assets with the inclusion of liabilities into the funds of banks and other borrowed funds.

The difference between the price sale of a security and the price of reverse repurchase is recognised as interest income and accrued during the entire term of the repurchase transaction, using the effective interest rate.

(in thousand euros)

4. Accounting Policy (continued)

The difference between the price purchase of a security and the price of reverse sale is as interest income and accrued during the entire term of the repurchase agreement, using the effective interest rate.

Impairment of financial assets carried at amortised cost

Losses from impairment of financial assets carried at amortised cost are recognised in the statement of comprehensive income when incurred as a result of one or more events occurring after the initial recognition of the financial asset and affecting the amounts or timing of the estimated future cash flows of the financial asset. The primary factors that the Bank takes into account when considering whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following principal criteria are used to determine if there is an objective evidence of impairment:

– Overdue in any regular payment that cannot be attributed to a delay in operation of settlement systems;
– Significant financial difficulties experienced by the borrower, which is confirmed by financial information available to the Bank;
– Probability that the borrower will go bankrupt or other financial reorganization;
– An adverse change in the payment status of the borrower as a result of changes in the economic conditions affecting the borrower;
– Decline in the value of the collateral as a result of deteriorating market conditions.

Impairment losses are recognised through an allowance account to write down the asset's carrying value to the present value of expected cash flows discounted at the original effective interest rate of the asset. Uncollectible financial assets are written off against the impairment allowance, after all the necessary procedures for full or partial recovery have been completed and the ultimate loss amount has been determined.

Derecognition of financial assets

The Bank derecognizes financial assets when:

– The financial assets are redeemed or the rights to cash flows from the assets have otherwise expired;
– The Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement and (i) also transferred substantially all the risks and rewards of ownership of the assets or (ii) lost control over such assets.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety.

Due from credit institutions

Due from credit institutions includes credits, provided loans, placed deposits in credit organizations and amounts due from credit institutions placed as security (guarantee) of settlements, against receivables with fixed or determinable maturity.

4. Accounting Policy (continued)

Initially, due from credit institutions is carried at original cost which is the fair value of provided assets.

Subsequently the debt is measured at amortised cost less allowance for impairment.

Property, Plant and Equipment

For the accounting purposes, all the Property, Plant and Equipment are divided into the following groups: buildings and structures, office equipment and computer hardware, furniture, and vehicles.

The building is carried at fair value. All other Property, Plant and Equipment and investments in the Property, Plant and Equipment and construction in progress are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation of all groups of Property, Plant and Equipment is calculated using the straight-line method.

Depreciation of an asset begins when it is available for use and ends when the asset is derecognised. Depreciation is calculated over the following estimated useful lives of the Property, Plant and Equipment as follows:

– Buildings and structures – 67 years;
– Office equipment and computer hardware – from 2 to 10 years;
– Furniture – from 5 to 10 years;
– Vehicles – 5 years;
– Other Property, Plant and Equipment – 50 years.

The decrease in the book value of an asset as a result of impairment is charged to profit or loss.

Any surplus from the revaluation of the building is credited in the Statement of Financial Position to the revaluation of the Property, Plant and Equipment being part of the equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognised in the statement of comprehensive income. A revaluation deficit is recognised in the statement of comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus recorded in the Property, Plant and Equipment revaluation reserve.

The Property, Plant and Equipment revaluation reserve is taken directly to retained earnings (uncovered loss) when the asset is written off or disposed of.

Operating lease

The Bank presents assets subject to operating leases in the Statement of Financial Position according to the nature of the asset. Lease income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term as other operating income.

(in thousand euros)

4. Accounting Policy (continued)

Financial liabilities

According to IFRS (IAS) 32 and IFRS (IAS) 39, the Bank classifies financial liabilities as financial liabilities at fair value through profit or loss and other financial liabilities (as appropriate). Initially, financial liabilities are carried at fair value.

Except for financial liabilities carried at fair value through profit or loss, all long-term financial liabilities are measured at amortised cost, if not subject for hedge accounting with derivative instruments position.

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

Due to credit institutions

Amounts due to credit institutions are recorded when cash or other assets are received by the Bank from counterparty banks. If the Bank acquires its own debt, it is removed from the accounting records and the difference between the carrying value of the liability and the consideration paid is included in the Bank's other income or expense.

Due to customers

Amounts due to customers are financial liabilities to individuals, state or corporate customers and are carried at fair value on initial recognition.

Derivative financial instruments

Derivative financial instruments including currency exchange contracts, futures, forward interest rate agreements, currency swaps and interest rate swaps, currency options and interest rate options are initially recognised at fair value and are subsequently re-measured, if not subject to cash flow hedging.

Changes in the fair value of derivative instruments are recorded in the profit or loss of the accounting period.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain maturity or amount.

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events occurred prior to the reporting date and it is probable that an outflow of resources embodying economic benefits will be required by the Bank to settle the obligations and a reliable estimate of the amount of obligations can be made.

The Bank makes a provision for year-end bonuses in accordance with the System of Year-End Bonus Plan to Employees of IBEC.

Trade and other payables

Trade payables are recognised when the counterparty has fulfilled its obligations and are carried at fair value.

(in thousand euros)

4. Accounting Policy (continued)

Foreign currency translation

Transactions denominated in foreign currency are recorded at the exchange rate prevailing on the transaction date. For the purposes of the Bank's financial statements, any currency other than euro is considered as a foreign currency.

Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the Bank's internal exchange rate calculated on the basis of exchange rates effective as at the reporting date. Foreign currency exchange rate to euro used for the re-measurement purposes is based on a methodology approved by the Bank's Board of Management.

Items of the Statement of Profit and Loss and other Comprehensive Income denominated in foreign currencies are translated to the functional currency at the exchange rate effective at the date of such transaction. All translation differences from foreign currencies are recorded in the statement of comprehensive income.

The Bank's internal foreign currency exchange rate

Assets and liabilities denominated in foreign currency as at the reporting date are recorded in the functional currency at the Bank's internal exchange rate.

The Bank uses the following internal exchange rate:

	As at 31.12.2014	As at 31.12.201
Russian rouble	0.014632 euro	0.022237 euro
US dollar	0.822368 euro	0.725531 euro

Offsetting

Generally, financial assets and liabilities are not subject to offsetting. Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position only when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expense recognition

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. According to such calculation, the interest income and expense include all fees and commissions paid and received by the contracting parties and being integral part of the effective interest rate, transaction costs, and all other bonuses and discounts.

Commissions pertaining to the effective interest rate include the commissions received or paid in connection with the creation or acquisition of a financial asset or with the issuance of a financial liability.

Commissions for the arrangement of credits, loan service fees and other commissions being considered as an integral component of the overall loan yield, taking into account respective direct costs are recognised as deferred income and amortised as interest income during the anticipated period of validity of the financial instrument using the effective interest method.

(in thousand euros)

4. Accounting Policy (continued)

Fee and commission income and expenses are recognised using the accrual method for the period during which services are being provided if the contractual terms and conditions enable to specify the amounts of commission receivable/payable at the reporting date. Such amounts are recognised in the Statement of Profit and Loss and other Comprehensive Income with a concurrent creation of debt in the balance sheet to be recorded as part of other claims/liabilities.

Commission and other income and expenses are recognised in the statements using the accrual principle.

Commission income from the organisation of transactions for third parties, such as, acquisition of credits, shares and other securities or purchasing or selling of companies, received upon performance of said transactions are recognised upon the completion of the transaction. Commission income investment portfolio management and other managerial and consulting services are recognised in accordance with terms and conditions of the service agreements, as a rule, in proportion to the time spent. Commission income from investment fund assets management are recognised proportionally to the scope of services rendered for the period during which such serves was being rendered. Same principle applies in relation to the services associated with property management, financial planning, and other similar services.

