INTERNATIONAL BANK
FOR ECONOMIC CO-OPERATION

ANNUAL REPORT 2016

INTERNATIONAL BANK
FOR ECONOMIC CO-OPERATION

1. About the Bank

Year of establishment

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

International status

The IBEC is an international institution established and active under the intergovernmental Agreement concerning the Organization and Activities of the IBEC and under the Bank's Statutes. The Agreement was registered by the Secretariat of the United Nations on 20 August 1964.

International status gives the Bank a number of advantages, including:

- universality (the Bank can perform the full range of banking operations and services accepted in global banking practice);
- flexible tariff policy, which optimizes transaction terms for clients in IBEC member-countries;
- ensuring the protection of the funds of clients and counterparties through a combination of financial sustainability and the support of the Bank's member-countries.

Credit ratings

Fitch Ratings

- long-term BBB- rating with stable outlook;
- short-term F3 rating.

Business geography

The Bank operates in the various regions of presence of its member-countries:

- Asia (Mongolia, Vietnam);
- Europe (Bulgaria, Poland, Romania, Slovakia, the Czech Republic);
- Russia.

Governing bodies

The Council of the Bank is the highest administrative body of the Bank and is responsible for overall supervision of the Bank's business.

The Board of Management of the Bank is the executive body of the IBEC and directly manages the operations of the Bank.

The Council and The Board of Management of the IBEC are formed by representatives of all the member-countries of the Bank. This ensures the direct involvement of all member-countries in the work of the IBEC.

Mission

The mission of the IBEC remains unchanged and is to promote the economic cooperation and development of the economies of its member-countries.

Objectives

The objectives of the IBEC are enshrined in its statutory documents and are as follows:

- to promote the development of foreign economic links between the Bank's member-countries, their banks, enterprises and organizations, and also between the latter and the economic entities of other countries;
- to promote the establishment and work of joint ventures, in the first instance with the participation of enterprises of the Bank's member-countries;
- to promote the participation of the Bank's member-countries in the development of market relations between economic entities in the member-countries and in other countries.

Operating niche

The IBEC operates in the following banking business segments: the arrangement and servicing of foreign trade operations between enterprises and organizations of the IBEC member-countries; the organization and servicing of foreign trade operations between enterprises and organizations of the IBEC member-countries and those of other countries; and financial support to enterprises of the member-countries of the Bank.

The IBEC provides products and services in the following spheres:

- trade finance;
- settlement operations;
- lending.

Immunity to sanctions

Restrictions on financial transactions, imposed by the European Union, do not extend to operations by the IBEC. This reinforces the stability of the Bank and prevents potential disruption of its business.

2. Statement of the Chairman of the IBEC Board of Management

Dear Clients and Partners of the IBEC,

Reviewing the results achieved by our Bank in 2016, I would note first of all that the reporting year was the first year of implementation of the Strategy of Business Resumption and Development, for the period from 2016 to 2020, approved by the Council of the IBEC in December 2015. The key task for 2016 within the implementation of the Strategy was a systematic restructuring of the IBEC's internal infrastructure.
The external environment in 2016 was marked by instability of the global financial system caused by geopolitical tensions and various structural changes in the world economy.

Despite the challenging business environment, the IBEC achieved positive results in 2016:

- the Bank showed a profit of 1.7 million euros;
- equity increased;
- results of client operations improved;
- capital adequacy was above the 25% standard set by the IBEC Council.

Financial indicators in 2016 describe the IBEC's as a stable, financially sustainable international institution, dealing successfully with the risks that are typical for banking institutions.
One of the most important outcomes of the year was an increase, at the initiative of the member-countries of the Bank, of the IBEC's paid-in authorized capital . This reflects the confidence, which the member-countries place in the Bank, and lays the foundation for expansion of the IBEC's business in accordance with its Strategy.
The second important achievement of the Bank in 2016 was work, aimed at obtaining an international investment-grade credit rating, as a result of which, in early 2017 the international credit rating agency Fitch Ratings assigned a BBB– long-term rating to the IBEC with stable outlook and an F3 short-term rating. The international investment-grade credit rating will help the IBEC to build long-term relations with counterparties, clients and partners in the interests of the IBEC member-countries.

The third equally important outcome of our work in 2016 was qualitative restructuring of the Bank. This involved the updating of the Bank's statutory documents in accordance with international banking practice, comprehensive re-engineering of business processes in strategic priority areas (including lending, and cash and settlement services), and the adjustment of personnel policy.

The results of work carried out by the Bank in 2016 provide a basis for the further development of the IBEC as a modern international financial institution.

In 2017 the IBEC will continue to follow its approved Strategy and will direct its potential towards promoting the further strengthening and development of foreign economic and trade links between the enterprises of the Bank's member-countries.

In conclusion, I would like to express my gratitude to the Bank's clients and partners for their professional approach to the implementation of joint projects and for mutually beneficial cooperation. I would like also to thank the delegations of the IBEC member-countries for their help in addressing the tasks, which the Bank faces.

Yours sincerely,
Irina Golovchenko
Chairman of the Board of Management
Moscow, March 2017

SOFIA/BULGARIA

Business Center “Capital Fort” is a modern superfunctional skyscraper in Sofia, Bulgaria, welcomes visitors with its avant-garde architectural shapes and elegant design. Capital Fort is a joint project of ATKINS company, United Kingdom, known for Burj Al Arab in Dubai, the Bahrain World Trade Center in Manama and A&A Architects (Business Park Sofia). This highest building in Bulgaria by right is a worthy competitor to financial business centers around the world.

3

MAIN FINANCIAL INDICATORS

3. Main Financial Indicators

The financial indicators of the Bank in 2016 are presented in Table 1.

Table 1
MAIN FINANCIAL INDICATORS, AS OF 31.12.2016

(thousand euros)

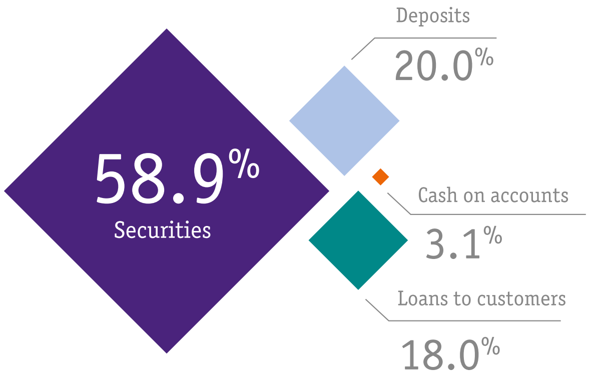
Indicator	Amount
Total balance	344,312
Equity	298,811
Working assets	268,375
Financial result (Profit)	1,669
Capital adequacy	140%

The value of the IBEC's total balance reached a strategic level of 344.3 million euros. Equity at the end of 2016 totalled 298.8 million euros, which is 2.3% more than the same indicator at the end of 2015 (292.1 million euros).

Working assets of the Bank amounted to 268.4 million euros, and the largest share of working assets (59%) was invested in securities. Funds in credit institutions were the second largest item in working assets (20% of the total). Loans to customers were the third largest item, accounting for 18% of the total value of working assets of the IBEC (Figure 1).

The structure of working assets was influenced by the Bank's focus on the improvement of its internal environment, including the re-engineering of core business processes and changes to internal infrastructure in the reporting year. However, work on financial markets enabled the IBEC to maintain its shareholders' funds and obtain a positive financial result last year.

Figure 1
STRUCTURE OF WORKING ASSETS, AS OF 31.12.2016



The Bank achieved a profit of 1.7 million euros in 2016. The revenues accounted for 18.4 million euros and costs were 16.7 million euros.

The capital adequacy ratio was at a high level of 140% by the end of 2016, reflecting the predominance of equity in total capital, which was used for the funding of Bank operations.

In the reporting year, as in previous years, the IBEC took special care to safeguard the funds of the IBEC member-countries and maintained a sufficient level of liquidity to implement the strategic tasks set by the Council of the Bank.

4

ACTIVE OPERATIONS

HO CHI MINH CITY/VIETNAM

"Bitexco Financial Tower" is a skyscraper located in central district of Ho Chi Minh City, Vietnam. The tower was designed by Carlos Zapata Studio together with a French company AREP. Designer Zapata drew inspiration for this skyscraper's unique shape from Vietnam's national flower Lotus. The "highlight" of the tower is the helipad on the 50th floor of the building. There is a circular viewing platform "Saigon Skydeck" on the 49th floor, from which a magnificent panorama of the city opens.

