

**International Bank
for Economic Co-operation**

IFRS financial statements

for the year ended 31 December 2015

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Auditors' Report

To the Members and the Council of the International Bank for Economic Co-operation

We have audited the accompanying financial statements of International Bank for Economic Co-operation (the "Bank"), which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 express our qualified audit opinion.

Audited entity: International Bank for Economic Co-operation.

Established and acting under the Intergovernmental Agreement for the Organisation and Activities of IBEC, registered with the Secretariat of the United Nations on 20 August 1964 (the "Agreement"), and the Charter of IBEC, registered with the Secretariat of the United Nations on 20 August 1964, registration No. 7388.

Address of the audited entity: 11, Mashi Poryvaevoy str., Moscow, Russian Federation, 107996.

Auditor: JSC KPMG, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated Organization of Auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Basis for Qualified Opinion

As at 31 December 2014, the Bank did not perform revaluation of the building accounted for within property, plant and equipment at a revalued amount. If the Bank had revalued the building as at 31 December 2014 its fair value would have been 5.9 mln EUR lower.

As a result of this overstatement of the building property, plant and equipment was misstated by 5.9 mln. EUR as at 31 December 2014, and, consequently, revaluation reserve for property, plant and equipment was overstated by 5.9 mln. EUR as at 31 December 2014. The Bank did not recognise decrease in fair value of the building in the amount of 5.9 mln EUR in other comprehensive income in 2014.

Revaluation of the building was performed by the Bank in 2015 and recognised in the financial statements of the Bank as at 31 December 2015. As a result, revaluation of property, plant and equipment recognised in other comprehensive income for 2015 was understated by 5.9 mln EUR.

Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2015 were audited by other auditors whose report dated 9 April 2015 expressed a qualified opinion on those statements.

Lukashova N.V.
Director of JSC KPMG
power of attorney dated 16 March 2015 No. 14/15
24 March 2016
Moscow, Russian Federation



Statement of Financial Position as at 31 December 2015*(EUR thousand)*

	<i>Note</i>	<i>2015</i>	<i>2014</i>
Assets			
Cash and cash equivalents	8	7,699	10,920
Financial instruments at fair value through profit or loss	9	-	3,000
Available-for-sale investment securities:	10		
- held by the Bank		107,718	99,678
- pledged under sale and repurchase agreements		43,362	20,934
Amounts due from credit institutions	11	96,519	84,747
Loans to customers	12	17,244	17,612
Property, plant and equipment	13	75,011	82,300
Other assets	14	1,453	1,160
Total assets		349,006	320,351
Liabilities			
Balances from credit institutions	15	48,889	18,645
Customer accounts	16	5,099	4,522
Other liabilities	14	2,909	3,481
Total liabilities		56,897	26,648
Equity			
Share capital	17	186,981	186,981
Unrealised losses on available-for-sale investment securities		(96)	(1,443)
Revaluation reserve for property, plant and equipment		32,388	38,338
Retained earnings less net profit for the year		69,827	61,009
Net profit for the year		3,009	8,818
Total equity		292,109	293,703
Total liabilities and equity		349,006	320,351

I. V. Golovchenko



Chairman of the Board

O. V. Demina




Chief Accountant

24 March 2016

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

(EUR thousand)

	<i>Note</i>	2015	2014
Interest income:			
Loans to customers		1,293	933
Amounts due from credit institutions		3,524	3,792
Available-for-sale investment securities		5,878	6,636
Financial instruments at fair value through profit or loss		13	371
Total interest income		10,708	11,732
Interest expense		(499)	(318)
Net interest income		10,209	11,414
Allowance for loan impairment	12	(1,133)	(602)
Net interest income after allowance for loan impairment		9,076	10,812
Fee and commission income	18	266	351
Fee and commission expense	18	(41)	(49)
Net losses from held-to-maturity securities		-	(70)
Net losses from financial instruments at fair value through profit or loss		(71)	(1,844)
Net gains from available-for sale investment securities	19	793	8,210
Net foreign exchange (losses) gains:			
- realised		(192)	32
- unrealised		1,618	(622)
Rental income		2,459	4,182
Other banking income		88	559
Administrative and management expenses	20	(10,973)	(11,874)
Other reserves	21	50	(853)
Other banking expenses		(64)	(16)
Profit for the reporting year		3,009	8,818
Other comprehensive expense			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Unrealised gains (losses) on available-for-sale investment securities		1,665	(4,294)
Realised gains from available-for-sale investment securities transferred to profit or loss		(318)	(7,818)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		<i>1,347</i>	<i>(12,112)</i>
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation of property, plant and equipment		(5,950)	-
<i>Total items that will not be reclassified subsequently to profit or loss</i>		<i>(5,950)</i>	<i>-</i>
Total other comprehensive expense		(4,603)	(12,112)
Total comprehensive loss for the year		(1,594)	(3,294)

Statement of Changes in Equity for the year ended 31 December 2015

(EUR thousand)

	Share capital	Unrealised (losses) gains on available-for-sale investment securities	Revaluation reserve for property, plant and equipment	Retained earnings	Total equity
Balance as at 31 December 2013	186,981	10,669	38,338	81,009	316,997
Net profit for the year	-	-	-	8,818	8,818
Other comprehensive expense					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Unrealised losses on available-for-sale investment securities	-	(4,294)	-	-	(4,294)
Realised gains from available-for-sale investment securities transferred to profit or loss	-	(7,818)	-	-	(7,818)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	(12,112)	-	-	(12,112)
Total other comprehensive expense	-	(12,112)	-	-	(12,112)
Total comprehensive loss for the year	-	(12,112)	-	8,818	(3,294)
Dividends to the Bank's member countries	-	-	-	(20,000)	(20,000)
Balance as at 31 December 2014	186,981	(1,443)	38,338	69,827	293,703
Net profit for the year	-	-	-	3,009	3,009
Other comprehensive expense					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Unrealised gains on available-for-sale investment securities	-	1,665	-	-	1,665
Realised gains from available-for-sale investment securities transferred to profit or loss	-	(318)	-	-	(318)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	1,347	-	-	1,347
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Revaluation of property, plant and equipment	-	-	(5,950)	-	(5,950)
<i>Total items that will not be reclassified subsequently to profit or loss</i>	-	-	(5,950)	-	(5,950)
Total other comprehensive expense	-	1,347	(5,950)	-	(4,603)
Total comprehensive loss for the year	-	1,347	(5,950)	3,009	(1,594)
Balance as at 31 December 2015	186,981	(96)	32,338	72,836	292,109

The accompanying notes 1-27 form part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2015

(EUR thousand)

	<i>Note</i>	2015	2014
Cash flows from operating activities			
Profit for the year		3,009	8,818
Adjustments for:			
Accrued interest receivable		735	656
Accrued interest payable		48	(21)
Other accrued income receivable		238	(14)
Other accrued expense payable		159	379
Depreciation		1,459	1,476
Allowance for loan impairment		1,133	602
Other reserves		(50)	853
Unrealised foreign exchange (gains) losses		(1,618)	622
Revaluation of financial instruments at fair value through profit or loss		71	1,850
Net gains from available-for-sale investment securities		(793)	(8,210)
Net losses from held-to-maturity securities		-	70
Other differences		-	(434)
Cash flows from operating activities before changes in operating assets and liabilities		4,391	6,647
<i>(Increase) decrease in operating assets</i>			
Trading securities		2,786	1,595
Amounts due from credit institutions		(11,398)	9,643
Loans to customers		498	3,286
Other assets		(597)	969
<i>Increase (decrease) in operating liabilities</i>			
Balances from credit institutions		29,827	(3,276)
Customer accounts		765	(6,226)
Other liabilities		(1,264)	(987)
Net cash provided from operating activities		25,008	11,651
Cash flows from investing activities			
Purchases of available-for-sale investment securities		(93,165)	(40,561)
Sales of available-for-sale investment securities		65,639	47,832
Held-to-maturity securities		-	2,009
Purchase of property, plant and equipment	13	(120)	(231)
Net cash (used in) received from investing activities		(27,646)	9,049
Cash flows from financing activities			
Dividends paid to member countries of the Bank	14	(400)	(19,771)
Net cash used in financing activities		(400)	(19,771)
Net (decrease) increase in cash and cash equivalents before translation differences		(3,038)	929
Effect of exchange rate changes on cash and cash equivalents		(183)	(730)
Net (decrease) increase in cash and cash equivalents		(3,221)	199
Cash and cash equivalents as at 31 December of the previous year	8	10,920	10,721
Cash and cash equivalents as at 31 December of the reporting year	8	7,699	10,920

(EUR thousand)

1. Bank's principal activities

The International Bank for Economic Co-operation ("IBEC" or the "Bank") was established in 1963. The Bank is located in Moscow, Russian Federation.