Dividend income

The income is recognised when the Bank's right to receive the payment is established.

Financial guarantees and similar commitments

Financial guarantees and similar commitments given by the Bank are initially recorded in the off-balance sheet, at fair value, and further this amount is amortised on a straight-line basis over the life of the commitment. At each reporting date, the commitments are measured at the higher of:

– The amount at initial recognition; and
– The best estimate of the expenditures required to settle commitment as at the reporting date.

When it is highly likely that a guarantee may be fulfilled and the amount required may be reliably measured, financial guarantees and similar obligations are estimated as an amount of expenses to be incurred in view of settlement of liabilities as at the balance sheet date.

Taxation

Pursuant to Intergovernmental Agreement for the Organisation and Activities of IBEC, and the Statutes of IBEC dated October 22, 1963 and registered with the Secretariat of the United Nations on August 20, 1964 No. 7388, the Bank is exempt of all direct taxes and duties both national and local ones.

This provision shall not apply to the payments of salaries to individuals – citizens of the country of location of the Bank, and to utilities services charges.

(in thousand euros)

5. New Accounting Provisions

Some new standards and clarifications have been published that are mandatory for the annual periods beginning on January 1, 2015 or after this date, and that have not been adopted earlier by the Bank:

IFRS 9 Financial Instruments: Classification and Measurement as amended in July 2014 shall come into force for the annual periods beginning on 1 January 2018 or after this date). Basic features of this standard are as follows:

– Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
– Classification is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the solely payments of principal and interest requirement. Debt instruments that meet the solely payments of principal and interest requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as financial assets at fair value through other comprehensive income. Financial assets that do not contain cash flows that are solely payments of principal and interest must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the solely payments of principal and interest condition.
– Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
– Most of the requirements in IFRS (IAS) 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

(in thousand euros)

5. New Accounting Provisions (continued)

– IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses model. There is a «three stage» approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month expected credit losses on initial recognition of financial assets that are not credit impaired (or lifetime expected credit losses for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime expected credit losses rather than 12-month expected credit losses. The model includes operational simplifications for lease and trade receivables.

– Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

At the present time, the Bank is currently assessing the impact of the new standard on the financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after July 1, 2014, except as otherwise stated). The Improvements provide for changes to seven standards.

The revised IFRS 2 clarifies the definition of a 'vesting condition' and defines separately 'performance condition' and 'service condition'; the amendment is effective for share-based payment transactions for which the grant date is on or after July 1, 2014. The revised IFRS 3 clarifies that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 will be effective for business combinations where the acquisition date on July 1, 2014 or on a later date.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

5. New Accounting Provisions (continued)

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

At the present time, the Bank is currently assessing the impact of these amendments on the financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after July 1, 2014, except as otherwise stated). The Improvements provide for changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

At the present time, the Bank is currently assessing the impact of these amendments on the financial statements.

(in thousand euros)

5. New Accounting Provisions (continued)

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on May 12, 2014 and effective for the periods beginning on or after January 1, 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its consolidated interim condensed financial statements..

At the present time, the Bank is currently assessing the impact of these amendments on the financial statements.

IFRS 15 "Revenue from Contracts with Customers" (issued on May 28, 2014 and effective for the periods beginning on or after January 1, 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

At the present time, the Bank's Management is currently assessing the impact of new standard on the Bank's financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after January 1, 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from «held for sale» to «held for distribution» or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the currency of the country where they arise.

IAS 34 will require a cross reference from the interim financial statements to the location of «information disclosed elsewhere in the interim financial report».

(in thousand euros)

5. Новые учетные положения (продолжение)

At the present time, the Bank is currently assessing the impact of these amendments on its financial statements.

Except as otherwise stated above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

6. Significant Accounting Estimates and Judgements in Applying Accounting Policies

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. Based on its expertise, the Bank uses its subjective judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties. The loans are assessed individually. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the loan and that loss event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated. The expected future cash flows are calculated based on the contractual cash flows and historical loss experience adjusted for current economic conditions and borrower's financial position on the basis of current observable data.

Sensitivity of Fair Value of the Building

As at December 31, 2014, the fare value of the building beneficially owned by the Bank is 81,779 thousand euros (82,951 thousand euros in 2013). Fair value per one square meter is 2,504 euros (2,539 euros in 2013). If the cost of one square meter increases by 10% (by 10% in 2013), the fair value of the building will be 89,957 thousand euros (91,246 thousand euros in 2013), if the cost of one square meter decreases by 10% (by 10% in 2013) the fair value of the building will be 73,601 thousand euros (74,656 thousand euros in 2013).

7. Adoption of new and revised standards and interpretations

The new IFRS standards and clarifications have become mandatory for the Bank since January 1, 2014:

"Offsetting Financial Assets and Financial Liabilities". Amendment to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after January 1, 2014). The amendments added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy.

(in thousand euros)

7. Adoption of new and revised standards and interpretations (continued)

The amendments to this standard did not have any material impact on the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 27 – "Investment Entities" (issued on October 31, 2012 and effective for annual periods beginning January 1, 2014). The amendments introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity. Furthermore, it is necessary to disclose information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. Those amendments did not have any material impact on the Bank because the Bank does not meet the definition of investment entity according to IFRS 10.

IFRIC 21 – "Levies" (issued on May 20, 2013 and effective for annual periods beginning January 1, 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. This interpretation did not have any material impact on the Bank.

Amendments to IAS 36 – "Recoverable Amount Disclosures for Non-financial Assets" (issued in May 2013 and effective for annual periods beginning January 1, 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).

(in thousand euros)

7. Adoption of new and revised standards and interpretations (continued)

The amendments remove the requirement to disclose the recoverable amount when a cash generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. The amendments to this standard did not have any material impact on the Bank.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning January 1, 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (thus, parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendments to this standard did not have any material impact on the Bank.

8. Cash and Cash Equivalents

	2014	2013
Cash on hand	467	493
Current accounts with banks in the IBEC member countries	454	1,928
Current accounts with other credit institutions	9,999	8,300
Cash and cash equivalents	**10,920**	**10,721**

Information on credit quality of cash and cash equivalents is disclosed in Note 24.

9. Trading securities

Trading securities comprise:

	2014	2013
Eurobonds of banks	2,949	4,059
Bonds of banks	51	277
Bonds of IBEC member countries	–	3,125
Trading securities	**3,000**	**7,461**

Information on credit quality of financial assets is disclosed in Note 24.

(in thousand euros)

10. Investment Securities

Available-for-sale investment securities comprise:

	2014	2013
Eurobonds of IBEC member countries	37,872	28,601
Corporate Eurobonds	37,225	34,406
Eurobonds of banks	28,574	25,118
Bonds IBEC member countries	10,991	13,974
Bonds of banks	5,950	17,108
Eurobonds of the cities of IBEC member countries	–	5,295
Shares of Moscow Exchange	–	6,899
Available-for-sale investment securities	**120,612**	**131,401**

Available-for-sale investment securities comprise securities provided as a collateral under reverse sale and repurchase contracts, fair value of which as at December 31, 2014 amounted to 20,934 thousand euros (2013: 13,225 thousand euros). The counterparty shall not be entitled to sell or repledge such investment securities. Please see Note 15.

During 2014 the Bank sold the remaining shares of Moscow Exchange. Information on the recognised financial result is disclosed in Note 21.