4. Active Operations

Loan Financing

The priority objectives in credit activity in 2016 were the construction of a lending procedure that meets modern banking standards and the formation of a quality loan portfolio.

As part of implementation of the tasks set out in the Bank's Strategy the IBEC designed and approved a new Credit Policy, which is intended to minimize credit risk.

Work on the new Credit Policy included re-engineering and automation of the lending process in accordance with the latest banking standards.

The Bank worked to improve the quality of its loan portfolio through the selection of loan applications associated with the financing of projects by economic entities, which are based in the Bank's member-countries and operate in sectors of strategic importance for those countries.

The Bank was giving consideration to a large volume of loan projects by the end of 2016. This is a positive trend and bodes well for the achievement of the target indicators contained in the Bank's Strategy.

Investments in Securities

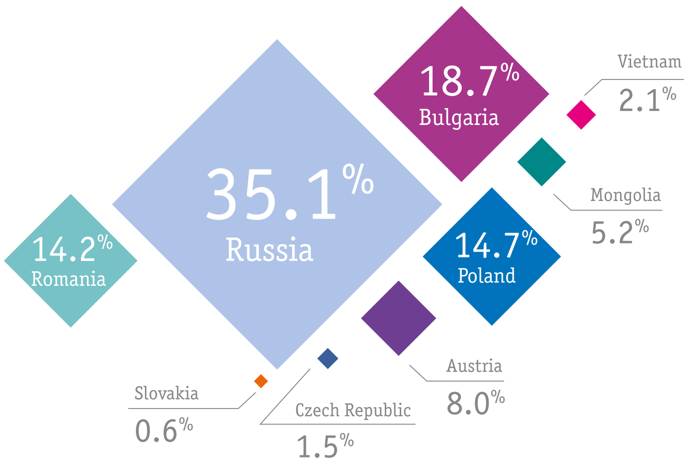
The Bank's securities portfolio amounted to 182.2 million euros at the end of 2016, which is 20.6% more than that at the end of 2015 (151.1 million euros). Expansion of the portfolio was made possible by the redistribution of some funds from the deposit portfolio to the securities portfolio, as well as restructuring of the securities portfolio.

The IBEC maintained a conservative policy in its transactions with securities during 2016, giving preference to sovereign securities of the IBEC member-countries and the securities of well-established public companies, which occupy leading positions in their industry.

During 2016 the Bank acquired sovereign bonds and eurobonds issued by the IBEC member- countries, in some cases through participation in IPOs. The Bank also acquired eurobonds of large corporate issuers of member-countries.

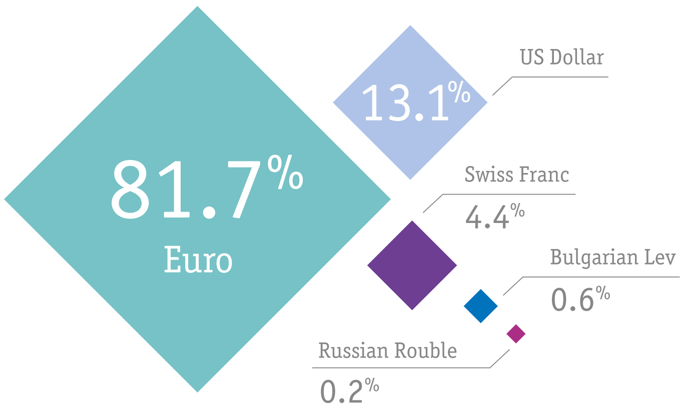
The country structure of the IBEC securities portfolio at the end of 2016, resulting from transactions for the purchase and sale of securities, was as follows (Figure 2).

Figure 2
COUNTRY STRUCTURE OF THE SECURITIES PORTFOLIO, AS OF 31.12.2016



The currency structure of the IBEC securities portfolio is shown in Figure 3.

Figure 3
CURRENCY STRUCTURE OF THE SECURITIES PORTFOLIO, AS OF 31.12.2016



The structure of the IBEC securities portfolio at the end of 2016 by the form of ownership of securities issuers is shown in Figure 4.

As of the end of the reporting year, the Bank's portfolio of sovereign bonds of member-countries was dominated by bonds issued by the governments of Bulgaria (28.9%), Poland (28.8%) and Romania (28.0%) (Figure 5).

Figure 4
STRUCTURE OF THE SECURITIES PORTFOLIO BY THE FORM OF OWNERSHIP OF ISSUERS, AS OF 31.12.2016

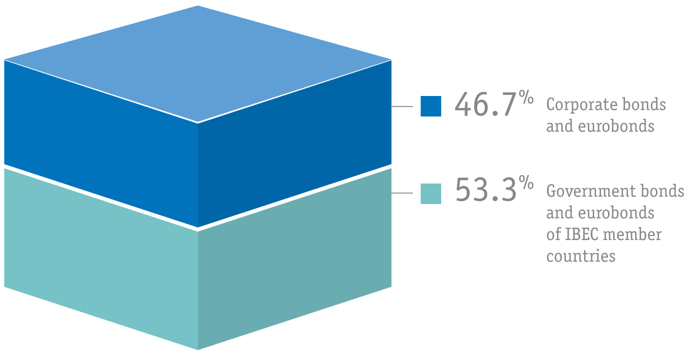
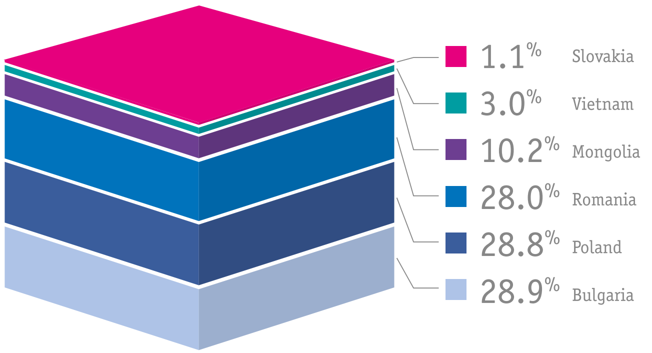


Figure 5
COUNTRY STRUCTURE OF THE SOVEREIGN BOND PORTFOLIO, AS OF 31.12.2016



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Deposit Portfolio of the Bank

Value of the IBEC deposit portfolio at the end of 2016, as reflected on the balance sheet, was 61.8 million euros. The Bank diversified the country structure of its deposit portfolio in the reporting year, extending its exposure to more countries (Figure 6).

Deposits were placed in the currency of the IBEC balance sheet (euro), and also in US dollars and in the currency of the country of the IBEC's residence (Figure 7).

Figure 6
COUNTRY STRUCTURE OF THE DEPOSIT PORTFOLIO, AS OF 31.12.2016

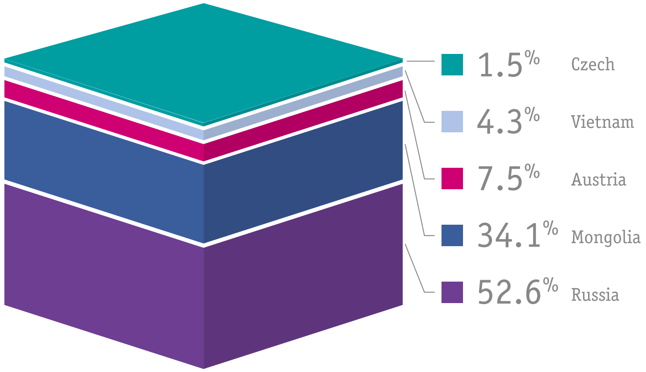
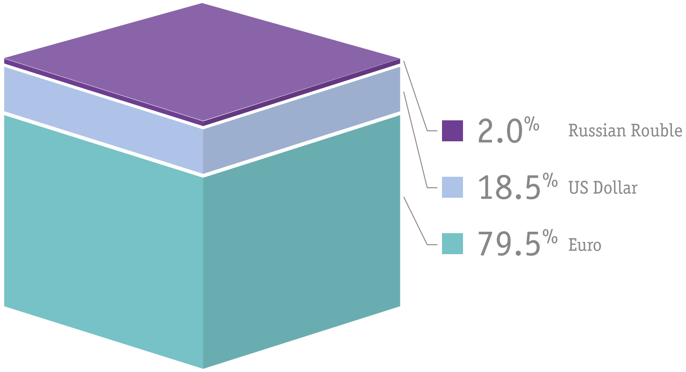


Figure 7
CURRENCY STRUCTURE OF THE DEPOSIT PORTFOLIO, AS OF 31.12.2016



Deposits were allocated taking account of trends on financial markets, which were subject to major fluctuations in 2016 connected, in particular, with expectations of an increase in the interest rate of the US Federal Reserve System.