The Bank is an international financial institution established and acting under the Intergovernmental Agreement for the Organisation and Activities of IBEC, registered with the Secretariat of the United Nations on 20 August 1964 (the "Agreement"), and the Charter of IBEC, registered with the Secretariat of the United Nations on 20 August 1964, registration No. 7388 (the "Charter").

The main objectives of the Bank are to:

- facilitate the development of foreign economic relations among the Bank's member countries, their business entities, and among them and business entities of other countries;
- facilitate the creation and operation of joint ventures, primarily those involving companies of the Bank's member countries;
- facilitate member countries' participation in the development of market economic relations among business entities in member countries and other countries.

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

- opening and maintenance of customer accounts, receiving funds from customers and placing their funds in the Bank's accounts, handling documents and performing export and import payment and settlement transactions, conversion, arbitrage, cash, guarantee and documentary operations, provision of banking consulting etc.;
- attracting deposits and issue of loans, issue of securities;
- issue of interbank loans and guarantees, placing deposits and other borrowed funds, capital investments, discounting of promissory notes, purchase and sale of securities, participation in the capital of banks, financial and other institutions;
- other banking operations.

The Bank's member countries are the following eight countries of 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. Shares (shareholdings) of IBEC member countries in the Bank's paid-in authorised capital are the following:

	2015	%	2014	%
Russian Federation	96,462	51.59	96,462	51.59
Czech Republic	24,947	13.34	24,947	13.34
Republic of Poland	22,453	12.01	22,453	12.01
Republic of Bulgaria	14,137	7.56	14,137	7.56
Romania	13,305	7.12	13,305	7.12
Slovak Republic	12,474	6.67	12,474	6.67
Mongolia	2,495	1.33	2,495	1.33
Socialist Republic of Vietnam	708	0.38	708	0.38
Total	186,981	100	186,981	100

2. Economic environment in which the Bank operates

According to International Monetary Fund (IMF) *World Economic Outlook* published in October 2015, the global economic growth pace remained moderate in 2015 being below the forecasts. Economic growth indicators and factors impacting them vary depending on the country and region.

In emerging market countries to which most IBEC member countries belong, the growth pace has been declining for a fifth consecutive year, whereas in developed economies a steadily low restorative growth is observed.

The economic growth pace in the developed countries in 2015 mainly resulted from a slight restorative growth in the eurozone and the recommencement of positive growth in Japan, driven by the decrease of oil prices, a mild monetary and credit policy and, in some cases, decrease in national currency exchange rates. At the same time, the problem of overcoming the consequences of the financial crisis persists, including high public and private debt, weakness of the financial sector and low levels of investment.

As for emerging markets and developing countries, their economic growth slowdown in 2015 was due to the decline in commodity prices, decrease in capital flows, pressure on national currencies, and increased financial markets volatility. Reduced foreign investments and depreciation of national currencies are the main characteristics of emerging market countries.

As a result of the above trends, the IMF forecast the global economic growth pace in its October outlook at 3.1% in 2015 and 3.6% in 2016. For developed countries these indicators were 2.0% in 2015 and 2.2% in 2016, respectively, and for emerging markets and developing countries - 4.0% in 2015 and 4.5% in 2016.

(EUR thousand)

3. Basis for presentation of financial statements

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

The Bank has neither subsidiaries nor affiliates and, therefore, these financial statements have been prepared on an unconsolidated 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.

4. Accounting policy

Main approaches to valuation

Valuation is a process of determining the value at which accounting items should 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 cash or their equivalents or a fair value of other resources transferred to acquire the asset at the date of 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 amount at maturity, and minus any amount written-off (directly or through the use of an allowance account) due to impairment or uncollectibility.

The effective interest rate method is a method of calculating the amortised cost of a financial asset (liability) and of accruing the interest income over the relevant reporting period. The effective interest rate is the rate that discounts expected amounts of future cash flows till the maturity date or till the repricing date to the net current balance sheet amount of the financial asset or liability.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, payment documents at the Bank's cash desk, accounts with the Bank of Russia, funds on current accounts of IBEC member countries and other credit institutions, as well as all interbank loans with initial maturity of not longer than 7 calendar days.

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.

All standard purchases or sales of financial assets are recognised on the settlement date.

Settlement date is an asset delivery date. Accounting on the settlement date presumes (a) recognition of an asset on its receipt date, (b) derecognition of an asset and recognition of gain or loss on disposal of an asset on its delivery date.

All standard purchases and sales of financial assets include transactions that require delivery within the period of time established by legislation or common practice ("regular way" purchases and sales).

(EUR thousand)

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 above 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. Such assets are subsequently accounted for at amortised cost.

Financial assets at fair value through profit or loss

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

Securities held for trading (trading securities) are securities acquired for the purpose of generating 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 recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of interest income.

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. Loans and receivables are presented in the financial statements at amortised cost using the effective interest rate method. Gains and losses from such assets are recognised in the Statement of Profit or Loss and Other 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 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 each reporting date.

Held-to-maturity securities are recognised in the financial statements at amortised cost using the effective interest rate method less impairment allowance 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.

Gains and losses from investments in financial assets held-to-maturity 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 for liquidity purposes or due to 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 collateralised 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 earlier.

The difference between the sale price 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 method.

(EUR thousand)

Impairment of financial assets carried at amortised cost

Losses from impairment of financial assets carried at amortised cost are recognised in the statement of profit or loss and other comprehensive income when incurred as a result of one or more events occurred after the initial recognition of the financial asset and affecting the amounts or timing of the estimated future cash flows associated with the financial asset. The Bank estimates whether there is objective evidence that financial assets are impaired, which can include default or delinquency by a borrower, breach of a loan contract, restructuring of a financial asset or a group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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 in the near future or other financial reorganisation;
- 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 in the financial statements 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 derecognises financial assets when:

- – the financial assets are redeemed or the rights to the 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 also transferred substantially all the risks and rewards of ownership of the assets or lost control over such assets.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety, and if the Bank has retained either all risks and rewards of the transferred assets or a portion of them.

Amounts due from credit institutions

Amounts due from credit institutions includes issued loans, placed deposits in credit institutions and amounts due from credit institutions placed as security (guarantee) for settlements, i.e. receivables from credit institutions with fixed or determinable maturity.

Initially amounts due from credit institutions are recognised at original cost which is the fair value of the 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, 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 impairment losses.

Depreciation of all groups of property, plant and equipment is calculated using the straight-line method.

(EUR thousand)

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 – 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 carrying 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 reserve for 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 profit or loss and other comprehensive income, in which case the increase is recognised in the statement of profit or loss and other comprehensive income. A revaluation deficit is recognised in the statement of profit or loss and other comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus recorded in the revaluation reserve for property, plant and equipment.