Held-to-maturity bonds of VTB Bank maturing in February 2016 denominated in roubles and included in the investment securities portfolio were sold by the Bank in August 2014 in connection with an increase in currency risk of such securities, temporary strengthening of the Russian rouble and a market opportunity to sell said securities in full. During 2 years the Bank shall not be entitled to classify any financial assets as held-to-maturity investment securities.

Eurobonds of the IBEC member countries are issued in euro and US dollars for the circulation in the markets that are external in relation to the country of issue. The maturity period for eurobonds is from January 2016 to November 2024 (2013: from June 2018 to January 2025), coupon rate is from 2.875% to 6.875% (2013: from 3.875% to 6.5%), yield to maturity is from 1.6% to 6.7% (2013: from 3.3% to 6.7%). Eurobonds of Romania comprise a significant part amounting to 19,244 thousand euros, or 50.81% (2013: 6,748 thousand euros, or 23.59%).

Corporate eurobonds are the debt securities denominated in euro and US dollars and issued by financial and industrial entities of the IBEC member countries and OECD countries for the circulation in the markets that are external in relation to the issuer. The maturity period for these eurobonds is from October 2016 to June 2028. (2013: from October 2016 to February 2028), coupon rate is from 3% to 9.5% (2013: from 3.374% to 95%), yield to maturity is from 3% to 6.7% (2013: from 4% to 6.7%).

(in thousand euros)

10. Investment securities (continued)

Eurobonds of JSC Gazprom comprise a significant part amounting to 12,210 thousand euros, or 32.80% (2013: 13,155 thousand euros, or 38.24%).

Eurobonds of the cities of the IBEC member countries are the debt securities denominated in euros and circulating in the markets external in relation to the issuer.

Bonds of the IBEC member countries are denominated in euro and Bulgarian levs and issued for the circulation in the internal markets of the countries of issue. The maturity period for the bonds is form February 2021 to July 2023 (2013: from January 2019 to January 2028), coupon rate is from 3% to 4% (2013: from 4% to 7.05%), yield to maturity is from 3% to 3.5% (2013: from 3.5% to 7.7%). The government bonds of Slovakia comprise a significant part amounting to 9,604 thousand euros, or 87.38 % (2013: 12,461 thousand euros, or 72.84%).

Bonds and eurobonds of banks are the debt securities denominated in euros, US dollars and Russian roubles accordingly for the circulation in the internal markets of issuers. The maturity period for the bonds is form February 2017 to March 2021 (2013: from January 2016 to February 2032), coupon rate is from 7.75% to 12.25% (2013: from 7.75% to 12.25%), yield to maturity is from 6.3% to 11.8% (2013: from 6.3% to 11.8%). The maturity period for the eurobonds of banks is form September 2015 to February 2025 (2013: from September 2015 to October 2023), coupon rate is from 3.984% to 12.5% (2013: from 3.984% to 12,5%), yield to maturity is from 3.9% to 10.6% (2013: from 3,9% to 10,6%). Eurobonds of Raiffeisen Bank International AG comprise a significant part amounting to 12,645 thousand euros, or 44.25% (2013: 10,178 thousand euros, or 40.52%).

Information on the credit quality and risk of change in the interest rates for the available-for-sale, investment securities is disclosed in Note 24.

11. Due from credit institutions

Amounts due from credit institutions comprise:

	2014	2013
Term loans and deposits from banks in the IBEC member countries	84,747	92,915
Due from credit institutions	**84,747**	**92,915**

As at December 31, 2014, the balances of the three main counterparties amount to 30,495 thousand euros, or 35.98% of total amounts due to credit institutions (as at December 31, 2013: 29,025 thousand euros, or 31.24% of total amounts due from credit institutions).

Information on credit quality of amounts due from credit institutions is disclosed in Note 24.

(in thousand euros)

12. Loans to Customers

Loans to Customers comprise:

	2014	2013
Corporate lending	57,166	59,710
Consumer lending	129	77
Total loans to customers	**57,295**	**59,787**
Allowance for impairment	(39,683)	(39,081)
Loans to customers	**17,612**	**20,706**

Allowance for impairment of loans to customers related to corporate lending:

	2014	2013
As at January 1	**39,081**	**16,715**
Supplementing	812	22,331
Writeback	(210)	–
As at December 31	**39,683**	**39,081**

Collateral and other instruments to reduce credit risk credit risk

Pursuant to the internal rules and procedures of the Bank, the borrowers provide the following types of collateral:

– Guarantees from governments and constituent entities of the IBEC member countries;
– Bank guarantees;
– Sureties from third parties;
– Commercial real estate properties;
– Liquid company equipment, which is in fairly wide use and equipment which may be considered unique in exceptional circumstances;
– Government securities and highly liquid corporate securities.

When the bank provides loans, the value of the pledged assets must be higher than the amount of the loan, loan interest and other payments to the Bank for the entire term of the loan as provided by the regulations of the international law, requirements of the legislation effective in the country of location of the Bank, market convention or contract/agreement.

The main types of collateral obtained For corporate lending are as follows:

– Guarantees from governments of IBEC member countries;
– Pledge of real estate properties;
– Sureties from third parties.

The Bank monitors fair value of collateral, requests additional collateral when necessary in accordance with the underlying agreement.

(in thousand euros)

12. Loans to Customers (continued)

Concentration of loans to customers

Loans are provided to customers operating in the following industry sectors:

	2014		2013	
	Amount	%	Amount	%
Oil and gas industry	26,031	45.43	26,031	43.54
Infrastructure	14,785	25.80	14,785	24.73
Investment: leasing	10,204	17.81	9,574	16.01
Pharmaceutical industry	6,146	10.73	762	1.27
Aerospace engineering and manufacturing	–	–	8,000	13.38
Heavy industry	–	–	308	0.52
Foreign trade	–	–	250	0.42
Individuals	129	0.23	77	0.13
Total loans and advances to customers (before deduction of the allowance for credit portfolio impairment)	**57,295**	**100.00**	**59,787**	**100.00**

As at December 31, 2014, the Bank concentrated 40,816 thousand euros from the three major counterparties (40,816 thousand euros in 2013) amounting 71.24% (68.27% in 2013) of the gross credit portfolio of the Bank. The Bank created an allowance for impairment of these loans totally amounting to 39,683 thousand euros (38,891 thousand euros in 2013).

Information on collaterals for corporate lending:

	2014	2013
Loans secured by real properties	46,962	49,886
Loans guaranteed by other parties, including loan insurance	10,204	9,574
Unsecured loans	129	77
Loans guaranteed by other banks	–	250
Total loans and advances to customers	**57,295**	**59,787**

The foregoing information contains the balance value of a credit or accepted collateral depending on which amount is lower. The balance value of credits was distributed based on the liquidity of the assets taken as collateral.