"The Blue Sky Tower" is a business center of steel and blue glass located in the heart of Ulaanbaatar, Mongolia. Construction of the building was carried out by the developer Chono Corporation in conjunction with the AGroup, South Korean architectural company, and was inspired by the growth and prosperity of Mongolia. The unique design of "The Blue Sky Tower" combined with the state-of-the-art construction technology notes the beginning of a new age in construction, engineering and operation of tall buildings in the country.

ULAANBAATAR/MONGOLIA

5 FUNDING BASE OF THE IBEC

5. Funding base of the IBEC

5.1. Equity

Equity of the IBEC at the end of 2016 totalled 298.8 million euros or 86.8% of the Bank's total capital (344.3 million euros), which is close to the target for this indicator. Equity increased by 6.7 million euros compared to its level a year earlier.

The increase of the paid-in capital by allocating the part of retained earnings of prior years was one of the key objectives of the resource base management by the Bank in 2016. The objective was successfully achieved as paid-in authorized capital increased to 200 million euros (Table 2).

Table 2
STRUCTURE OF THE PAID-IN AUTHORIZED CAPITAL BY IBEC MEMBER-COUNTRIES, AS OF 31.12.2016

(thousand euros)

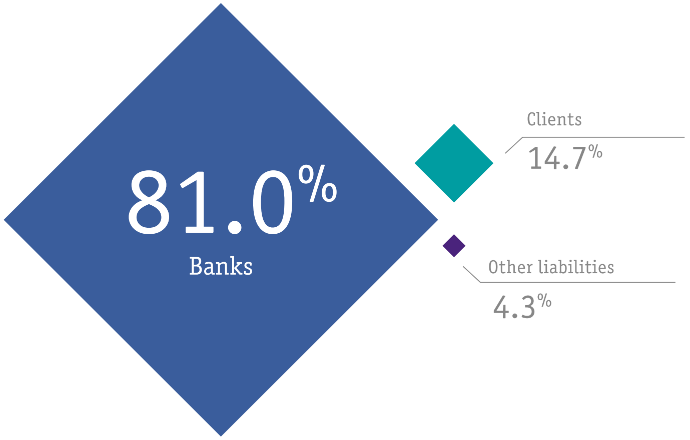
IBEC member-country	Paid-in capital
Russian Federation	103,179
Czech Republic	26,684
Republic of Poland	24,016
Republic of Bulgaria	15,121
Romania	14,232
Slovak Republic	13,342
Mongolia	2,668
Socialist Republic of Vietnam	758
Total	200,000

5.2. Borrowed Funds

The IBEC borrowed funds on Russian and international markets in the reporting year for purposes of liquidity management. Borrowed funds as of the end of 2016 totalled 45.5 million euros, exceeding the strategic target.

The main borrowing instruments used by the Bank in 2016 were the interbank market and repurchase operations. The structure of borrowed funds at the end of 2016 was as follows (Figure 8).

Figure 8
STRUCTURE OF BORROWED FUNDS, AS OF 31.12.2016



WARSAW/POLAND

The “Warsaw Spire” is a complex of modern architecture office buildings in Warsaw, Poland, constructed by the Belgian real estate developer “Ghelamco”. A beautiful and powerful complex consists of the glass facade main tower “Warsaw Spire A” and two auxiliary buildings. Comfortable open squares combined with the highest standards of quality and effective working environment create an ideal place for business and leisure in the “Warsaw Spire”.

6 CLIENT SERVICES

6. Client Services

In 2016 the IBEC remained true to its principles of building long-term, mutually beneficial relationships with its clients, based on an individual approach, and on trust and openness.

The Bank created a range of trade financing products in 2016 to help meet the needs of clients in the IBEC member-countries. The products include:

- pre-export financing;
- post-export financing;
- post-import financing;
- financing of exports and imports with the involvement of export credit agencies;
- acceptance of letters of credit;
- issuance of irrevocable reimbursement undertakings at the request of partner banks;
- conduct of guarantee operations (issuance of direct guarantees, counter-guarantees, opening and confirmation of stand-by letters of credit);
- tied financing (bilateral and syndicated loans to banks for financing of the foreign economic business of their clients);
- syndicated loans to non-banking clients for financing of their foreign economic business;
- forfeiting operations.

The Bank's current product line includes products and services in the spheres of trade financing, settlement and lending.

The Bank increased its commission income in 2016, including income from conversion, settlement, cash operations and exchange control operations, thanks to a thorough re-engineering of cash and settlement services and the optimization of tariffs.

The Bank enhanced its support to the foreign trade transactions of clients in the IBEC member-countries in 2016 by initiating settlement in the national currencies of the member-countries. At the end of 2016, the Bank was servicing foreign trade contracts with total value of 83.4 million euros.

The IBEC carried out consultations with relevant ministries and government departments in the country of the IBEC's residence in 2016 regarding projects in the Far East, which have priority for financing. This initiative was part of the strategic objective of expanding the geography of the Bank's business towards the Far East region in 2016.

In 2016 the Bank began works aimed atfinancing companies based in Far Eastern Federal District of Russia, which offer leasing products for small and medium-sized enterprises, and also to finance companies that provide services at oilfields in the District.

The IBEC modernized its operating room in 2016 in order to meet the needs of its clients more effectively. Service provision to clients in the operations room is now based on a "one-stop shop" principle, which enables the Bank to provide services more quickly and more conveniently.

MOSCOW/RUSSIA

"Evolution Tower" is a multifunctional complex of the Moscow International Business Center "Moscow City", Russia. Business center includes the high-rised tower twisted around its own axis placed on a three-level stylobate. There is a landscaped terraced citywide square on its roof, and the space inside is used for the trade zone. The skyscraper "Evolution Tower" was designed by Scottish bureau "RMJM" and its architect Tony Kettle, who was inspired by the sculpture of Auguste Rodin "Kiss" while creating the tower.

7 WORK WITH COUNTERPARTY BANKS

INTERNATIONAL BANK
FOR ECONOMIC CO-OPERATION

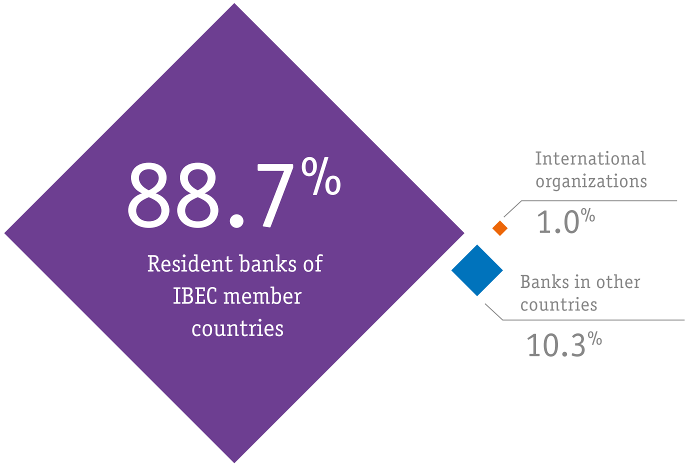
7. Work with Counterparty Banks

In 2016 the IBEC built relations with counterparty banks taking into account the need to achieve strategic objective to support foreign trade transactions between the economic entities of the IBEC's member-countries.

For this purpose in 2016 the Bank established contacts and held negotiations with eximbanks of IBEC member-countries and other countries. Credit risk limits on the Bank were set by banks of the member-countries and other international financial organizations, general agreements for cooperation on the interbank lending market were signed.

At the end of the reporting year, the network of the Bank's counterparties included resident banks of IBEC member-countries, banks of other countries, as well as international organizations (Figure 9).

Figure 9
COUNTERPARTY BANKS OF THE IBEC



BUCHAREST/ROMANIA

The "SkyTower" business complex in Bucharest, Romania – represents a completely new concept of business center that offers the highest quality of working environment with maximum flexibility of space. The elliptical shaped skyscraper has an innovative, ergonomic architecture and is considered as a "green" building with low operating costs. Business complex with a fully glazed facade was designed by Austrian architects Armin Fuchs and Franz Janz together with Baumarc architecture team, Romania. The innovative Guardian SunGuard glass, that effectively reflects the sun's rays, was used during the construction.