The revaluation reserve for property, plant and equipment 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 profit or loss and other comprehensive income on a straight-line basis over the lease term as other operating income.

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.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

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

Balances from credit institutions

Balances from credit institutions are recognised when cash or other assets are transferred to the Bank by banks-counterparties.

Term loans and deposits from banks are recognised in the financial statements at amortised cost using the effective interest rate method.

Customer accounts

Customer accounts are non-derivative financial liabilities to state or corporate customers and individuals (employees of the Bank) and are carried at amortised cost.

Derivative financial instruments

Derivative financial instruments used by the Bank include currency swaps and forward exchange contracts.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

The Bank offsets assets and liabilities for each currency swap separately for each part of the transaction.

Provisions for liabilities and charges

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

Provisions are recognised in the financial statements 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.

(EUR thousand)

Trade and other payables

Trade payables are recognised when the counterparty has fulfilled its obligations and are carried at amortised cost.

Foreign currency translation

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

Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency (EUR) at the exchange rate effective as at the reporting date. The foreign currency exchange rate to EUR used for revaluation purposes is obtained from publicly available sources: exchange rates of IBEC member countries - from websites of Central banks of the corresponding countries; other currencies - from the European Central Bank website.

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 profit or loss and other comprehensive income.

Offsetting

Financial assets and liabilities are not subject to offsetting. Financial assets and liabilities are offset and the net amount is recognised 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 realise the asset and settle the liability simultaneously.

Income and expense recognition

Interest income and expense are recognised in the statement of profit or loss and other comprehensive income for all debt instruments on an accrual basis using the effective interest rate 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 that form the effective interest rate include the commissions received or paid in connection with the creation or acquisition of a financial asset or with the issue of a financial liability.

Loan origination fees, loan servicing fees and other fees that are considered to be integral part to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

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 or loss and other comprehensive income with a simultaneous recognition of debt in the statement of financial position to be recorded as part of other claims/liabilities.

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Financial guarantees and similar commitments

Financial guarantees and similar commitments issued by the Bank are initially recorded in the off-balance sheet at fair value, and further the 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 the commitment as at the reporting date (provision for losses).

Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Taxation

Pursuant to the Agreement and the Charter of IBEC, 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.

(EUR thousand)

5. New accounting standards not yet adopted

Some new standards and clarifications have been published that are mandatory for the annual periods beginning on January 1, 2016 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 2015 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 funds, 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 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 should be measured at fair value through profit or loss (e.g. 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 of 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 disclose the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- 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.

The Bank is currently assessing the impact of the new standard on the financial statements.

Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016.

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

(EUR thousand)

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. 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 31 December 2015, the fair value of the building beneficially owned by the Bank is EUR 74,534 thousand (2014: EUR 81,779 thousand). Fair value per one square meter is EUR 2,282 (2014: EUR 2,504). If the value of one square meter increases by 10%, the fair value of the building will be EUR 81,987 thousand (2014: EUR 89,957 thousand), if the value of one square meter decreases by 10%, the fair value of the building will be EUR 67,080 thousand (2014: EUR 73,601 thousand).

7. Adoption of new and revised standards and interpretations

The new IFRS standards and clarifications listed below have become mandatory for the Bank since 1 January 2015:

"Offsetting Financial Assets and Financial Liabilities". Amendment to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2015). 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 to set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right to set off (1) should not be contingent on a future event and (2) should 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. The amendments to this standard did not have any material impact on the Bank.

Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" (issued in May 2014 and effective for annual periods beginning on or after 1 January 2015; early adoption is possible if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a cash generating unit contains goodwill or intangible assets with indefinite life 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 2014 and effective for annual periods beginning on or after 1 January 2015). The amendments allow continuing hedge accounting when a derivative designated as a hedging instrument is novated (i.e. the parties agree on replacing the original counterparty with a new one) to perform clearing with the central counterparty according to laws or regulations provided that special conditions are met. The amendments to this standard did not have any material impact on the Bank.

8. Cash and cash equivalents

	2015	2014
Cash on hand	482	467
Current accounts with banks in IBEC member countries	863	454
Current accounts with other credit institutions	6,354	9,999
Cash and cash equivalents	7,699	10,920

No cash and cash equivalents are impaired or past due.

As at 31 December 2015, the balances of three major counterparties amount to EUR 6,887 thousand or 89.45% of total cash and cash equivalents (31 December 2014: EUR 10,214 thousand or 93.53% of total cash and cash equivalents).

The credit quality of cash and cash equivalents is disclosed in Note 23.

9. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss comprise:

	2015	2014
Eurobonds of banks	-	2,949
Bonds of banks	-	51
Financial instruments at fair value through profit or loss	-	3,000

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

(EUR thousand)

10. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2015	2014
<i>Held by the Bank</i>		
Eurobonds of banks	43,756	28,574
Bonds of banks	290	5,950
Corporate eurobonds	34,365	37,225
Eurobonds of IBEC member countries	21,881	27,665
Bonds of IBEC member countries	7,426	264
	107,718	99,678
<i>Pledged under sale and repurchase agreements</i>		
Eurobonds of IBEC member countries	41,168	10,207
Bonds of IBEC member countries	2,194	10,727
	43,362	20,934
Available-for-sale investment securities	151,080	120,612

Available-for-sale investment securities comprise securities provided as collateral under reverse sale and repurchase contracts, fair value of which as at 31 December 2015 amounted to EUR 43,362 thousand (31 December 2014: EUR 20,934 thousand). Under the contractual provisions the counterparty has an obligation to return the investment securities transferred under sale and repurchase agreements at the maturity of the transaction (Note 15).

Eurobonds of IBEC member countries are issued in euros and US dollars for circulation and traded in markets that are external to the country of issue, and the over-the-counter market. The maturity period for Eurobonds is from January 2016 to March 2027 (31 December 2014: from January 2016 to November 2024), coupon income is from 1.50% to 6.87% p.a. (31 December 2014: from 2.87% to 6.87% p.a.), yield to maturity is from 1.59% to 5.90% (31 December 2014: from 1.60% to 6.70%). The following issuers comprise significant part in this category: eurobonds of Bulgaria amounting to EUR 21,396 thousand or 33.94%, eurobonds of Romania amounting to EUR 18,809 thousand or 29.83%, eurobonds of the Russian Federation amounting to EUR 10,303 thousand or 16.34%, eurobonds of Poland amounting to EUR 6,733 thousand or 10.68% of the total amount of eurobonds of IBEC member countries as at 31 December 2015 (31 December 2014: eurobonds of Romania amounting to EUR 19,244 thousand or 50.81%, eurobonds of Bulgaria amounting to EUR 10,497 thousand or 27.72% of the total amount of eurobonds of IBEC member countries).

Corporate eurobonds are the debt securities denominated in euros and US dollars and issued by financial and industrial entities of the IBEC member countries for circulation and traded in the markets that are external to the issuer, and the over-the-counter market. The maturity period for these eurobonds is from October 2016 to June 2028 (31 December 2014: from October 2016 to June 2028), coupon income is from 3.00% to 5.87% p.a. (31 December 2014: from 3.00% to 9.50% p.a.), yield to maturity is from 3.00% to 6.47% (31 December 2014: from 3.00% to 6.70%). The following issuers comprise significant part in this category: eurobonds of Gazprom amounting to EUR 16,547 thousand or 48.15%, eurobonds of Rossiyskie Zheleznnye Dorogi amounting to EUR 5,309 thousand or 15.45%, eurobonds of Ceske drahy amounting to EUR 4,988 thousand or 14.51% of the total amount of corporate eurobonds as at 31 December 2015 (31 December 2014: eurobonds of Gazprom amounting to EUR 12,210 thousand or 32.80%, eurobonds of Polskie Koleje Panstwowe SA amounting to EUR 7,477 thousand or 20.09%, eurobonds of Ceske drahy amounting to EUR 5,033 thousand or 13.52%, eurobonds of Rossiyskie Zheleznnye Dorogi amounting to EUR 5,007 thousand or 13.45% of the total amount of corporate eurobonds).