(in thousand euros)

12. Loans to Customers (continued)

Analysis of credit quality:

	2014	2013
Undue and unimpaired loans		
– Borrowers:		
– with credit history under one year	–	9,574
– with credit history under from 1 to 2 years	10,204	–
– Loans to medium businesses	6,146	762
– Loans to individuals	129	77
– Major borrowers with credit history under over 2 years	–	8,000
– Loans to small businesses	–	250
Total Undue and unimpaired loans	**16,479**	**18,663**
Individually impaired loans (overall amount)		
– in arrears 181 to 360 days	–	41,124
– in arrears over 360 days	40,816	–
Total Individually impaired loans (overall amount)	**40,816**	**41,124**
Less allowance for impairment	(39,683)	(39,081)
Total loans and advances to customers	**17,612**	**20,706**

13. Property, Plant and Equipment

Below is the flow as per the items of Property, Plant and Equipment:

2014	Note	Building and structures	Office equipment and computer hardware	Furniture	Vehicles	Total
Original cost						
Balance as at December 31, 2013		**107,882**	**1,374**	**620**	**482**	**110,358**
Additions		151	42	13	25	231
Disposals		(11)	(42)	(28)	(149)	(230)
Balance as at December 31, 2014		**108,022**	**1,374**	**605**	**358**	**110,359**
Accumulated depreciation						
Balance as at December 31, 2013		**24,931**	**1,169**	**415**	**287**	**26,802**
Annual depreciation allowances	22	1,317	99	15	45	1,476
Disposals		(5)	(42)	(24)	(148)	(219)
Balance as at December 31,r 2014		**26,243**	**1,226**	**406**	**184**	**28,059**
Residual book value						
Residual value as at December 31, 2013		**82,951**	**205**	**205**	**195**	**83,556**
Residual value as at December 31, 2014		**81,779**	**148**	**199**	**174**	**82,300**

(in thousand euros)

13. Property, Plant and Equipment (continued)

2013	Note	Building and structu-res	Office equipment and computer hardware	Furniture	Vehicles	Total
Original cost						
Balance as at December 31, 2012		**107,882**	**1,342**	**566**	**595**	**110,385**
Additions		–	53	86	213	352
Disposals		–	(21)	(32)	(326)	(379)
Balance as at December 31, 2013		**107,882**	**1,374**	**620**	**482**	**110,358**
Accumulated depreciation						
Balance as at December 31, 2012		**23,614**	**1,075**	**431**	**579**	**25,699**
Annual depreciation allowances	22	1,317	114	11	34	1,476
Disposals		–	(20)	(27)	(326)	(373)
Balance as at December 31, 2013		**24,931**	**1,169**	**415**	**287**	**26,802**
Residual book value						
Residual value as at December 31, 2012		**84,268**	**267**	**135**	**16**	**84,686**
Residual value as at December 31, 2013		**82,951**	**205**	**205**	**195**	**83,556**

If the buildings were measured using the initial cost model, the carrying values would be as follows:

	2014	2013
Original cost	**61,139**	**60,999**
Accumulated depreciation	(14,837)	(13,557)
Residual value	**46,302**	**47,442**

14. Other assets and liabilities

Other financial assets comprise:

	Note	2014	2013
Fees and commissions receivable from customers		35	26
Derivative financial assets		–	570
Restricted cash		–	58
Allowance for overdue receivables	23	(34)	(26)
		1	**628**

(in thousand euros)

14. Other assets and liabilities (continued)

Restricted cash is a mandatory contribution of the clearing members to the risk coverage fund of JSCB NCC.

During the reporting period, fees and commissions receivable from customers in the amount of 15 thousand euros were written off against the allowance (Note 23).

Other assets comprise:

	2014	2013
Receivables under financial and business operations	707	1,159
Property transferred to the Bank to repay loan debt	403	–
Inventory	49	81
	1,159	**1,240**

Other financial liabilities comprise:

	Note	2014	2013
Derivative financial liabilities		1,415	3
Social obligations		545	183
Dividends payable to the member-countries of the Bank		400	171
Payables under financial and business operations		222	361
Deferred income		–	4
Provision for litigation charges	23	899	72
		3,481	**794**

Other liabilities comprise:

	Note	2014	2013
Provision year-end bonus payments	23	–	384
		–	**384**

The Bank enters into transactions with derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments recorded in the financial statements as assets or liabilities.

2014	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Currency swaps – agreements with residents of IBEC member countries	15,264	–	1,415
Total derivative assets/liabilities		**–**	**1,415**

(in thousand euros)

14. Other assets and liabilities (continued)

2013	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Currency swaps – agreements with residents of IBEC member countries	22,011	570	3
Total derivative assets/liabilities		**570**	**3**

15. Due to credit institutions

	2014	2013
Repurchase agreements	18,139	12,226
Current accounts of other credit institutions	328	13
Current accounts of banks of the IBEC member countries	178	414
Term loans and deposits from banks in the IBEC member countries	–	8 987
Due to credit institutions	**18,645**	**21,640**

The share of the major counterparty in amounts due to credit institutions is 18,139 thousand euros, or 97.29% of total due to credit institutions as at December 31, 2014 (2013: 21 213 thousand euros, or 98.03% of total due to credit institutions).

The Bank entered into direct repurchase agreements with a resident bank of the IBEC member-country. These are the agreements for selling the eurobonds of IBEC member countries with an obligation to buy back 'direct repurchase') the fair value of which amounts to 20,934 thousand euros (in 2013: 13,225 thousand euros). Please see Note 10.

Transferred financial assets that are not derecognised in full

In the table below, a list of financial assets is displayed that were transferred so that the transferred financial assets, in whole or in part, do not meet the criteria for derecognition:

2014	Note	Repurchase agreements 2014
Book value of transferred assets – Available-for-sale investment securities	10	20 ,934
Book value of respective liabilities – Amounts due to credit institutions	15	(18,139)
Net position		**2,795**

(in thousand euros)

15. Due to credit institutions (continued)

2013	Note	Repurchase agreements 2013
Book value of transferred assets – Available-for-sale investment securities	10	13,225
Book value of respective liabilities – Amounts due to credit institutions	15	(12,226)
Net position		**999**

The Bank transfers the securities under the repurchase agreement to the third party, without being derecognised, and receives cash or other financial assets as a consideration. In the event of an increase or a decrease in the securities value, the Bank, in certain situations, may require or be required to provide additional collateral in the form of cash. The Bank has come to a conclusion that it reserves practically all the risks and benefits associated with such securities that include credit risks, market risks, country risks and operations risks, and therefore continues to recognize them. In addition, the Bank has recognized the financial liability in relation to the received cash.

16. Due to customers

	2014	2013
Current accounts of entities in the IBEC member countries	532	4,416
Current accounts of other entities	38	2,473
Other current accounts	3,952	4,168
Due to customers	**4,522**	**11,057**

Current accounts of entities include funds of private companies. As at December 31, 2014, the balances of the three major customers of the Bank amount to 942 thousand euros, or 20.83 % of total due to customers (5,499 thousand euros, or 49.73% of total due to customers, as at December 31, 2013).

Amounts due to customers distributed by industries are displayed below:

	2014		2013	
	Amount	%	Amount	%
Trade	233	40.88%	1,325	19.23%
Production	214	37.54%	4,982	72.32%
Transport	82	14.39%	78	1.13%
Financial Sector	5	0.88%	217	3.15%
Agriculture	–	–	5	0.07%
Other	36	6.31%	282	4.10%
Total Due to customers	**570**	**100%**	**6,889**	**100%**

(in thousand euros)

17. Authorised Capital

In accordance with the Agreement the authorised share capital consists of contributions of IBEC member countries and amounts to 400,000 thousand euros.

As at December 31, 2014, the paid-in authorized capital of IBEC amounts to 186,981 thousand euros (186,981 thousand euros in 2013).

Shares (shareholding) of IBEC member-countries in the Bank's paid-in authorized capital are provided below:

	2014	2013
Russian Federation	96,462	96,462
Czech Republic	24,947	24,947
Republic of Poland	22,453	22,453
Republic of Bulgaria	14,137	14,137
Romania	13,305	13,305
Slovak Republic	12,474	12,474
Mongolia	2,495	2,495
Socialist Republic of Vietnam	708	708
Total	**186,981**	**186,981**

In 2014, the Council of the Bank declared dividends for the year ended December 31, 2013 in the amount of 20,000 thousand euros.