8 WORK WITH PARTNERS

8. Work with Partners

In 2016 the Bank continued its work aimed at developing business relations with institutions and state organizations of the IBEC member-countries.

Efforts were focused on the following areas, which have strategic priority for the Bank:

- collaboration with national banking regulators;
- establishing relations with export credit agencies (ECAs) of the IBEC member-countries.

Within the work with national banking regulators in the reporting year the Bank concluded agreements with the national bank of one of the IBEC's member-countries. The agreements will enable the IBEC to provide a broader range of services to its clients.

Within efforts to broaden relationswith ECAs, the Bank held negotiations in 2016 with ECAs of IBEC member-countries and other countries, as a result of which the Bank reached agreements on expanding cooperation with these agencies. These agreements concern projects in the spheres of trade finance and settlement.

During the reporting year the Bank also worked to develop relations with intergovernmental commissions on trade, economic, scientific and technical cooperation, and as well as carried out information exchanges with chambers of commerce and industry, embassies of the IBEC member-countries and various associations in those countries.

Special attention should be given to the results of the IBEC's work related to participation in the meetings of intergovernmental commissions. The Bank took part in the following meetings during the reporting year:

- the 15th meeting of the Russian-Bulgarian Intergovernmental Commission;
- the 19th meeting of the Russian-Vietnamese Intergovernmental Commission;
- the 20th meeting of the Russian-Mongolian Intergovernmental Commission.

As part of the above-mentioned meetings the IBEC secured the support of the countries taking part in the commissions for work by the Bank to set up a settlement system in national currencies and to develop mutual trade and investment between the Bank's member-countries.

BRATISLAVA/SLOVAKIA

"Apollo Business Center II" is a complex of modern office buildings located in the business district of Bratislava, Slovakia. This business center built by HB Reavis Group is focused on providing quality property management services that improve the quality of life and business. It ranks among the largest office developments in central Europe due to its successful location and unique design, as well as a significant leased space, including office space and retail areas. "Apollo Business Center II" is the first "green" building in Slovakia to have been awarded the prestigious British BREEAM certification for high standard of the services and facilities provided to all tenants and visitors.

9 RISK MANAGEMENT

9. Risk Management

In 2016 the Bank paid special attention to improvement of its risk management system. In the reporting year the risk management policy of the IBEC was revised, including the management of risks related to the foreign exchange market.

The work included:

- development of approaches to market risk management, improvement of the techniques used to assess and analyze the Bank's securities portfolio using the VaR methodology, duration method and stress testing;
- design and testing of techniques to estimate the fair value of derivative financial instruments, following the guidelines carried out in the International Financial Reporting Standard (IFRS) 13, "Fair Value Measurement";
- measures to improve the IBEC's limit policy, taking account of the development of new types of business by the Bank, updating of procedures to set and adjust limits, and to monitor and control existing limits;
- design of new approaches for the application of Basel III guidelines in liquidity risk management (liquidity coverage ratio (LSR) and net stable funding ratio (NSFR));
- design of a "risk appetite" concept for the IBEC;
- preliminary work for implementation of IFRS 9 "Financial Instruments", which comes into effect on 01 January, 2018, and replaces International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement".

PRAGUE/CZECH REPUBLIC

Business Center "Dancing House" is located in a great place on the banks of the Vltava River in Prague, Czech Republic. The office building consists of two towers of different shapes. Design of the building, made in bold outlines, was created by architects Vlado Milunić and Frank Owen Gehry, in honor of the legendary dance duet Ginger & Fred. The construction of the house was personally supervised by the first president of Czech Republic, Václav Havel. The building is particularly noticeable for its unique design surrounded by city's historical development.

10

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

10. Anti-Money Laundering and Combating the Financing of Terrorism

In 2016 the IBEC gave special attention to activities aimed at prevention of money laundering and the financing of terrorism.

The Bank implements measures on a regular basis to prevent any involvement of the IBEC in transactions that may be related to money laundering and the financing of terrorism. In 2016 these included: analysis of transactions conducted by IBEC clients on accounts at the Bank; analysis of information about clients and their counterparties; examination of identification documents provided by clients when opening an account or updating their details and examination of documents provided at the Bank's request.

These actions caused the Bank to prevent the opening of accounts for legal entities, whose activities were judged to be suspicious. The result was an improvement in quality of the Bank's client base.

The IBEC carried out a full modernization of its regulatory framework for compliance control in 2016 as part of methodological assurance related to questions of compliance control and improvement of the quality of work by the Bank in this sphere.

In 2016 the Bank set up a "hot line" to elicit response to events that affect the level of compliance risk. Bank employees and third parties can use the hot line to report any relevant threats to the Bank's compliance controller.

11. Internal Control and Audit

The Bank carried out a number of measures in 2016 to help shape and implement the internal audit system:

- IBEC regulatory documents setting out key principles of the internal audit function were updated in accordance with the recommendations of the Basel Committee on Banking Supervision and the standards of the Institute of Internal Auditors;
- the functionality of the internal audit department was revised in accordance with international banking practice.

In order to enable independent and objective assessment of the reliability and effectiveness of the IBEC's banking risk management system the internal control was carried out in 2016 using a risk-based approach. The results of the audit and control work were used to design recommendations for improving work by the Bank.

12. Areas of Activity for the Near Future

In 2017 the IBEC will continue to implement the Strategy approved by the Council of the Bank for the benefit of its member-countries.

Key directions for further implementation of the Strategy will include:

- expanding IBEC's operational activities;
- modernization of the Bank's statutory documents;
- improvement of the Bank's IT-platform;
- modernization of the risk management system.

13. Council of the IBEC

as of 31 December, 2016

REPUBLIC OF BULGARIA

MARINELA PETROVA
Deputy Minister of Finance of the Republic of Bulgaria

GERGANA BEREMSKA
Director of the Department of International Financial Institutions and International Co-operation of the Ministry of Finance of the Republic of Bulgaria

SOCIALIST REPUBLIC OF VIETNAM

LÊ MINH HƯNG
President of the State Bank of Vietnam

NGUYEN THI HONG (Ms.)
Vice-President of the State Bank of Vietnam

DOAN HOAY AHN (Ms.)
Director of the International Cooperation Department of the State Bank of Vietnam

DAO THI HANG (Ms.)
Deputy Director of the International Cooperation Department of the State Bank of Vietnam

MONGOLIA

OCHIRKHUUGIIN ERDEMBILEG
First Deputy President of Mongolbank

JAMBAL GANBAATAR
Chief Economist and Advisor to the President of Mongolbank

BYAMBAJAV GANBAT
Director of the Legal Department of Mongolbank

REPUBLIC OF POLAND

ADAM GLAPIŃSKI
President of the National Bank of Poland

PAWEŁ SAMECKI
Member of the Board of the National Bank of Poland

PIOTR NOWAK
State Under-Secretary of the Ministry of Finance of the Republic of Poland

ANDRZEJ CIOPINSKI
Deputy Director of the Department for Support of Economic Policy at the Ministry of Finance of the Republic of Poland

RUSSIAN FEDERATION

SERGEY ANATOLIEVICH STORCHAK
Deputy Minister of Finance of the Russian Federation

EVGENY ARNOLDOVICH STANISLAVOV
Director of the Economic Cooperation Department of the Ministry of Foreign Affairs of the Russian Federation

ROMANIA

ATTILA GYORGY
State Secretary of the Ministry of Public Finance of Romania

BONI FLORINELA CUCU (Ms.)
General Director of the Ministry of Public Finance of Romania

SLOVAK REPUBLIC

DANA MEAGER
State Secretary of the Ministry of Finance of the Slovak Republic

MARTINA KOBILICOVÁ (Ms.)
General Director of the Department of International Relations of the Ministry of Finance of the Slovak Republic

KATARINA KOVÁČOVÁ (Ms.)
Director of the Division of International Institutions of the Ministry of Finance of the Slovak Republic

CZECH REPUBLIC

LENKA DUPÁKOVÁ (Ms.)
Deputy Minister of Finance of the Czech Republic

ZUZANA KUDELOVÁ (Ms.)
Director of the Department of International Relations of the Ministry of Finance of the Czech Republic

14. Audit Commission of the IBEC

as of 07 March, 2017

CHAIRMAN OF THE COMMISSION

IVAN BEŇOVIČ
Expert of the International Relations Department of the Ministry of Finance of the Slovak Republic