Bonds of IBEC member countries are denominated in euros and Bulgarian levs and issued for circulation and traded in the internal markets of the countries of issue and the over-the-counter market. The maturity period for these bonds is from January 2019 to January 2027 (31 December 2014: from February 2021 to July 2023), coupon income is from 1.37% to 4.00% p.a. (31 December 2014: from 3.00% to 4.00% p.a.), yield to maturity is from 1.14% to 3.52% (31 December 2014: from 3.00% to 3.50%). The following issuers comprise significant part in this category: government bonds of Slovakia amounting to EUR 5,207 thousand or 54.12%, government bonds of Romania amounting to EUR 2,219 thousand or 23.07%, government bonds of Bulgaria amounting to EUR 2,194 thousand or 22.81% of the total amount of bonds of IBEC member countries as at 31 December 2015 (31 December 2014: government bonds of Slovakia amounting to EUR 9,604 thousand or 87.38%, government bonds of Bulgaria amounting to EUR 1,387 thousand or 12.62% of the total amount of bonds of IBEC member countries).

Bonds and eurobonds of banks are debt securities denominated in euros, US dollars, Swiss francs and Russian roubles for circulation and traded in the internal and external markets of issuers. The maturity period for the bonds of banks is February 2018 (31 December 2014: from February 2017 to March 2021), coupon income is 12.25% p.a. (31 December 2014: from 7.75% to 12.25% p.a.), yield to maturity is 11.76% (31 December 2014: from 6.30% to 11.80%). The maturity period for eurobonds of banks is from February 2016 to May 2024 (31 December 2014: from September 2015 to February 2025), coupon income is from 2.06% to 8.00% p.a. (31 December 2014: from 3.98% to 12.50% p.a.), yield to maturity is from 1.56% to 7.72% (2014: from 3.90% to 10.60%). The following issuers comprise significant part in this category: eurobonds of Raiffeisen Bank International amounting to EUR 12,567 thousand or 28.53%, eurobonds of Vnesheconombank amounting to EUR 11,855 thousand or 26.91%, eurobonds of Sberbank amounting to EUR 7,731

(EUR thousand)

thousand or 17.55%, bonds of Gazprombank amounting to EUR 5,895 thousand or 13.38% of the total amount of bonds and eurobonds of banks as at 31 December 2015 (31 December 2014: eurobonds of Raiffeisen Bank International amounting to EUR 12,645 thousand or 36.63%, eurobonds of TRADE & DEVELOPMENT BANK OF MONGOLIA amounting to EUR 6,571 thousand or 19.03%, eurobonds BOS Finance amounting to EUR 4,229 thousand or 12.25% of the total amount of bonds and eurobonds of banks).

As at 31 December 2015, the Bank held available-for-sale investment securities in the amount of EUR 62,392 thousand, which were issued by the state organisations of the Russian Federation or 41.30% of the total amount of available-for-sale investment securities (31 December 2014: EUR 21,038 thousand or 17.44% of the total amount of available-for-sale investment securities).

Information on the credit quality and risk of change in the interest rates for available-for-sale investment securities is disclosed in Note 23.

11. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2015	2014
Term loans and deposits with banks in the IBEC member countries	96,519	84,747
Amounts due from credit institutions	96,519	84,747

As at 31 December 2015, the balances of three major counterparties amount to EUR 43,042 thousand or 44.59% of the total amounts due from credit institutions (31 December 2014: EUR 30,495 thousand or 35.98% of the total amounts due from credit institutions).

As at 31 December 2015, amounts due from credit institutions with participation of the Russian Federation amounted to EUR 20,425 thousand or 21.16% of the total amounts due from credit institutions (31 December 2014: EUR 366 thousand or 0.43% of the total amounts due from credit institutions).

Information on credit quality of amounts due from credit institutions is disclosed in Note 23.

12. Loans to customers

Loans to customers comprise:

	2015	2014
Corporate lending	58,003	57,166
Consumer lending	57	129
Total loans to customers	58,060	57,295
Allowance for impairment	(40,816)	(39,683)
Loans to customers	17,244	17,612

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

	2015	2014
As at 1 January	39,683	39,081
Net charge	1,133	602
As at 31 December	40,816	39,683

Collateral and other instruments to reduce credit risk

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

- guarantees from governments and entities of the IBEC member countries;
- bank guarantees;
- sureties from third parties;
- commercial real estate;
- 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.

(EUR thousand)

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, common practice or contract/agreement.

The main types of collateral obtained for loans within the corporate lending group are as follows:

- guarantees from governments of IBEC member countries;
- pledge of real estate;
- sureties from third parties.

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

Information on collateral for loans classified within the corporate lending group is presented below:

	2015	2014
Loans guaranteed by other parties, including loan insurance	10,869	10,204
Loans secured by real estate	6,318	7,279
Unsecured loans	57	129
Total loans to customers	17,244	17,612

The above table contains the carrying value of loans that was distributed based on the liquidity of assets accepted as collateral.

An analysis of credit quality is presented below:

	2015	2014
<i>Neither overdue nor impaired</i>		
- Borrowers:		
• with credit history from 1 to 2 years	-	10,204
• with credit history over 2 years	10,869	-
- Loans to medium-size corporate customers	6,318	6,146
- Loans to individuals	57	129
Total loans neither overdue nor impaired	17,244	16,479
<i>Individually impaired loans (overall amount)</i>		
- overdue over 360 days	40,816	40,816
Total individually impaired loans (overall amount)	40,816	40,816
Allowance for impairment	(40,816)	(39,683)
Total loans to customers net of impairment allowance	17,244	17,612

Concentration of loans to customers

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

	2015		2014	
	Amount	%	Amount	%
Investment: leasing	10,869	63.03	10,204	57.94
Pharmaceutical industry	6,318	36.64	6,146	34.90
Individuals	57	0.33	129	0.73
Oil and gas industry	-	-	1,133	6.43
Total loans to customers	17,244	100.00	17,612	100.00

As at 31 December 2015, the balances of three major counterparties amount to EUR 40,816 thousand which is 70.30% of the gross credit portfolio of the Bank (31 December 2014: EUR 40,816 thousand or 71.24%). The Bank created an allowance for impairment for these balances totally amounting to EUR 40,816 thousand (31 December 2014: EUR 39,683 thousand).

(EUR thousand)

13. Property, plant and equipment

Below is the movement of property, plant and equipment:

2015	Note	Building	Office equipment and computer hardware	Furniture	Transport	Total
Original cost						
Balance as at 31 December 2014		108,022	1,374	605	358	110,359
Additions		29	73	18	-	120
Disposals		-	(2)	(1)	-	(3)
Revaluation		(7,988)	-	-	-	(7,988)
Balance as at 31 December 2015		100,063	1,445	622	358	102,488
Accumulated depreciation						
Balance as at 31 December 2014		26,243	1,226	406	184	28,059
Depreciation for the year	20	1,324	72	15	48	1,459
Disposals		-	(2)	(1)	-	(3)
Revaluation		(2,038)	-	-	-	(2,038)
Balance as at 31 December 2015		25,529	1,296	420	232	27,477
Carrying value						
As at 31 December 2014		81,779	148	199	174	82,300
As at 31 December 2015		74,534	149	202	126	75,011

2014	Note	Building	Office equipment and computer hardware	Furniture	Transport	Total
Original cost						
Balance as at 31 December 2013		107,882	1,374	620	482	110,358
Additions		151	42	13	25	231
Disposals		(11)	(42)	(28)	(149)	(230)
Balance as at 31 December 2014		108,022	1,374	605	358	110,359
Accumulated depreciation						
Balance as at 31 December 2013		24,931	1,169	415	287	26,802
Depreciation for the year	20	1,317	99	15	45	1,476
Disposals		(5)	(42)	(24)	(148)	(219)
Balance as at 31 December 2014		26,243	1,226	406	184	28,059
Carrying value						
As at 31 December 2013		82,951	205	205	195	83,556
As at 31 December 2014		81,779	148	199	174	82,300

If the buildings had been measured using the original cost model, the carrying values would be as follows:

	2015	2014
Original cost	61,169	61,139
Accumulated depreciation	(15,590)	(14,837)
Carrying value	45,579	46,302

Revalued assets

As at 31 December 2015, an independent appraisal of the fair value of the building was performed. The appraisal was carried out by an independent professional appraiser firm that possesses recognised qualification and has relevant experience in performing valuation of properties with a similar location and of similar category.