18. Other Comprehensive Income Recognised in Capital Components

The movements in unrealized gains on available-for-sale investment securities are as follows:

	Unrealized gains from available-for-sale investment securities
As at January 1, 2013	**40 630**
Net unrealized gains from available-for-sale investment securities	(737)
Realized gains from investment securities available-for-sale reclassified to profit or loss	(29,224)
As at December 31, 2013	**10,669**
Net unrealized losses from investments securities available-for-sale	(4,294)
Realized gains from investment securities available-for-sale reclassified to profit or loss	(7,818)
As at December 31, 2014	**(1 443)**

(in thousand euros)

19. Contractual and Contingent Liabilities

Contractual and Contingent Liabilities the Banka comprise:

	2014	2013
Credit-related commitments		
Undrawn loan commitments	347	5,715
Total	**347**	**5,715**

20. Net Fee and Commission Income

	2014	2013
Conversion operations	134	1,017
Cash and settlement operations	111	412
Account keeping	62	120
Currency control	44	392
Commission income	**351**	**1,941**
Commission expense	**(49)**	**(85)**
Net Fee and Commission Income	**302**	**1,856**

21. Net Gains from Available–For–Sale Investment Securities

Net gains from investment securities available-for-sale recognized in profit or loss comprise:

	2014	2013
Sale of Moscow Exchange shares	3,886	21,354
Result from disposal of debt securities	4,324	2,824
Total gains from investment securities available-for-sale	**8,210**	**24,178**

Gain from revaluation of available-for-sale investment securities in connection with the disposal thereof is transferred from Other Comprehensive Income to the Item of Net Gains (Losses) from Sales of Available-for-Sale Investment Securities in the amount of 7,818 thousand euros.

(in thousand euros)

22. Administrative and Management Expenses

	2014	2013
Staff costs	7,172	7,735
Building, equipment and apartment repair and maintenance	1,664	1,585
Depreciation of property, plant and equipment	1,476	1,476
Charges for professional services	491	669
Expenses for vehicles	318	517
Telecommunication expenses	232	241
Meetings of the Council, Audit Committee, Working Group of Authorized Representatives and representation expenses	222	250
Business travel expenses	135	148
Office expenses	71	78
Advance training	27	60
Other administrative and management expenses	66	65
Total administrative and management expenses	**11,874**	**12,824**

Staff costs include contributions to:

	2014	2013
Pension Fund of the Russian Federation	511	615
Compulsory Medical Insurance Fund of the Russian Federation	56	82
Pension funds of other IBEC member countries	31	29
Social Insurance Fund of the Russian Federation	23	43
Total	**621**	**769**

23. Other provisions

	Allowance for other assets	Provision for letigation	Provision for year-end bonuses	Total
As at December 31, 2012	**14**	**111**	**654**	**779**
Charge	28	24	–	52
Write-offs	(16)	(63)	(270)	(349)
As at December 31, 2013	**26**	**72**	**384**	**482**
Charge	23	830	–	853
Write-offs	(15)	(3)	(384)	(402)
As at December 31, 2014	**34**	**899**	**–**	**933**

Allowance for impairment of assets is deducted from the book value of related assets. Provisions for litigation and year-end bonuses are recorded in Other liabilities. As at December 31, 2014, provisions for litigation include the amount of expected legal expenses and possible payments in connection with the proceedings in which the Bank acts a plaintiff and/or defendant.

(in thousand euros)

24. Risk management

Introduction

The Bank manages risks in the course of the ongoing process of identification, assessment and monitoring subject to risk limits and other internal controls.

Risk assessment and reporting systems

The Bank's risk management policy is based on the conservative approach which assumes that the Bank avoids potential transactions with high or undeterminable risk level, irrespective of their profitability.

Risks are assessed and managed using the comprehensive approach whereby all existing risk factors and relationships between such factors are taken into consideration. Monitoring and control of risks are primarily performed based on the limits established by the Bank. Such limits reflect the business strategy and market environment of the Bank as well as the level of risk the Bank is ready to take.

Information received from all business activities is studied by the Bank's divisions and processed in order to analyse, control and timely identify risks. The Bank's divisions prepare regular reports on their operations and communicate current risk status to the Risk Management Department. For the purpose of effective risk management, the Bank's divisions together with the Risk Management Department monitor current risks to which the Bank's customers, counterparties, certain transactions and portfolios might be exposed. Said information is reported to the collegiate bodies, the Board of Management and to the Council of the Bank.

Risk mitigation

In the context of the risk management, the Bank employs various risk limitation and neutralization methods, such as diversification, limitation, hedging, etc. The Bank uses collaterals in order to reduce its credit risks.

Excessive risk concentration

Risk concentrations arise when some counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, and when as a result of changes in economic, political or other conditions they produce similar effect on such counterparties' ability to perform contractual obligations. Concentrations of risks reflect relative sensitivity of the Bank's performance results to changes in the conditions that affect a particular industry or geographical region.

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

Credit risk

Credit risk is the risk of loss that the Bank will incur because its customers or counterparties fail to discharge their contractual obligations to the Bank in full or in part. The Bank manages and controls credit risks by setting limits for the amount of the risk the Bank is ready to take in relation to individual counterparties, and by monitoring the compliance with the limits set for such risk.

24. Risk management (continued)

All transactions that bear credit risk are assessed using the quantitative and qualitative analysis methods set forth in the credit and risk management regulations of the Bank. The Bank employs its internal methodology to assign each customer or counterparty a risk rating that reflects the Bank's exposure to credit risk. The Bank sets limits to control counterparty credit risks.

Credit risk management is performed by the Bank through regular analysis of the ability of its customers and counterparties to discharge their principal and interest payment obligations. The Bank's customers or counterparties are monitored on a regular basis; their financial positions are reviewed to ensure that internal credit ratings are appropriately assigned and, where necessary, adjustments are made. The credit quality review procedure enables the Bank to assess potential losses from the risks to which it is exposed and to take required actions to mitigate them. In addition, credit risk management is performed by obtaining collaterals on credits in the form of a pledge, guarantee and suretyship from legal entities and individuals.

Information on a maximum size of credit risk is disclosed in Notes 8 through 12, 14 and 19.

Credit-related commitments risks

Credit-related commitments risk is defined as a probability of sustaining a loss due to inability of other party to transaction to perform the terms and conditions of contracts. Under said contracts, the Bank bears risks that are similar to credit risks and that are mitigated using the same assessment, monitoring and control procedures.

Credit quality by class of financial asset

The Bank employs its internal credit rating assignment system to manage credit quality of financial assets.

(in thousand euros)

24. Risk management (continued)

The table below shows the credit quality by class of financial assets for debt-related lines in the Statement of Financial Position.

	Neither undue nor unimpaired		Individually impaired	Total 31.12.2014
	High rating	**Standard**		
Due from credit institutions	–	84,747	–	84,747
Loans to Customers				
Corporate lending	–	16,350	1,133	17,483
Consumer lending	129	–	–	129
	129	**101,097**	**1,133**	**102,359**
Debt Investment securities				
– available-for-sale	24,950	74,814	–	99,764
– available-for-sale, pledged under repurchase agreements	9,604	11,244	–	20,848
	34,554	**86,058**	**–**	**120,612**
Total	**34,683**	**187,155**	**1,133**	**222,971**

	Neither undue nor unimpaired		Individually impaired	Total 31.12.2013
	High rating	**Standard**		
Due from credit institutions	48	92,867	–	92,915
Loans to Customers				
Corporate lending	–	18,586	2,043	20,629
Consumer lending	77	–	–	77
Loans to Customers	**125**	**111,453**	**2,043**	**113,621**
Debt Investment securities				
– available-for-sale	43,338	67,939	–	111,277
– available-for-sale, pledged under repurchase agreements	–	13,225	–	13,225
– held-to-maturity	–	2,244	–	2,244
	43,338	**83,408**	**–**	**126,746**
Total	**43,463**	**194,861**	**2,043**	**240,367**

(in thousand euros)

24. Risk management (continued)

Book value by class of financial assets whose terms have been renegotiated

The table below shows the carrying value of renegotiated financial assets, by class (after deduction of the provision for impairment).