Members of the Commission

SOCIALIST REPUBLIC OF VIETNAM
NGUYỄN VĂN ĐÓNG CỬA
Deputy Director of the Currency Department of the State Bank of Vietnam

MONGOLIA
BINDERYA BATAA
Expert at the Department of Mongolbank

REPUBLIC OF POLAND
ANDRZEJ DIAKONÓW
Director of the Internal Audit Department of the National Bank of Poland

RUSSIAN FEDERATION
VIKTOR DMITRIEVICH MIZIN
Consultant of the Section for Relations with International Development Banks of the Department of International Financial Relations at the Ministry of Finance of the Russian Federation

CZECH REPUBLIC
INKA MÜLLEROVÁ (Ms.)
Expert at the Department of International Relations of the Ministry of Finance of the Czech Republic

INTERNATIONAL BANK
FOR ECONOMIC CO-OPERATION

15. Board of Management of the IBEC

as of 06 March, 2017

RUSSIAN FEDERATION

IRINA VLADIMIROVNA GOLOVCHENKO
Chairman of the Board

REPUBLIC OF BULGARIA

ROSSEN IVANOV CHOBANOV
Member of the Board

SOCIALIST REPUBLIC OF VIETNAM

THIN THI HUONG
Member of the Board

MONGOLIA

TSERENPUREV SAMINDII GOTOV
Member of the Board

REPUBLIC OF POLAND

LIDIA ANCZAKOWSKA
Member of the Board

ROMANIA

EGIDIU HENŢEŞ
Member of the Board

SLOVAK REPUBLIC

JOZEF BOGDAN
Member of the Board

CZECH REPUBLIC

JAROSLAV VLČEK
Member of the Board

16. Management of the IBEC

as of 06 March, 2017

PETER MANCHEV
Acting Director of the Treasury Department

NATALIA MALANICHEVA (Ms.)
Director of the Client Relationships Department

PETER MARČIČIAK
Director of the Credit Department

ALEXANDRU ORASCU
Director of the Operations Department

OLGA DEMINA (Ms.)
Deputy Director of the Operations Department,
Chief Accountant

NATALIA CHEREPNENKO (Ms.)
Director of the Strategic Planning and Analysis Department

DMITRY CHEVACHIN
Director of the Legal Department

VALERY KHAET
Director of the Information Technology Department

SERGEY GRACHEV
Director of the Administrative Department

OLGA KURAMSHINA (Ms.)
Director of Internal Audit Department

ELENA ALESHKINA (Ms.)
Head of the Risk Management Department

MIKHAIL GARETOVSKIY
Assistant to the Chairman,
Executive Secretary of the Management Board

VLADIMIR GOLYSHEV
Senior Compliance Control Advisor

LARISA YEGORKINA (Ms.)
Head of the HR Department

17. Contacts

INTERNATIONAL BANK FOR ECONOMIC CO-OPERATION

Postal address:
11, Masha Poryvaeva Street,
Moscow, Russia, GSP-6, 107996

Telephones:
Secretary of the Chairman: + 7 (499) 975-38-61
Board Office: + 7 (495) 604-73-66
Customer Relations Department: +7 (495) 604-72-90; +7 (495) 604-76-61
Treasury: +7 (495) 604-76-70

SWIFT:
IBECRUMM

E-mail:
info@ibec.int

WEB:
http://www.ibec.int

The IBEC's Annual Financial Statements for 2016 According to IFRS Accompanied by the Independent Auditor's Report

Notes to financial statements

Joint-Stock Company KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

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

Opinion

We have audited the financial statements of International Bank for Economic Co-operation (the "Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the independence requirements that are relevant to our audit of the financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report but does not include the financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

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.
Moscow, Russian Federation.

Independent 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.
Registration No. in the Unified State Register of Legal Entities 1027700125628.
Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organizations: No. 11603053203

Joint-Stock Company KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
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Internet www.kpmg.ru

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management

either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner responsible for the audit resulting in this independent auditors' report is:
Lukashova N.V.

КПМГ
KPMG
АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 МОСКВА

JSC "KPMG"
Moscow, Russia
23 March 2017

(EUR thousand)

Statement of Financial Position

as at 31 December 2016

	Note	2016	2015
Assets			
Cash and cash equivalents	8	10,124	7,699
Available-for-sale investment securities:	9		
- held by the Bank		152,099	107,718
- pledged under sale and repurchase agreements		30,140	43,362
Amounts due from credit institutions	10	61,813	96,519
Loans to customers	11	14,812	17,244
Property, plant and equipment	12	74,045	75,011
Other assets	13	1,279	1,453
Total assets		**344,312**	**349,006**
Liabilities			
Balances from credit institutions	14	36,875	48,889
Customer accounts	15	6,681	5,099
Other liabilities	13	1,945	2,909
Total liabilities		**45,501**	**56,897**
Equity			
Share capital	16	200,000	186,981
Unrealised gains (losses) on available-for-sale investment securities		4,937	(96)
Revaluation reserve for property, plant and equipment		32,388	32,388
Retained earnings less net profit for the year		59,817	69,827
Net profit for the year		1,669	3,009
Total equity		**298,811**	**292,109**
Total liabilities and equity		**344,312**	**349,006**

I.V. Golovchenko — Chairman of the Board

O.V. Demina — Chief Accountant

23 March 2017

МБЭС

The accompanying notes 1–26 form part of these financial statements.

(EUR thousand)

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

	Note	2016	2015
Interest income:			
Loans to customers		1,076	1,293
Amounts due from credit institutions		3,126	3,524
Available-for-sale investment securities		5,876	5,878
Financial instruments at fair value through profit or loss		–	13
Total interest income		10,078	10,708
Interest expense		(374)	(499)
Net interest income		9,704	10,209
Allowance for loan impairment and for amounts due from credit institutions	10, 11	(5,020)	(1,133)
Net interest income after allowance for loan impairment and for amounts due from credit institutions		4,684	9,076
Fee and commission income	17	593	266
Fee and commission expense	17	(41)	(41)
Net losses from financial instruments at fair value through profit or loss		–	(71)
Net gains from available-for sale investment securities	18	4,495	793
Net foreign exchange (losses) gains:			
- realised		(169)	(192)
- unrealised		1,027	1,618
Net losses from disposal of a property, plant and equipment		(1)	–
Rental income		1,433	2,459
Other banking income		120	88
Administrative and management expenses	19	(11,100)	(10,973)
Other reserves	20	655	50
Other banking expenses		(27)	(64)
Profit for the reporting year		1,669	3,009

The accompanying notes 1–26 form part of these financial statements.

(EUR thousand)

	Note	2016	2015
Other comprehensive income (expense)			
Items that are or may be reclassified subsequently to profit or loss:			
Unrealised gains on available-for-sale investment securities		8,887	1,665
Realised gains from available-for-sale investment securities transferred to profit or loss		(3,854)	(318)
Total items that are or may be reclassified subsequently to profit or loss		5,033	1,347
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property, plant and equipment		-	(5,950)
Total items that will not be reclassified subsequently to profit or loss		-	(5,950)
Total other comprehensive income (expense)		5,033	(4,603)
Total comprehensive profit (loss) for the year		6,702	(1,594)

The accompanying notes 1–26 form part of these financial statements.

(EUR thousand)

Statement of Changes in Equity for the year ended 31 December 2016

	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 2014	186,981	(1,443)	38,338	69,827	293,703
Net profit for the year	–	–	–	3,009	3,009
Other comprehensive expense					
Items that are or may be reclassified subsequently to profit or loss:					
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)
Total items that are or may be reclassified subsequently to profit or loss	–	*1,347*	–	–	*1,347*
Items that will not be reclassified subsequently to profit or loss:					
Revaluation of property, plant and equipment	–	–	(5,950)	–	(5,950)
Total items that will not be reclassified subsequently to profit or loss	–	–	*(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)

The accompanying notes 1–26 form part of these financial statements.

(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 2015	186,981	(96)	32,388	72,836	292,109
Net profit for the year	–	–	–	1,669	1,669
Increase in share capital from retained earnings (Note 16)	13,019	–	–	(13,019)	–
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Unrealised gains on available-for-sale investment securities	–	8,887	–	–	8,887
Realised gains from available-for-sale investment securities transferred to profit or loss	–	(3,854)	–	–	(3,854)
Total items that are or may be reclassified subsequently to profit or loss	–	*5,033*	–	–	*5,033*
Total other comprehensive income	–	5,033	–	–	5,033
Total comprehensive income for the year	13,019	5,033	–	(11 350)	6,702
Balance as at 31 December 2016	200,000	4,937	32,388	61,486	298,811

The accompanying notes 1–26 form part of these financial statements.