The basis used for the appraisal is the market approach and the income capitalisation approach. The market approach is based on an analysis of the results of comparable sales of similar buildings.

Key assumptions were used in applying the comparative approach:

- sale prices of similar buildings in the range from EUR 2 thousand to EUR 5 thousand per sq. m were used for the appraisal;
- the price of similar buildings was reduced by a 9-12% negotiated discount.

The following key assumptions were used in applying the income capitalisation approach:

(EUR thousand)

- cash flows are based on a 1 to 5 year projection period, excluding the effects of inflation;
- rental rates vary from EUR 315 to 387 per sq.m annually;
- rental rate increases are projected at 6% per year during the projection period;
- net cash flows were discounted to their present value using annual discount rate of 13.3%.

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external and internal information sources. Management believes that the decrease in real estate prices in Russia is temporary and connected with the unstable economic situation. Management expects an increase in the value of the building in the future.

The fair values of the building is categorised into Level 3 of the fair value hierarchy.

The Bank leases out part of the building to third parties; however, the building is primarily intended to be used by the Bank for its own purposes. Moreover, the leased area was insignificant in 2015 against the total area of the building. Rental income is also insignificant. In 2015 the leased area decreased significantly compared to 2014, which is confirmed, in particular, by the dynamics of rental income in the statement of profit and loss and other comprehensive income. The Bank plans to reduce areas that it leases in the future, gradually filling the whole area of the building with its own employees. It is impossible for the Bank to physically separate the leased areas; in addition, taking into account the insignificance of the leased areas and their gradual reduction and the primary purpose of the building, the Bank classifies the whole building as an item of property, plant and equipment.

14. Other assets and liabilities

Other assets comprise:

	Note	2015	2014
Derivative financial assets		507	-
Receivables under financial and business operations		501	707
Reposessed collateral		403	403
Inventory		42	49
Fees and commissions receivable from customers		42	35
Allowance for overdue receivables	21	(42)	(34)
		1,453	1,160

During the reporting period, fees and commissions receivable from customers in the amount of EUR 11 thousand were written off against the allowance (Note 21).

Other liabilities comprise:

	Note	2015	2014
Derivative financial liabilities		1,295	1,415
Social obligations		757	545
Payables under financial and business operations		25	222
Deferred income		2	-
Dividends payable to the member countries of the Bank		-	400
Provision for litigation charges	21	830	899
		2,909	3,481

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.

	Notional amount	2015	
		Fair value Asset	Liability
Foreign exchange contracts			
Currency swaps – agreements with residents of IBEC member countries	32,721	507	1,295
Total derivative assets/liabilities		507	1,295

(EUR thousand)

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

15. Balances from credit institutions

	2015	2014
Repurchase agreements	40,539	18,139
Term loans and deposits from banks of the IBEC member countries	8,155	-
Current accounts of banks of the IBEC member countries	182	178
Current accounts of other credit institutions	13	328
Balances from credit institutions	48,889	18,645

As at 31 December 2015, balances of the major counterparty amount to EUR 28,111 thousand or 57.50% of total balances from credit institutions (31 December 2014: EUR 18,139 thousand or 97.29% of total balances from credit institutions).

The Bank entered into direct repurchase agreements with resident banks of the IBEC member countries. These are the agreements for selling the eurobonds of IBEC member countries with an obligation to buy back ('direct repurchase'). As at 31 December 2015, the fair value of the pledged securities amounts to EUR 43,362 thousand (31 December 2014: EUR 20,934 thousand) (Note 10).

Transferred financial assets that are not derecognised in their entirety

The table below demonstrates financial assets which were transferred in such a way that the transferred financial assets, in their entirety or in their part, do not meet the criteria for derecognition:

2015	Note	Repurchase agreements
Carrying value of transferred assets – Available-for-sale investment securities	10	43,362
Carrying value of associated liabilities – Balances from credit institutions	15	(40,539)
2014	Note	Repurchase agreements
Carrying value of transferred assets – Available-for-sale investment securities	10	20,934
Carrying value of associated liabilities – Balances from credit institutions	15	(18,139)

The Bank transfers the securities under the repurchase agreement to the third party, without derecognition, and receives cash or other financial assets as a consideration. In case of an increase in the value of securities the Bank, in certain situations, may claim for additional financing. In case of a decrease in the value of securities the Bank may be required to provide additional collateral in the form of securities or partially return the cash received earlier. The Bank has concluded that it retains substantially all the risks and rewards associated with such securities that include credit risks, market risks, country risks and operational risks, and therefore continues to recognise them. In addition, the Bank has recognised the financial liability in relation to the received cash.

16. Customer accounts

	2015	2014
Current accounts of entities in the IBEC member countries	746	532
Current accounts of other entities	57	38
Other current accounts	4,296	3,952
Customer accounts	5,099	4,522

Current accounts of entities include accounts of private companies. As at 31 December 2015, the balances of the three major customers (individuals) of the Bank amount to EUR 1,424 thousand or 27.93% of total customer accounts (31 December 2014: EUR 942 thousand or 20.83% of total customer accounts).

(EUR thousand)

Classification of customer accounts (entities) by industries is demonstrated below:

	2015		2014	
	Amount	%	Amount	%
Trade	535	66.6%	233	40.88%
Transport	169	21.0%	82	14.39%
Financial sector	12	1.5%	5	0.88%
Manufacturing	4	0.5%	214	37.54%
Other	83	10.4%	36	6.31%
Total customer accounts	803	100%	570	100%

17. Share capital

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

As at 31 December 2015, the paid-in authorised capital of IBEC amounts to EUR 186,981 thousand (31 December 2014: EUR 186,981 thousand).

18. Net fee and commission income

	2015	2014
Conversion operations	109	134
Cash and settlement operations	69	111
Currency control	46	44
Account maintenance	42	62
Fee and commission income	266	351
Fee and commission expense	(41)	(49)
Net fee and commission income	225	302

19. Net gains from available-for sale investment securities

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

	2015	2014
Result from disposal of debt securities	793	4,324
Sale of Moscow Exchange shares	-	3,886
Total net gains from investment securities available-for-sale	793	8,210

Gain from revaluation of available-for-sale investment securities due to their disposal in 2015 is transferred from other comprehensive income to net gains from sales of available-for-sale investment securities in the amount of EUR 318 thousand (2014: EUR 7,818 thousand).