	31.12.2014	31.12.2013
Loans to customers		
Corporate lending	1,133	2,043
Total	**1,133**	**2,043**

Impairment assessment

The Bank determines allowances appropriate for each loan on an individual basis. The Bank assesses the appropriateness of the allowance in accordance with its internal regulations. The amount of the loan loss allowance is determined on an individual basis taking into account collateral pledged against the loan. The Bank applies internal credit ratings determined on the basis of the following factors:

– Business risk;
– Industry condition;
– Financial position;
– Credit history;
– Assessment of turnover on the borrower's accounts.

Geographical concentration of risk

Information on risk concentration by geographical regions is based on geographical location of the Bank's counterparties. The table below shows risk concentration by geographical location as at December 31, 2014.

Country	Amounts due from credit institutions	Cash and cash equivalents (less cash on hand)	Trading securities	Debt securities available-for-sale	Debt securities pledged under repurchase agreements	Loans to customers (on a gross basis)	31.12.2014	Share, %
Austria	–	4	–	12,645	–	–	12,649	4.58%
Bulgaria	–	9	–	641	11,244	14,785	26,679	9.66%
Germany	–	9,946	–	5,131	–	–	15,077	5.46%
Luxemburg	–	46	–	–	–	–	46	0.02%
Mongolia	45,236	–	–	7,996	–	11,326	64,558	23.38%
Vietnam	–	–	–	2,331	–	–	2,331	0.84%
Poland	–	–	–	18,016	–	–	18,016	6.53%
Panama	–	–	–	–	–	10,204	10,204	3.70%
Russia	39,511	434	3,000	22,623	–	14,834	80,402	29.12%
Romania	–	–	–	19,244	–	–	19,244	6.97%
Slovak Republic	–	–	–	–	9,604	6,146	15,750	5.70%
Czech Republic	–	10	–	11,137	–	–	11,147	4.04%
Switzerland	–	4	–	–	–	–	4	0.00%
Total	**84,747**	**10,453**	**3,000**	**99,764**	**20,848**	**57,295**	**276,107**	**100.00%**

(in thousand euros)

24. Risk management (continued)

Geographical concentration of risk

The table below shows risk concentration by geographical location as at December 31, 2013:

Country	Amounts due from credit institutions	Cash and cash equivalents (less cash on hand)	Trading securities	Debt securities available-for-sale (less shares)	Debt securities pledged under repurchase agreements	Debt securities held-to-maturity	Loans to customers (on a gross basis)	31.12.2013	Share, %
Austria	–	10	–	10 178	–	–	–	10,188	3.43%
Bulgaria	–	1	–	1,513	8,813	–	15,093	25,420	8.56%
Germany	–	7,184	–	13,271	–	–	–	20,455	6.88%
Luxemburg	–	32	–	–	–	–	–	32	0.01%
Mongolia	33,412	–	–	6,216	–	–	11,576	51,204	17.23%
Vietnam	1,459	–	–	475	–	–	–	1,934	0.65%
Poland	–	–	–	424,765	–	–	–	24,765	8.34%
Panama	–	–	–	–	–	–	9,574	9,574	3.22%
Russia	58,044	1,927	7,461	25,473	–	2,244	14,782	109,931	37.00%
Romania	–	–	–	8,780	4,412	–	–	13,192	4.44%
Slovak Republic	–	–	–	12,461	–	–	762	13,223	4.45%
USA	–	1,072	–	–	–	–	–	1,072	0.36%
Czech Republic	–	–	–	8,145	–	–	–	8,145	2.74%
Switzerland	–	2	–	–	–	–	8,000	8,002	2.69%
Total	**92,915**	**10,228**	**7,461**	**111,277**	**13,225**	**2,244**	**59,787**	**297,137**	**100.00%**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to fulfil its payment obligations when they fall due in normal or unpredictable circumstances. The Bank's exposure to liquidity risk arises due to a mismatch of maturities of assets and liabilities.

The Bank maintains necessary liquidity levels to ensure that funds will be available at all times to meet all obligations as they become due. The Treasury is the key element in the Bank's system responsible for the liquidity management.

(in thousand euros)

24. Risk management (continued)

The tables below show financial liabilities of the Bank as at December 31, 2014 and December 31, 2013 by maturity profile, based on contractual undiscounted repayment obligations. On-call liabilities are treated as if notice were to be given immediately:

	On demand and less than 30 days	31 to 180 days	Total 31.12.2014
Due to credit institutions	8,222	10,636	18,858
Due to customers	4,522	–	4,522
Other liabilities	2,066	1,415	3,481
Total	**14,810**	**12,051**	**26,861**

	On demand and less than 30 days	31 to 180 days	Total 31.12.2013
Due to credit institutions	6,321	15,610	21,931
Due to customers	11,057	–	11,057
Other liabilities	791	3	794
Total	**18,169**	**15,613**	**33,782**

The table below represents the contractual maturity of the Bank's commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down by the customer:

	On demand and less than 1 month	With no defined maturity	Total
31.12.2014	347	–	347
31.12.2013	5,715	–	5,715

The Bank expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The objective of market risk management is to control market risk exposures within acceptable parameters while optimising the return on risk. The Bank's Management sets limits on the level of acceptable risks, and monitors the compliance on a regular basis.

(in thousand euros)

24. Risk management (continued)

Interest rate risk

Interest rate risk may result from changes in interest rates that will affect future cash flows or the fair value of financial instruments. The following table shows the sensitivity of the Bank's equity to possible changes in interest rates, with all other variables being held constant.

The sensitivity of equity to permissible variation in interest rates is calculated by revaluing trading securities and available-for-sale financial assets with a fixed rate, based on the assumption that shifts in the yield curve are parallel:

Currency	Increase in basis points 31.12.2014	Sensitivity of equity 31.12.2014
Euro	10	514
US dollar	12	94
Russian rouble	446	54
Bulgarian lev	9	8
Swiss franc	1	1

Currency	Decrease in basis points 31.12.2014	Sensitivity of equity 31.12.2014
Euro	(10)	(514)
US dollar	(12)	(94)
Russian rouble	(446)	(54)
Bulgarian lev	(9)	(8)
Swiss franc	(1)	(1)

Currency	Increase in basis points 31.12.2013	Sensitivity of equity 31.12.2013
Euro	12	700
US dollar	76	370
Russian rouble	182	595
Bulgarian lev	72	60

Currency	Decrease in basis points 31.12.2013	Sensitivity of equity 31.12.2013
Euro	(12)	(700)
US dollar	(76)	(370)
Russian rouble	(182)	(595)
Bulgarian lev	(72)	(60)

(in thousand euros)

24. Risk management (continued)

Currency risk

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

The table below shows a general analysis of currency risk of the Bank as at December 31, 2014:

	Note	US dollar	Russian rouble	Euro	Other	Total
Cash and cash equivalents		1,009	554	9,248	109	10,920
Available-for-sale investment securities		18,018	99,095	9,248	2,680	120,612
Due to Customers		10,204	–	7,408	–	17,612
Derivative instruments and other financial assets	14,25	–	–	1	–	1
Due from credit institutions		1,660	366	82,721	–	84,747
Trading securities		–	51	2,949	–	3,000
Total cash financial assets		**30,891**	**1,790**	**201,422**	**2,789**	**236,892**
Derivative instruments and other financial liabilities	14,25	1,382	217	1,848	34	3,481
Due to customers		473	321	3,728	–	4,522
Due to credit institutions		32	76	17,508	1,029	18,645
Total cash financial liabilities		**1,887**	**614**	**23,084**	**1,063**	**26,648**
Net position		**29,004**	**1,176**	**178,338**	**1,726**	**210,244**

(in thousand euros)

24. Risk management (continued)

The table below shows general analysis of the Bank's currency risk as at December 31, 2013:

	Note	US dollar	Russian rouble	Euro	Other	Total
Cash and cash equivalents		1,342	1,992	7,363	24	10,721
Investment securities available-for-sale		10,891	10,736	108,707	1,067	131,401
Investment securities held-to-maturity		–	2,244	–	–	2,244
Loans to customers		9,573	–	11,133	–	20,706
Derivative instruments and other financial assets	14,25	58	–	570	–	628
Due from credit institutions		19,187	3,669	70,059	–	92,915
Trading securities		–	3,402	4,059	–	7,461
Total monetary financial assets		**41,051**	**22,043**	**201,891**	**1,091**	**266,076**
Derivative instruments and other financial liabilities	14,25	–	227	427	140	794
Due to customers		823	4,295	5,939	–	11,057
Due to credit institutions		7,205	99	14,314	22	21,640
Total monetary financial liabilities		**8,028**	**4,621**	**20,680**	**162**	**33,491**
Net position		**33,023**	**17,422**	**181,211**	**929**	**232,585**

The next table indicates the currencies, in which the Bank has considerable positions as at December 31, 2014 with regard to non-trading monetary assets and liabilities, and anticipated cash flows. The analysis conducted presents the calculation of the impact of possible change in currency rates against euro on the Statement of Profit and Loss (due to availability of non-trading monetary assets and liabilities, the fair value of which is sensitive to changes in currency exchange rate). Impact on the capital is no different from the impact on the Statement of Profit and Loss. Negative amounts in the table reflect potential net decrease in the Statement of Profit or Loss and Other Comprehensive Income or capital, and positive amounts reflect potential net increase:

	As at 31 December 2014		As at 31 December 2013	
	Impact on profit and loss	Impact on equity	Impact on profit and loss	Impact on equity
Strengthening of US dollar by 20%	4,333	4,333	3,293	3,293
Depreciation of US dollar by 20%	(2,888)	(2,888)	(2,195)	(2,195)
Strengthening of rouble by 20%	535	535	3,477	3,477
Depreciation of rouble by 20%	(357)	(357)	(2,318)	(2,318)
Total	**4,868 (3,245)**	**4,868 (3,245)**	**6,770 (4,513)**	**6,770 (4,513)**

(in thousand euros)

24. Risk management (continued)

Operational Risk

Operational risk is a risk occurring due to a systemic failure, personnel's mistakes, fraud or external events. When control system stops working, operational risks can injure the reputation, have legal consequences, or lead to financial losses. The Bank cannot make an assumption that all operational risks have been eliminated, but using the control system and monitoring relevant responses to potential risks the Bank is able to manage such risks. The control system provides for the efficient separation of duties, access right, confirmation and reconciliation procedures, training of personnel, including the internal audit.

Classification of assets and liabilities by maturity periods

The table below shows the distribution of financial assets and liabilities as at December 31, 2014 by contract periods left to maturity:

	On call and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Cash and cash equivalents	10 920	–	–	–	–	10,920
Trading securities	3,000	–	–	–	–	3,000
Due from credit institutions	13,575	61,101	10,071	–	–	84,747
Loans to customers	–	–	5	7,403	10,204	17,612
Investment securities available-for-sale	–	–	6,571	43,224	70,817	120,612
Total financial assets	**27,495**	**61,101**	**16,647**	**50,627**	**81,021**	**236,891**
Due to credit institutions	8,153	10,492	–	–	–	18,645
Due to customers	4,522	–	–	–	–	4,522
Swaps calculated on gross basis:						
– inflow	(12,064)	(3,200)	–	–	–	(15,264)
– outflow	13,377	3,302	–	–	–	16,679
Loan commitments	–	347	–	–	–	347
Total financial liabilities	**13,988**	**10,941**	**–**	**–**	**–**	**24,929**
Total potential future payments on financial liabilities	**13,507**	**50,160**	**16,647**	**50,627**	**81,021**	**211,962**
Liquidity gap on financial instruments	**13,507**	**63,667**	**80,314**	**130,941**	**211,962**	**–**

(in thousand euros)

24. Risk Management (continued)

The table below shows the distribution of financial assets and liabilities as at December 31, 2013 by contract periods left to maturity:

	On call and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	With no maturity date	Total
Cash and cash equivalents	10,721	–	–	–	–	–	10,721
Trading securities	7,461	–	–	–	–	–	7,461
Due from credit institutions	13,874	48,496	30,545	–	–	–	92,915
Loans to customers	–	8,008	10	3,114	9,574	–	20,706
Investment securities:							
– available-for-sale	–	–	–	47,828	76,674	6,899	131,401
– held-to-maturity	–	–	–	2,244	–	–	2,244
Swaps calculated on gross basis:							
– inflow	–	12,900	8,030	–	–	–	20,930
– outflow	–	(12,460)	(7,900)	–	–	–	(20,360)
Total financial assets	**32,056**	**56,944**	**30,685**	**53,186**	**86,248**	**6,899**	**266,018**
Due to credit institutions	6,281	15,359	–	–	–	–	21,640
Due to customers	11,057	–	–	–	–	–	11,057
Swaps calculated on gross basis:							
– inflow	–	(1,081)	–	–	–	–	(1,081)
– outflow	–	1,084	–	–	–	–	1,084
Loan commitments	–	–	–	5,715	–	–	5,715
Total financial liabilities	**17,338**	**15,362**	**–**	**5,715**	**–**	**–**	**38,415**
Total potential future payments on financial liabilities	**14,718**	**41,582**	**30,685**	**47,471**	**86,248**	**6,899**	**227,603**
Liquidity gap on financial instruments	**14,718**	**56,300**	**86,985**	**134,456**	**220,704**	**227,603**	**–**

Financial assets that are overdue as at December 31, based on contract periods were included with the financial assets with the remaining maturity from 12 months to 5 years, as the exact period of their repayment is not determined. Trading securities were included with the financial assets with the remaining maturity on call based on the assumption of the Bank's management that the said financial assets will be realised by the Bank in the short run.

(in thousand euros)

25. Derivative Financial Instruments

The fair value of receivables and payables on currency forward contacts and swap contracts entered into by the Bank as at the end of the reporting period broke down by currency is shown in the table below. The table comprises contracts with the settlement date after the end of the relevant reporting period; amounts of these transactions are shown in expanded form – before the set-off of positions (payments) with each counterparty. Transactions are short-term in their nature.