(EUR thousand) FINANCIAL STATEMENTS 2016

Statement of Cash Flows for the year ended 31 December 2016

	Note	2016	2015
Cash flows from operating activities			
Profit for the year		1,669	3,009
Adjustments for:			
Accrued interest receivable		571	735
Accrued interest payable		(24)	48
Other accrued income receivable		(80)	238
Other accrued expense payable		218	159
Depreciation		1,361	1,459
Allowance for loan impairment and for amounts due from credit institutions		5,020	1,133
Other reserves		(655)	(50)
Unrealised foreign exchange gains		(1,027)	(1,618)
Revaluation of financial instruments at fair value through profit or loss		–	71
Net gains from available-for-sale investment securities		(4,495)	(793)
Other differences		1	–
Cash flows from operating activities before changes in operating assets and liabilities		2,559	4,391
(Increase) decrease in operating assets			
Trading securities		–	2,786
Amounts due from credit institutions		29,787	(11,398)
Loans to customers		2,743	498
Other assets		364	(597)
Increase (decrease) in operating liabilities			
Balances from credit institutions		(10,926)	29,827
Customer accounts		1,159	765
Other liabilities		(996)	(1,264)
Net cash provided from operating activities		24,690	25,008

The accompanying notes 1–26 form part of these financial statements.

(EUR thousand)

	Note	2016	2015
Cash flows from investing activities			
Purchases of available-for-sale investment securities		(112,794)	(93,165)
Sales of available-for-sale investment securities		91,771	65,639
Purchase of property, plant and equipment	12	(397)	(120)
Proceeds from sale of property, plant and equipment		1	–
Net cash used in investments activities		(21,419)	(27,646)
Cash flows from financing activities			
Dividends paid to member countries of the Bank		–	(400)
Net cash used in financing activities		–	(400)
Net increase (decrease) in cash and cash equivalents before translation differences		3,271	(3,038)
Effect of exchange rate changes on cash and cash equivalents		(846)	(183)
Net increase (decrease) in cash and cash equivalents		2,425	(3,221)
Cash and cash equivalents as at 31 December of the previous year	8	7,699	10,920
Cash and cash equivalents as at 31 December of the reporting year	8	10,124	7,699

The accompanying notes 1–26 form part of these financial statements.

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 Statutes of IBEC.

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 Statutes, 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 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.

(EUR thousand)

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

	2016	%	2015	%
Russian Federation	103,179	51.59	96,462	51.59
Czech Republic	26,684	13.34	24,947	13.34
Republic of Poland	24,016	12.01	22,453	12.01
Republic of Bulgaria	15,121	7.56	14,137	7.56
Romania	14,232	7.12	13,305	7.12
Slovak Republic	13,342	6.67	12,474	6.67
Mongolia	2,668	1.33	2,495	1.33
Socialist Republic of Vietnam	758	0.38	708	0.38
Total	200,000	100	186,981	100

2. Economic environment in which the Bank operates

In 2016 the global economic growth pace (GDP) comprised 3.1%, being below 2016 forecasts of 3.2%. At the same time the GDP growth pace in 2016 varied depending on the countries and regions.

In emerging market countries and developing countries, to which IBEC member countries belong, as at the end of 2016 the actual GDP growth was the same as forecast for the specified group of the countries and comprised 4.1%. The following factors influenced the GDP growth.

Recovery of the world prices for exchange goods led to increase of export income for the exporting countries and to strengthening of national currency rates. This factor had a positive impact on the GDP of emerging market countries and developing countries.

Reduction in concerns over the nearest outlook for development of China market enhanced the investors interest in the financial markets of emerging market countries and developing countries. This factor in general had a positive impact on the GDP of this group of countries.

However, along with the abovementioned two factors 2016 experienced long-term deterioration in trading terms and conditions which led to the decrease in goods turnover and negatively affected the size of GDP of this group of countries.

In the developed countries the actual GDP growth in 2016 comprised 1.6% while the forecast was 1.9% for this group of countries. The following factors influenced the GDP growth.

Decrease in investor confidence caused by political and financial uncertainty after the June referendum on the exit of Great Britain from the European Union and elections of the president of the USA negatively affected the size of GDP growth of developed countries.

Low rate of inflation resulted in the decrease in economic activity and increase in unemployment rate. It also negatively affected the size of economic growth in the developed countries in 2016.

Exposure of the developed European countries to the abovementioned factors was the reason of the decrease in trade volumes among them and the IBEC member countries which negatively affected the size of GDP of certain Bank's member countries.

3. Basis for presentation of financial statements

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

The Bank has neither subsidiaries 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

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Bank.

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 an asset or liability. The initial value is a sum of all paid cash or its 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 until 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).

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.

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 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 include 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: building, 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.

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:

- building — 67 years;
- office equipment and computer hardware — from 2 to 10 years;
- furniture — from 5 to 10 years;
- vehicles — 5 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 to 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.

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 Statutes 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.

5. New accounting standards not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ('12-month ECL') or expected credit losses resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Initial amount of expected credit losses recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognized are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Bank does not intend to adopt the standard earlier.

The Bank has not started a formal assessment of potential impact on its financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Bank's financial statements. Currently the Bank is in the process of development of IFRS 9 implementation plan.

IFRS 16 ***Leases*** replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Bank does not intend to adopt this standard early. The Bank has not analyzed the impact of these changes yet.

The following new or amended standards are not expected to have a significant impact on the Bank's financial statements.

- Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows);
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 Income Taxes).

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 judgment 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 2016, the fair value of the building beneficially owned by the Bank is EUR 73,597 thousand (2015: EUR 74,534 thousand). Fair value per one square meter is EUR 2,253 (2015: EUR 2,282 thousand). If the value of one square meter increases by 10%, the fair value of the building will be EUR 80,957 thousand (2015: EUR 81,987 thousand), if the value of one square meter decreases by 10%, the fair value of the building will be EUR 66,237 thousand (2015: EUR 67,080 thousand).

(EUR thousand)

7. Adoption of new and revised standards and interpretations

The Bank adopted the following amendments to standards with date of initial application on 1 January 2016.

Disclosure Initiative (Amendments to IAS 1) issued in December 2014 and effective for annual periods beginning on or after 1 January 2016. Amendments related to requirements to presentation and disclosure of information established by IFRS IAS 1: Presentation of Financial Statements and perceived impediments to preparers exercising their judgement in presenting financial reports. As a result, Disclosure Initiative (Amendments to IAS 1) makes five clarifications: on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Amendments also clarify requirements in paragraph 82A of IAS 1 regarding how an entity should present its share in the other comprehensive income of associates and joint ventures accounted for using the equity method. The amendments to this standard did not have any material impact on the financial statements of the Bank.

8. Cash and cash equivalents

	2016	2015
Cash on hand	613	482
Current accounts with banks in IBEC member countries	550	863
Current accounts with other credit institutions	8,961	6,354
Cash and cash equivalents	10,124	7,699

No cash and cash equivalents are impaired or past due.

As at 31 December 2016, the balances of three major counterparties amount to EUR 7,743 thousand or 76.48% of total cash and cash equivalents (31 December 2015: the balances of three major customers amounted to EUR 6,887 thousand or 89.45% of total cash and cash equivalents).

The credit quality of cash and cash equivalents is disclosed in Note 21.

(EUR thousand)

9. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2016	2015
Held by the Bank		
Eurobonds of IBEC member countries	60,170	21,881
Bonds of IBEC member countries	2,119	7,426
Eurobonds of banks	46,326	43,756
Bonds of banks	368	290
Corporate eurobonds	43,116	34,365
	152,099	107,718
Pledged under sale and repurchase agreements		
Eurobonds of IBEC member countries	27,946	41,168
Bonds of IBEC member countries	2,194	2,194
	30,140	43,362
Available-for-sale investment securities	182,239	151,080

Available-for-sale investment securities comprise securities provided as collateral under sale and repurchase agreements, fair value of which as at 31 December 2016 amounted to EUR 30,140 thousand (31 December 2015: EUR 43,362 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 14).