(EUR thousand)

20. Administrative and management expenses

	2015	2014
Staff costs	6,643	7,172
Depreciation of property, plant and equipment	1,459	1,476
Building, equipment and apartment repair and maintenance	1,243	1,603
Telecommunication expenses	304	314
Information and advisory expenses	248	357
Expenses for vehicles	244	318
Building security expenses	220	27
Meetings of the Council of the Bank, Audit Committee, Working Group of Authorised Representatives and representation expenses	184	222
Travel expenses	165	135
Office expenses	123	137
Audit services	47	20
Trainings	31	27
Other administrative and management expenses	62	66
Total administrative and management expenses	10,973	11,874

Staff costs include contributions to:

	2015	2014
Pension Fund of the Russian Federation	474	511
Compulsory Medical Insurance Fund of the Russian Federation	183	56
Pension funds of other IBEC member countries	29	31
Social Insurance Fund of the Russian Federation	21	23
Total	707	621

21. Other provisions

	Allowance for other assets	Provision for litigation	Provision for year-end bonuses	Total
As at 31 December 2013	26	72	384	482
Charge	23	830	-	853
Write-offs	(15)	(3)	(384)	(402)
As at 31 December 2014	34	899	-	933
Charge (recovery)	19	(69)	-	(50)
Write-offs	(11)	-	-	(11)
As at 31 December 2015	42	830	-	872

Allowance for impairment of assets is deducted from the carrying value of the related assets. Provisions for litigation and year-end bonuses are recorded in other liabilities. As at 31 December 2015, 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.

22. Commitments and contingencies

Commitments and contingencies of the Bank comprise:

	2015	2014
Credit-related commitments		
Loan commitments	-	347
Total	-	347

(EUR thousand)

23. Risk management

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. The risk management process is crucial to maintain stable profitability of the Bank. The Bank is exposed to financial risks: credit, liquidity and market risks. The Bank is also exposed to operational risks.

Risk management structure

The Council of the Bank, the Board of Management of the Bank, the IBEC Asset and Liability Management Committee, the IBEC Credit Committee and the Risk Management department are responsible for managing risks. Each business unit of the Bank is responsible for risks associated with its functions.

Council of the Bank

The Council of the Bank is responsible for the general approach to managing risks, approving the IBEC Risk Management Policy and risk management principles.

Board of Management

The Board of Management is the executive body of the Bank responsible for implementing the Risk Management Policy.

Asset and Liability Management Committee (the "ALCO")

The ALCO is a permanent collective consultative body of the IBEC Board of Management created to provide the Board of Management with methodological support in forming and implementing the Bank's current and long-term policy with regard to the management of assets and liabilities, efficient use of resources, and management of market and liquidity risks. The ALCO reports to the Board of Management of the Bank.

Credit Committee (the "CC")

The CC is a permanent collective consultative body of the IBEC Board of Management created to support the Board of Management of the Bank in conducting credit activities in accordance with the Bank's objectives and goals. The CC reports to the Board of Management of the Bank.

Risk Management Department (the "RMD")

The RMD is an independent division of the Bank coordinating the interaction of all structural units with regard to risk management which conducts an independent review of banking risks, develops and coordinates actions to improve the risk management system, and is responsible for the implementation and execution of risk management procedures.

Internal Control Department (the "ICD")

The ICD carries out reviews of the sufficiency of risk management procedures and their execution by the Bank and presents the results of reviews performed, its conclusions and recommendations to the Board of Management of the Bank.

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 analysed by the Bank's departments and processed in order to analyse, control and timely identify risks. The Bank's departments prepare regular reports on their operations and communicate current risk status to the RMD. For the purpose of effective risk management the Bank's departments together with the RMD monitor current risks to which the Bank's customers, counterparties, certain transactions and portfolios might be exposed. The reports are provided to the executive bodies, the Board of Management and the Council of the Bank.

Risk mitigation

In the context of risk management the Bank applies various risk limitation and minimisation methods, such as diversification, limitation, and hedging. The Bank uses collateral in order to reduce its credit risks.

Excessive risk concentration

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

(EUR thousand)

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.

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 applies 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.

The Bank uses ratings of international rating agencies S&P, Moody's and Fitch to manage the credit quality of financial assets. Internal credit ratings are used for commercial lending according to the Bank's methodology. Consumer lending (loans to employees of the Bank) is classified as high-rated.

Amounts due from credit institutions and debt investment securities are presented in the table below according to international ratings S&P, Moody's, and Fitch. Ratings AAA to A are considered to be high ratings, ratings BBB+ to B are considered to be standard ratings.

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 collateral on loans in the form of a pledge, guarantees, including state guarantees, and sureties from legal entities and individuals.

Information on the maximum exposure to credit risk is disclosed in Notes 8-12, 14 and 22.

Credit-related commitments risks

Credit-related commitments risk is defined as a probability of incurring a loss due to inability of another party to the transaction to fulfill the obligations under the contract. Under these 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 classes of financial asset

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

(EUR thousand)

The table below shows the credit quality of assets exposed to credit risk by classes of assets:

2015	Neither overdue nor impaired			
	High rating	Standard rating	Individually impaired	Total
Cash and cash equivalents (other than cash on hand)	2,337	4,880	-	7,217
Amounts due from credit institutions	-	96,519	-	96,519
Loans to customers:				
<i>Corporate lending</i>	-	17,187	-	17,187
<i>Consumer lending</i>	57	-	-	57
	2,394	118,586	-	120,980
Available-for-sale investment securities:				
<i>- held by the Bank</i>	10,510	97,208	-	107,718
<i>- pledged under sale and repurchase agreements</i>	5,233	38,129	-	43,362
	15,743	135,337	-	151,080
Total	18,137	253,923	-	272,060

2014	Neither overdue nor impaired			
	High rating	Standard rating	Individually impaired	Total
Cash and cash equivalents (other than cash on hand)	7,794	2,659	-	10,453
Financial instruments at fair value through profit or loss	3,000	-	-	3,000
Amounts due from credit institutions	-	84,747	-	84,747
Loans to customers:				
<i>Corporate lending</i>	-	16,350	1,133	17,483
<i>Consumer lending</i>	129	-	-	129
	10,923	103,756	1,133	115,812
Available-for-sale investment securities:				
<i>- held by the Bank</i>	24,950	74,728	-	99,678
<i>- pledged under sale and repurchase agreements</i>	9,604	11,330	-	20,934
	34,554	86,058	-	120,612
Total	45,477	189,814	1,133	236,424

Carrying value by classes of financial assets whose terms have been renegotiated

The table below shows the carrying value of the renegotiated financial assets, by classes (net of allowance for impairment).

	2015	2014
Loans to customers		
<i>Corporate lending</i>	-	1,133
Total	-	1,133

Impairment assessment

The Bank estimates 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 impairment 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;
- condition of the industry in which the borrower operates;
- financial position of the borrower;
- credit history of the borrower;
- assessment of turnover on the borrower's accounts.

Geographical 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 31 December 2015.

(EUR thousand)

Country	Cash and cash equivalents (other than cash on hand)	Available-for-sale investment securities held by the Bank	Investment securities pledged under sale and repurchase agreements	Amounts due from credit institutions	Loans to customers	Total	Share, %
Russia	809	62,683	-	43,626	57	107,175	39.39%
Mongolia	10	1,468	-	52,893	-	54,371	19.99%
Bulgaria	24	-	23,590	-	-	23,614	8.68%
Romania	10	6,490	14,538	-	-	21,038	7.73%
Austria	4	12,567	-	-	-	12,571	4.62%
Slovak Republic	-	5,207	-	-	6,318	11,525	4.24%
Czech Republic	10	9,384	1,591	-	-	10,985	4.04%
Panama	-	-	-	-	10,869	10,869	4.00%
Poland	1	6,215	3,643	-	-	9,859	3.62%
Germany	6,286	-	-	-	-	6,286	2.31%
Vietnam	-	3,704	-	-	-	3,704	1.36%
Luxemburg	32	-	-	-	-	32	0.01%
Switzerland	31	-	-	-	-	31	0.01%
TOTAL	7,217	107,718	43,362	96,519	17,244	272,060	100%

The table below shows risk concentration by geographical location as at 31 December 2014.