	Note	2014 Contracts with positive fair value	2014 Contracts with negative fair value	2013 Contracts with positive fair value	2013 Contracts with negative fair value
Currency forward contacts,br> and swap contacts: fair value as at the end of reporting period					
– Payables in US dollars payable at settlement (-)		–	14,580	20,360	–
– Receivables in euro repaid at settlement (+)		–	15,264	20,930	1,081
– Payables in other currencies repaid at settlement (-)		–	2,099	–	1,084
Net fair value of currency forward contacts and swap contacts	**14**	**–**	**(1,415)**	**570**	**(3)**

Currency derivative financial instruments, the Bank conducts transactions with, are usually the object of trade at the OTC market with professional operators based on standardised contracts. Derivative financial instruments have either potentially favourable terms (and are assets), or potentially unfavourable terms (and are liabilities) due to fluctuations in interest rates at the market, currency exchange rates or other variable factors associated with these instruments. The total fair value of derivative financial instruments can change considerably in the course of time.

(in thousand euros)

26. Fair Value of Financial Instruments

Fair value hierarchy

The Bank uses the following hierarchical structure of evaluation methods to determine and disclose information on the fair value of financial instruments:

– Level 1: quotations (not updated) on active markets for identical assets or liabilities;

– Level 2: evaluation models, whose original data having significant impact on the fair value amount recorded in the statement, is based, expressly or implicitly, on information observed on the market;

– Level 3: evaluation models, not based on the market data observed, which use original data having significant impact on the fair value amount recorded in the statement, which are not based on information observed on the market. If in order to evaluate the fair value, one uses the observed original data which requires significant updates, such evaluation shall be referred to Level 3. The significance of the original data used shall be evaluated for the entire fair value estimate in the aggregate.

The next table presents the analysis of financial instruments recorded in the statement based on the fair value broken down by hierarchical levels of the fair value sources:

	Level 1	Level 2	Total
December 31, 2014			
Financial assets			
Trading securities:			
– Eurobonds of banks	2,949	–	2,949
– Bonds of banks	51	–	51
Investment securities available-for-sale:			
– Eurobonds of IBEC member countries	37,872	–	37,872
– Corporate eurobonds	37,225	–	37,225
– Eurobonds of banks	28,574	–	28,574
– Bonds of IBEC member countries	10,991	–	10,991
– Bonds of banks	5,950	–	5,950
	123,612		**123,612**
Financial liabilities			
Derivative financial liabilities	–	(1,415)	(1,415)

(in thousand euros)

26. Fair value of financial instruments (continued)

	Level 1	Level 2	Total
December 31, 2013			
Financial assets			
Trading securities:			
– Eurobonds of banks	4,059	–	4,059
– Bonds of IBEC member countries	3,125	–	3,125
– Bonds of banks	277	–	277
Investment securities available-for-sale:			
– Eurobonds of IBEC member countries	28,601	–	28,601
– Corporate eurobonds	34,406	–	34,406
– Eurobonds of banks	25,118	–	25,118
– Bonds of IBEC member countries	13,974	–	13,974
– Bonds of banks	17,108	–	17,108
– Eurobonds of cities of IBEC member countries	5,295	–	5,295
– Shares of OAO Moscow Exchange	6,899	–	6,899
Derivative financial assets	–	570	570
	138,862	**570**	**139,432**
Financial liabilities			
Derivative financial liabilities	–	(3)	(3)

Derivative financial instruments

All derivative financial instruments are recognised at fair value as assets, if the fair value of these instruments is positive, and as liabilities, if the fair value is negative. In order to determine the fair value of interest swaps, not traded on active market, the Bank uses such evaluation methods as discounted cash flow model. However, according to IAS 39, the fair value of an instrument at its commencement is usually equal to the transaction price. If the transaction price differs from the amount determined at the commencement of a financial instrument using evaluation methods, the said difference shall be straight-line depreciated during the interest swap period.

Fair value evaluation procedures

n order to evaluate significant assets, such as the Bank building, third party valuators are involved. The Bank Management decides on the involvement of the third party valuators on an annual basis. Among the criteria determining the choice of a valuator, are knowledge of the market, reputation, independence, and compliance with professional standards.

(in thousand euros)

26. Fair value of financial instruments (continued)

Fair value of financial assets and liabilities not recognised at the fair value

As at December 31, 2014 and December 31, 2013, the fair value of financial assets and liabilities not recognised in the Statement of Financial Position at the fair value, does not differ significantly from their book value. Financial assets and liabilities not recognised in the Statement of Financial Position at the fair value comprise amounts due from credit institutions, loans to customers, investment securities held-to-maturity, amounts due to credit institutions, and amounts due to customers. Methods and assumptions used to determine the fair value are described below.

Assets, whose fair value is approximately equal to their book value

Financial assets and financial liabilities which are liquid or have short maturity period (less than three months) have the fair value approximately equal to their book value.

Financial instruments with fixed and floating interest rate

In case of quoted debt instruments, the fair value is based on the published market prices. In case of unquoted debt instruments, one shall use the discounted cash flow model based on the current interest rate taking into account the remaining period to maturity for debt instruments with similar terms and credit risk.

27. Related Party Transactions

For the purposes of this Financial Statement, according to IAS 24 Related Party Disclosures, parties are considered to be related if one of the parties has control or significant influence over the other party when making strategic, financial, and operational decisions. When considering relationships with all related parties, economic contents of such relationships shall be taken into account, and not only their legal form.

In the ordinary course of business the Bank carries out transactions mainly with organizations from the IBEC member countries.

In 2014, the amount of remuneration to the management of the Bank made up 1,550,000 euros. By comparison, the amount of remuneration to the management of the Bank in 2013 made up 1,054,000 euros. Remuneration to the management of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of 25,600 euros (in 2013, 21,400 euros), pension fund for foreign specialists – 8,600 euros (in 2013, 14,500 euros), and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of 700 euros (in 2013, 700 euros).

There were no other transactions with related partied carried out by the Bank in 2014 and 2013.

(in thousand euros)

28. Capital Adequacy

The Bank manages the capital adequacy level to protect itself from inherent risks of the banking industry. Among other things, the capital adequacy is controlled using methods, principles, and ratios set forth in the 1988 Basel Capital Accord.

The main objective of the capital management for the Bank is to ensure the compliance with the capital adequacy ratio, required to carry out activities.

The capital adequacy ratio of the Bank approved by the Board of IBEC is established in the amount not less than 25%.

The Bank manages its capital structure and updates it in the light of changes in economic conditions and profiles of risk of the activities it is carrying out.

The capital adequacy ratio of the Bank calculated at year-end 2014 makes up 120% and shows that the Bank's capital adequacy is maintained up to the mark in conditions of significant prevalence of internal funds on the liabilities side.

IBEC's Council

(as of 31.12.2014)

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President of the State Bank of Vietnam

LE MINH HUNG
Vice-President of the State Bank of Vietnam

DOAN HOAY ANH
Director of the International Cooperation
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(as of 31.12.2014)

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VALERY KHAET
Information Technology Department Director

VLADIMIR IONKIN
Administrative Department Director

NATALIA CHEREPNENKO
Strategic Planning and Analysis Department Director

OLGA PAVLOVA
Legal Department Director

PETER MARČIČIAK
Credit Service Department Director

RINAT GOLDA
Treasury Director

SERGEI LOKTAEV
Customer Relations Department Director

ZDENEK TEJKL
Deputy Director at Strategic Planning and Analysis Department

IGOR TIMOSHIN
Deputy Director at Operations Department, Chief Accountant

PETR MANCHEV
Deputy Treasury Director

PETR PODSTAVKA
Deputy Director at Customer Relations Department

ELENA ALESHKINA
Head of Risk Management Department

NATALIA GORCHAKOVA
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List of sources used:

1. Ngô Bảo Châu – Photo taken from the site http://owpdb.mfo.de/detail?photo_id=9920
2. Jugderdemidiyn Gurragcha – Photo taken from the website of the President of Russia http://state.kremlin.ru/commission/22/news/11638.