Eurobonds of IBEC member countries are issued in euros and US dollars for circulation and trading in markets that are external to the country of issue, and the over-the-counter market. The maturity period for Eurobonds is from January 2018 to October 2028 (31 December 2015: from January 2016 to March 2027), coupon income is from 1% to 5.13% p.a. (31 December 2015: from 1.50% to 6.87% p.a.), yield to maturity is from 1.36% to 8.25% (31 December 2015: from 1.59% to 5.90%). The following issuers comprise significant part in this category: eurobonds of Poland amounting to EUR 26,446 thousand or 30.01%, eurobonds of Bulgaria amounting to EUR 25,714 thousand or 29.18%, eurobonds of Romania amounting to EUR 23,714 thousand or 26.91%, eurobonds of Mongolia amounting to EUR 9,445 thousand or 10.72%, eurobonds of Vietnam amounting to EUR 2,797 thousand or 3.17% of the total amount of eurobonds of IBEC member countries as at 31 December 2016 (31 December 2015: 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).

Corporate eurobonds are the debt securities denominated in euros, US dollars and Swiss franc issued by financial and industrial entities of the IBEC member countries for circulation and trading in the markets that are external to the issuer, and the over-the-counter market. The maturity period for these eurobonds is from March 2017 to November 2023 (31 December 2015: from October 2016 to June 2028), coupon income is from 2.18% to 5.14% p.a. (31 December 2015: from 3.00% to 5.87% p.a.), yield to maturity is from 1.24% to 5.86% (31 December 2015: from 3.00 % to 6.47%). The following issuers comprise significant part in this category: eurobonds of Gazprom amounting to EUR 18,773 thousand or 43.54%, eurobonds of Rossiyskie Zheleznye Dorogi amounting to EUR 14,219 thousand or 32.98%, eurobonds of Bulgarian Energy HLD amounting to EUR 7,357 thousand or 17.06% of the total amount of corporate eurobonds as at 31 December 2016 (31 December 2015: eurobonds of Gazprom amounting to EUR 16,547 thousand or 48.15%, eurobonds of Rossiyskie Zheleznye 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).

Bonds of IBEC member countries are denominated in euros and Bulgarian levs and issued for circulation and trading in the internal and stock 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 2015: from January 2019 to January 2027), coupon income is from 1.38% to 3.40% p.a. (31 December 2015: from 1.37% to 4.00% p.a.), yield to maturity is from 1.14% to 2.90% (31 December 2015: from 1.14 % to 3.52%). The following issuers comprise significant part in this category: government bonds of Romania amounting to EUR 2,194 thousand or 50.87%, government bonds of Bulgaria amounting to EUR 1,065 thousand or 24.69%, government bonds of Slovakia amounting to EUR 1,054 thousand or 24.44% of the total amount of bonds of IBEC member countries as at 31 December 2016 (31 December 2015: 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).

Bonds and eurobonds of banks are debt securities denominated in euros, US dollars, Swiss francs and Russian roubles for circulation and trading in the internal markets and markets that are external to the country of issue. The maturity period for the bonds of banks is February 2018 (31 December 2015: until February 2018), coupon income is 12.25% p.a. (31 December 2015: 12.25% p.a.), yield to maturity is 11.76% (31 December 2015: 11.76%). The maturity period for eurobonds of banks is from February 2017 to May 2024 (31 December 2015: from February 2016 to May 2024), coupon income is from 2.07% to 8.00% p.a. (31 December 2015: from 2.06% to 8.00% p.a.), yield to maturity is from 2.10% to 6.53% (31 December 2015: from 1.56% to 7.72%). The following issuers comprise significant part in this category: eurobonds of Raiffeisen Bank International amounting to EUR 14,554 thousand or 31.17%, eurobonds of Vnesheconombank amounting to EUR 12,323 thousand or 26.39%, eurobonds of Sberbank amounting to EUR 8,151 thousand or 17.46%, eurobonds of Gazprombank amounting to EUR 5,508 thousand or 11.80% of the total amount of bonds and eurobonds of banks as at 31 December 2016 (31 December 2015: 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 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).

(EUR thousand)

As at 31 December 2016, the Bank held available-for-sale investment securities in the amount of EUR 63,798 thousand, which were issued by the state organisations of the Russian Federation or 35.00% of the total amount of available-for-sale investment securities (31 December 2015: EUR 62,392 thousand or 41.30% 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 21.

10. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2016	2015
Term loans and deposits with banks in the IBEC member countries	61,833	96,519
Term loans and deposits with other banks	5,000	–
Amounts due from credit institutions	66,833	96,519
Allowance for impairment	(5,020)	–
Amounts due from credit institutions	61,813	96,519

Allowance for impairment of amounts due from credit institutions is presented below:

	2016	2015
As at 1 January	–	–
Net charge	5,020	–
As at 31 December	5,020	–

(EUR thousand)

As at 31 December 2016, the balances of three major counterparties amount to EUR 27,157 thousand or 43.93% of the total amounts due from credit institutions (31 December 2015: EUR 43,042 thousand or 44.59% of the total amounts due from credit institutions).

As at 31 December 2016, amounts due from credit institutions with participation of the Russian Federation amounted to EUR 12,834 thousand or 20.76% of the total amounts due from credit institutions (31 December 2015: EUR 20,425 thousand or 21.16% of the total amounts due from credit institutions). Information on credit quality of amounts due from credit institutions is disclosed in Note 21.

11. Loans to customers

Loans to customers comprise:

	2016	2015
Corporate lending	55,583	58,003
Consumer lending	45	57
Total loans to customers	55,628	58,060
Allowance for impairment	(40,816)	(40,816)
Loans to customers	14,812	17,244

Allowance for impairment of loans to customers related to corporate lending is presented below:

	2016	2015
As at 1 January	40,816	39,683
Net charge	-	1,133
As at 31 December	40,816	40,816

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;

(EUR thousand)

- 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.

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:

	2016	2015
Loans guaranteed by other parties, including loan insurance	10,556	10,869
Loans secured by real estate	4,211	6,318
Unsecured loans	45	57
Total loans to customers	14,812	17,244

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

(EUR thousand) NOTES TO FINANCIAL STATEMENTS 2016

An analysis of credit quality is presented below:

	2016	2015
Neither overdue nor impaired		
- Borrowers:		
with credit history over 2 years	10,556	10,869
- Loans to medium-size corporate customers	4,211	6,318
- Loans to individuals	45	57
Total loans neither overdue nor impaired	14,812	17,244
Individually impaired loans (overall amount)		
- overdue over 360 days	40,816	40,816
Total individually impaired loans (overall amount)	40,816	40,816
Allowance for impairment	(40,816)	(40,816)
Total loans to customers net of impairment allowance	14,812	17,244

Concentration of loans to customers

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

	2016		2015	
	Amount	%	Amount	%
Investment: leasing	10,556	71.27	10,869	63.03
Pharmaceutical industry	4,211	28.43	6,318	36.64
Individuals	45	0.30	57	0.33
Total loans to customers	14,812	100.00	17,244	100.00

As at 31 December 2016, the balances of three major counterparties amount to EUR 40,816 thousand (31 December 2015: EUR 40,816 thousand) which is 73.37% (31 December 2015: 70.30%) of the gross loan portfolio of the Bank. The Bank created an allowance for impairment for these balances totally amounting to EUR 40,816 thousand (31 December 2015: EUR 40,816 thousand).

(EUR thousand)

12. Property, plant and equipment

Below is the movement of property, plant and equipment:

2016	Note	Building	Office equipment and computer hardware	Furniture	Transport	Total
Original cost						
Balance as at 31 December 2015		**100,063**	**1,445**	**622**	**358**	**102,488**
Additions		290	107	–	–	397
Disposals		–	(27)	(12)	–	(39)
Balance as at 31 December 2016		**100,353**	**1,525**	**610**	**358**	**102,846**
Accumulated depreciation						
Balance as at 31 December 2015		**25,529**	**1,296**	**420**	**232**	**27,477**
Depreciation for the year	19	1,227	70	17	47	1,361
Disposals		–	(25)	(12)	–	(37)
Balance as at 31 December 2016		**26,756**	**1,341**	**425**	**279**	**28,801**
Carrying value						
As at 31 December 2015		74,534	149	202	126	75,011
As at 31 December 2016		73,597	184	185	79	74,045

(EUR thousand)

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	19	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

(EUR thousand)

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

	2016	2015
Original cost	61,459	61,169
Accumulated depreciation	(16,342)	(15,590)
Carrying value	45,117	45,579

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:

- 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%.