Country	Cash and cash equivalents (other than cash on hand)	Financial instruments at fair value through profit or loss	Available-for-sale investment securities held by the Bank	Investment securities pledged under sale and repurchase agreements	Amounts due from credit institutions	Loans to customers	Total	Share, %
Russia	434	3,000	22,623	-	39,511	129	65,697	27.79%
Mongolia	-	-	7,996	-	45,236	1,133	54,365	22.99%
Romania	-	-	19,244	-	-	-	19,244	8.14%
Poland	-	-	18,016	-	-	-	18,016	7.62%
Slovak Republic	-	-	-	9,604	-	6,146	15,750	6.66%
Germany	9,946	-	5,131	-	-	-	15,077	6.38%
Austria	4	-	12,645	-	-	-	12,649	5.35%
Bulgaria	9	-	555	11,330	-	-	11,894	5.03%
Czech Republic	10	-	11,137	-	-	-	11,147	4.71%
Panama	-	-	-	-	-	10,204	10,204	4.32%
Vietnam	-	-	2,331	-	-	-	2,331	0.99%
Luxemburg	46	-	-	-	-	-	46	0.02%
Switzerland	4	-	-	-	-	-	4	0.00%
TOTAL	10,453	3,000	99,678	20,934	84,747	17,612	236,424	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 unforeseen 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.

(EUR thousand)

The tables below show the remaining maturities of the financial liabilities of the Bank as at 31 December 2015 and as at 31 December 2014, based on contractual undiscounted cash flows. Liabilities which are to be paid on the first notice are included in "Demand and less 30 days" category:

	<i>Demand and less than 30 days</i>	<i>31 to 180 days</i>	<i>181 to 365 days</i>	<i>Total gross amount (inflow) outflow</i>	<i>Carrying value</i>
2015					
Balances from credit institutions	11,221	34,821	2,907	48,949	48,889
Customer accounts	5,099	-	-	5,099	5,099
Swaps settled on a gross basis:					
- Inflow	(11,403)	(4,108)	(2,666)	(18,177)	(18,177)
- Outflow	12,552	4,165	2,755	19,472	19,472
Other liabilities	1,614	-	-	1,614	1,614
Total	19,083	34,878	2,996	56,957	56,897
	<i>Demand and less than 30 days</i>	<i>31 to 180 days</i>	<i>181 to 365 days</i>	<i>Total gross amount (inflow) outflow</i>	<i>Carrying value</i>
2014					
Balances from credit institutions	8,222	10,636	-	18,858	18,645
Due to customers	4,522	-	-	4,522	4,522
Swaps settled on a gross basis:					
- Inflow	(12,064)	(3,200)	-	(15,264)	(15,264)
- Outflow	13,377	3,302	-	16,679	16,679
Other liabilities	753	1,313	-	2,066	2,066
Loan commitments	347	-	-	347	347
Total	15,157	12,051	-	27,208	26,995

The table below represents the contractual maturity of the Bank's commitments and contingencies. All undrawn loan commitments are included in the time band containing the earliest date it can be withdrawn by the customer:

	<i>Demand and less than 1 month</i>	<i>With no defined maturity</i>	<i>Total</i>
2015	-	-	-
2014	347	-	347

The Bank expects that not all the contingent liabilities or commitments will be withdrawn before the maturity date.

(EUR thousand)

Classification of assets and liabilities by maturity

The table below shows breakdown of financial assets and liabilities as at 31 December 2015 by their remaining contractual maturities:

	<i>Demand and less than 1 month</i>	<i>1 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Overdue</i>	<i>Total</i>
Cash and cash equivalents	7,699	-	-	-	-	-	7,699
Available-for-sale investment securities:						-	
- held by the Bank	95	12,894	4,970	36,934	52,825	-	107,718
- pledged under sale and repurchase agreements	-	4,210	-	8,692	30,460	-	43,362
Amounts due from credit institutions	12,958	68,888	14,673	-	-	-	96,519
Loans to customers	192	21	27	6,327	10,677	-	17,244
Other financial assets	500	497	11	-	-	-	1,008
Total financial assets	21,444	86,510	19,681	51,953	93,962	-	273,550
Balances from credit institutions	11,219	34,778	2,892	-	-	-	48,889
Customer accounts	5,099	-	-	-	-	-	5,099
Other financial liabilities	1,933	57	89	-	-	-	2,079
Total financial liabilities	18,251	34,835	2,981	-	-	-	56,067
Net position	3,193	51,675	16,700	51,953	93,962	-	217,483
Cumulative liquidity gap for financial instruments	3,193	54,868	71,568	123,521	217,483	217,483	-

(EUR thousand)

The table below shows the breakdown of financial assets and liabilities as at 31 December 2014 by their expected maturities:

	<i>Demand and less than 1 month</i>	<i>1 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Overdue</i>	<i>Total</i>
Cash and cash equivalents	10,920	-	-	-	-	-	10,920
Financial instruments at fair value through profit or loss	3,000	-	-	-	-	-	3,000
Available-for-sale investment securities:							
- held by the Bank	-	-	6,571	38,600	54,507	-	99,678
- pledged under sale and repurchase agreements	-	-	-	4,624	16,310	-	20,934
Amounts due from credit institutions	13,575	61,101	10,071	-	-	-	84,747
Loans to customers	82	17	5	6,253	10,122	1,133	17,612
Other financial assets	708	-	-	-	-	-	708
Total financial assets	28,285	61,118	16,647	49,477	80,939	1,133	237,599
Balances from credit institutions	8,153	10,492	-	-	-	-	18,645
Customer accounts	4,522	-	-	-	-	-	4,522
Other financial liabilities	2,480	102	-	-	-	-	2,582
Loan commitments	-	347	-	-	-	-	347
Total financial liabilities	15,155	10,941	-	-	-	-	26,096
Net position	13,130	50,177	16,647	49,477	80,939	1,133	211,503
Cumulative liquidity gap for financial instruments	13,130	63,307	79,954	129,431	210,370	211,503	-

Financial instruments at fair value through profit or loss were classified as financial assets with maturity on demand based on the assumption made by the management of the Bank that the Bank will sell the financial assets in the short term.

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 manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Board of Management of the Bank sets limits on the level of acceptable risks and monitors the compliance with the limits on a regular basis.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk is managed primarily by monitoring changes of interest rates. A summary of the interest gap position for major financial instruments is as follows:

Interest rate sensitivity analysis

	2015		2014	
	<i>Profit or loss</i>	<i>Equity</i>	<i>Profit or loss</i>	<i>Equity</i>
100 bp parallel rise	549	549	578	578
100 bp parallel fall	(596)	(596)	(588)	(588)

(EUR thousand)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2015 and 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2015				2014			
	Average effective interest rate, %				Average effective interest rate, %			
	<u>Euro</u>	<u>US dollar</u>	<u>Russian rouble</u>	<u>Other currencies</u>	<u>Euro</u>	<u>US dollar</u>	<u>RUB</u>	<u>Other currencies</u>
Interest bearing assets								
Current accounts with banks in IBEC member countries	(0.09%)	0.15%	0.00%	(0.19%)	0.07%	0.14%	0.00%	(0.20%)
Financial instruments at fair value through profit or loss	-	-	-	-	4.03%	-	7.90%	-
Available-for-sale investment securities:								
- held by the Bank	4.10%	5.39%	12.25%	3.84%	5.27%	6.58%	10.77%	5.13%
- pledged under sale and repurchase agreements	3.43%	3.00%	-	3.16%	3.88%	-	-	4.00%
Amounts due from credit institutions	4.05%	2.14%	0.00%	-	4.32%	5.00%	9.00%	-
Corporate lending	6.50%	7.00%	-	-	6.50%	7.00%	-	-
Consumer lending	3.00%	-	-	-	3.00%	-	-	-
Interest bearing liabilities								
Balances from credit institutions	0.53%	0.87%	0.00%	0.61%	0.33%	0.00%	0.00%	0.40%

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 of Management 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.

(EUR thousand)

The table below shows a general analysis of currency risk of the Bank for financial assets and liabilities as at 31 December 2015:

	Note	US dollar	Russian rouble	Euro	Other	Total
Cash and cash equivalents		772	815	6,015	97	7,699
Available-for-sale investment securities:						
- held by the Bank		12,978	290	76,784	17,666	107,718
- pledged under sale and repurchase agreements		3,643	-	37,525	2,194	43,362
Amounts due from credit institutions		18,384	38	78,097	-	96,519
Loans to customers		10,869	-	6,375	-	17,244
Other financial assets (excluding derivatives)	14,24	-	462	33	6	501
Total financial assets		46,646	1,605	204,829	19,963	273,043
Balances from credit institutions		9,221	9	37,560	2,099	48,889
Customer accounts		396	722	3,981	-	5,099
Other financial liabilities (excluding derivatives)	14,24	-	27	757	-	784
Total financial liabilities		9,617	758	42,298	2,099	54,772
Net balance sheet position		37,029	847	162,531	17,864	218,271
Net off-balance sheet position		(16,212)	-	32,721	(17,297)	(788)
Net balance sheet and off-balance sheet position		20,817	847	195,252	567	217,483

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

	Note	US dollar	Russian rouble	Euro	Other	Total
Cash and cash equivalents		1,009	554	9,248	109	10,920
Financial instruments at fair value through profit or loss		-	51	2,949	-	3,000
Available-for-sale investment securities:						
- held by the Bank		18,018	819	79,284	1,557	99,678
- pledged under sale and repurchase agreements		-	-	19,811	1,123	20,934
Amounts due from credit institutions		1,660	366	82,721	-	84,747
Loans to customers		10,204	-	7,408	-	17,612
Other financial assets	14,24	30	663	15	-	708
Total financial assets		30,921	2,453	201,436	2,789	237,599
Balances from credit institutions		32	76	17,508	1,029	18,645
Customer accounts		473	321	3,728	-	4,522
Other financial liabilities (excluding derivatives)	14,24	-	217	949	1	1,167
Total financial liabilities		505	614	22,185	1,030	24,334
Net position		30,416	1,839	179,251	1,759	213,265
Net off-balance sheet position		(14,580)	-	15,264	(2,099)	(1,415)
Net balance sheet and off-balance sheet position		15,836	1,839	194,515	(340)	211,850

(EUR thousand)

A weakening of the EUR, as indicated below, against the following currencies as at 31 December 2015 and 2014, would have increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The impact on equity does not differ from that on the statement of profit and loss.

	2015	2014
20% appreciation of US dollar against EUR	4,163	3,167
20% appreciation of RUB against EUR	169	368

A strengthening of the EUR against the above currencies at 31 December 2015 and 31 December 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

Operational risk is a risk occurring due to a systemic failure, personnel's mistakes, fraud or external events. When the 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.

To reduce the negative impact of operational risks, the Bank accumulates and classifies information on operational risk events, creates a database of risk events, conducts an assessment and monitoring, and prepares management reporting. Simultaneously, according to the existing methodology, the Bank measures operational risk based on a basic indicator under Basel II recommendations.

24. Derivative financial instruments

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

	Note	2015		2014	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Currency forward contracts and swap contracts: fair value as at the end of reporting period					
- Payables in US dollars (-)		-	16,213	-	14,580
- Receivables in euros (+)		15,514	18,177	-	15,264
- Payables in other currencies (-)		15,007	3,259	-	2,099
Net fair value of currency forward contracts and swap contracts	14	507	(1,295)	-	(1,415)

Currency derivative financial instruments with which the Bank conducts transactions are usually the subject of trade at the OTC market with professional participants 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 with time.

25. 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: quoted market price (unadjusted) in an active market for an identical asset or liability ;
- Level 2: valuation models where all significant inputs are directly or indirectly observable from market data;
- Level 3: valuation techniques includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. If an instrument is valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments, such valuation shall be referred to Level 3. The significance of the original data used shall be evaluated for the entire fair value estimate in aggregate.

(EUR thousand)

The table below analyses financial instruments measured at fair value by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Total
31 December 2015			
Financial assets			
Available-for-sale investment securities held by the Bank:			
• eurobonds of IBEC member countries	43,756	-	43,756
• bonds of banks	290	-	290
• corporate eurobonds	34,365	-	34,365
• eurobonds of IBEC member countries	21,881	-	21,881
• bonds of IBEC member countries	7,426	-	7,426
Available-for-sale investment securities pledged under sale and repurchase agreements:			
• eurobonds of IBEC member countries	41,168	-	41,168
• bonds of IBEC member countries	2,194	-	2,194
Derivative financial assets	-	507	507
	151,080	507	151,587
Financial liabilities			
Derivative financial liabilities	-	(1,295)	(1,295)
	Level 1	Level 2	Total
31 December 2014			
Financial assets			
Financial instruments at fair value through profit or loss			
• eurobonds of banks	2,949	-	2,949
• bonds of banks	51	-	51
Available-for-sale investment securities held by the Bank:			
• eurobonds of banks	28,574	-	28,574
• bonds of banks	5,950	-	5,950
• corporate eurobonds	37,225	-	37,225
• eurobonds of IBEC member countries	27,665	-	27,665
• bonds of IBEC member countries	264	-	264
Available-for-sale investment securities pledged under sale and repurchase agreements:			
• eurobonds of IBEC member countries	10,207	-	10,207
• bonds of IBEC member countries	10,727	-	10,727
	123,612		123,612
Financial liabilities			
Derivative financial liabilities	-	(1,415)	(1,415)

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. 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 valuation methods, the difference shall be straight-line depreciated during the period of the financial instrument.

Fair value measurement procedures

In order to value significant assets, such as the Bank's building, third party appraisers are involved. The Board of Management of the Bank decides on the involvement of the third party appraisers on an annual basis. The criteria determining the choice of an appraiser are knowledge of the market, reputation, independence and compliance with professional standards.

The fair value of the building is categorised into Level 3 of the fair value hierarchy. The key assumptions forming the basis of the fair value measurement are disclosed in Note 13.

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

As at 31 December 2015 and 31 December 2014, the fair values of financial assets and liabilities not measured in the statement of financial position at fair values do not differ significantly from their carrying values. Financial assets and liabilities not measured in the statement of financial position at fair values comprise amounts due from credit institutions, loans to customers, balances from credit institutions and customer accounts. Methods and assumptions used to determine fair values are described below.

(EUR thousand)

Assets whose fair value is approximately equal to their carrying amounts

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

26. Related party transactions

For the purposes of these financial statements according to IAS 24 *Related Party Disclosures* parties are considered to be related if one of the parties has control or significant influence over another 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 with state organisations. Balances with such companies are disclosed in Notes 10 and 11. In the ordinary course of business the Bank mainly carries out transactions with organisations from IBEC member countries.

In 2015 remuneration to the management of the Bank amounts to EUR 1,755 thousand. By comparison remuneration to the management of the Bank in 2014 amounted to EUR 1,550 thousand. The remuneration to the management of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 48.0 thousand (2014: EUR 25.6 thousand), Pension funds of IBEC member countries – EUR 11.0 thousand (2014: EUR 8.6 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 23.0 thousand (2014: EUR 0.7 thousand).

As at 31 December 2015 and 2014, balances on accounts of the Bank's management comprised:

	2015	2014
Current accounts	<u>1,888</u>	<u>1,611</u>

There were no other transactions with related parties carried out by the Bank in 2015 and 2014.

27. 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 Council 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 carries out.

The capital adequacy ratio of the Bank calculated at year-end 2015 makes up 116% (at year-end 2014: 120%) and shows that the Bank's capital adequacy is maintained at the appropriate level in terms of significant prevalence of equity over liabilities.