In 2016 the Bank did not attract an independent appraiser. Management of the Bank carried out the analysis and came to a conclusion that in 2016 there were no significant changes in the real estate market and in the building condition. Management of the Bank considers that as at 31 December 2016 the fair value of the building has not significantly changed in comparison with 31 December 2015.

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 value 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 2016 against the total area of the building. Rental income is also insignificant. In 2016 the leased area decreased significantly compared to 2015, 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.

(EUR thousand)

13. Other assets and liabilities

Other assets comprise:

	Note	2016	2015
Receivables under financial and business operations		801	501
Repossessed collateral		403	403
Inventory		73	42
Fees and commissions receivable from customers		19	42
Derivative financial assets		1	507
Allowance for overdue receivables	20	(18)	(42)
		1,279	1,453

During the reporting period, fees and commissions receivable from customers in the amount of EUR 38 thousand were written off against the allowance (Note 20).

(EUR thousand)

Other liabilities comprise:

	Note	2016	2015
Social obligations		953	757
Derivative financial liabilities		706	1,295
Provision for unused vacations	20	148	–
Payables under financial and business operations		125	25
Deferred income		1	2
Other accrued liabilities		1	–
Provision for litigation charges	20	11	830
		1,945	2,909

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.

(EUR thousand)

	2016		
	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Currency swaps – agreements with residents of IBEC member countries	36,775	1	706
Total derivative assets/liabilities		1	706

	2015		
	Notional amount	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

14. Balances from credit institutions

	2016	2015
Repurchase agreements	27,543	40,539
Term loans and deposits from banks of the IBEC member countries	7,850	8,155
Current accounts of banks of the IBEC member countries	1,309	182
Current accounts of other credit institutions	173	13
Balances from credit institutions	36,875	48,889

As at 31 December 2016, balances of the major counterparty amount to EUR 16,336 thousand or 44.30% of total balances from credit institutions (31 December 2015: EUR 28,111 thousand or 57.50% 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

(EUR thousand)

31 December 2016, the fair value of the pledged securities amounts to EUR 30,140 thousand (31 December 2015: EUR 43,362 thousand) (Note 9).

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:

	Note	Repurchase agreements 2016
Carrying value of transferred assets – Available-for-sale investment securities	9	30,140
Carrying value of associated liabilities – Balances from credit institutions	14	(27,543)

	Note	Repurchase agreements 2015
Carrying value of transferred assets – Available-for-sale investment securities	9	43,362
Carrying value of associated liabilities – Balances from credit institutions	14	(40,539)

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.

(EUR thousand)

15. Customer accounts

	2016	2015
Current accounts of entities in the IBEC member countries	1,599	746
Current accounts of other entities	82	57
Other current accounts	5,000	4 296
Customer accounts	6,681	5 099

Current accounts of entities include accounts of private companies. As at 31 December 2016, the balances of the Bank's three key clients amount to EUR 2,123 thousand or 31.78% of total customer accounts (31 December 2015: EUR 1,424 thousand or 27.93% of total customer accounts).

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

	2016		2015	
	Amount	%	Amount	%
Trade	1,046	62.2%	535	66.6%
Transport	291	17.3%	169	21.0%
Manufacturing	209	12.5%	4	0.5%
Financial sector	29	1.7%	12	1.5%
Other	106	6.3%	83	10.4%
Total customer accounts	1,681	100%	803	100%

(EUR thousand)

16. Share capital

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

On 23 November 2016 on 128th meeting of the Council of IBEC a decision was made to transfer part of retained earnings for previous years in the amount of EUR 13,019 thousand to increase the paid-in authorised capital of the Bank and distribute the abovementioned amount among IBEC member countries proportionally to their shares in the Bank's paid-in authorised capital.

As at 31 December 2016, the paid-in authorised capital of IBEC amounts to EUR 200,000 thousand (31 December 2015: EUR 186,981 thousand).

17. Net fee and commission income

	2016	2015
Conversion operations	288	109
Cash and settlement operations	150	69
Currency control	107	46
Account maintenance	48	42
Fee and commission income	593	266
Fee and commission expense	(41)	(41)
Net fee and commission income	552	225

(EUR thousand)

18. Net gains from available-for-sale investment securities

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

	2016	2015
Result from disposal of debt securities	4,495	793
Total net gains from investment securities available-for-sale	4,495	793

Gain from revaluation of available-for-sale investment securities due to their disposal in 2016 is transferred from other comprehensive income to net gains from sales of available-for-sale investment securities in the amount of EUR 3,854 thousand (2015: EUR 318 thousand).

(EUR thousand)

19. Administrative and management expenses

	2016	2015
Staff costs	6,677	6,643
Building, equipment and apartment repair and maintenance	1,561	1,243
Depreciation of property, plant and equipment	1,361	1,459
Building security expenses	318	220
Telecommunication expenses	286	304
Expenses for vehicles	240	244
Meetings of the Council of the Bank, Audit Committee, Working Group of Authorised Representatives and representation expenses	227	184
Office expenses	123	123
Travel expenses	110	165
Information and advisory expenses	87	248
Audit services	40	47
Trainings	38	31
Other administrative and management expenses	32	62
Total administrative and management expenses	11,100	10,973

Staff costs include contributions to:

	2016	2015
Pension Fund of the Russian Federation	473	474
Compulsory Medical Insurance Fund of the Russian Federation	184	183
Pension funds of other IBEC member countries	30	29
Social Insurance Fund of the Russian Federation	19	21
Total	706	707

(EUR thousand)

20. Other provisions

	Allowance for other assets	Provision for litigation	Provision for unused vacations	Total
As at 31 December 2014	34	899	–	933
Charge	19	(69)	–	(50)
Write-offs	(11)	–	–	(11)
As at 31 December 2015	42	830	–	872
Charge (recovery)	14	(817)	148	(655)
Write-offs	(38)	(2)	–	(40)
As at 31 December 2016	18	11	148	177

Allowance for impairment of assets is deducted from the carrying value of the related assets. Allowances on carry-over vacations and under legal claims are reflected as a part of other liabilities. As at 31 December 2016, 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.

21. 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 of the Bank

The Board of Management of the Bank 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 Board of Management of the Bank created to provide the Board of Management of the Bank 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 Board of Management of the Bank 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 of the Bank 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.

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 8–11, 13.

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.

(EUR thousand)

Credit quality by classes of financial asset

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

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

2016	Neither overdue nor impaired			
	High rating	Standard rating	Individually impaired	Total
Cash and cash equivalents (other than cash on hand)	4,043	5,468	–	9,511
Amounts due from credit institutions	–	61,813	–	61,813
Loans to customers:				
Corporate lending	–	14,767	–	14,767
Consumer lending	45	–	–	45
	4,088	82,048	–	86,136
Available-for-sale investment securities:				
- held by the Bank	20,644	131,455	–	152,099
- pledged under sale and repurchase agreements	6,856	23,284	–	30,140
	27,500	154,739	–	182,239
Total	31,588	236,787	–	268,375

(EUR thousand)

2015 г.	Neither overdue nor impaired		Individually impaired	Total
	High rating	Standard rating		
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:				
Corporate lending	–	17,187	–	17,187
Consumer lending	57	–	–	57
	2,394	118,586	–	120,980
Available-for-sale investment securities:				
- held by the Bank	10,510	97,208	–	107,718
- pledged under sale and repurchase agreements	5,233	38,129	–	43,362
	15,743	135,337	–	151,080
Total	18,137	253,923	–	272,060

In 2016 and in 2015 none of financial assets were renegotiated.

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.

(EUR thousand)

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 2016.

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	495	64,166	–	30,084	45	94,790	35.32%
Bulgaria	26	16,780	17,356	–	–	34,162	12.73%
Mongolia	8	9,445	–	22,942	–	32,395	12.07%
Poland	1	19,590	6,856	–	–	26,447	9.86%
Romania	10	19,980	5,928	–	–	25,918	9.66%
Austria	1,303	14,554	–	5,000	–	20,857	7.77%
Panama	–	–	–	–	10,556	10,556	3.93%
Vietnam	–	3,763	–	2,840	–	6,603	2.46%
Slovak Republic	–	1,054	–	–	4,211	5,265	1.96%
Luxemburg	4,032	–	–	–	–	4,032	1.50%
Czech Republic	10	2,767	–	947	–	3,724	1.39%
Germany	3,621	–	–	–	–	3,621	1.35%
Switzerland	5	–	–	–	–	5	0.00%
TOTAL	9,511	152,099	30,140	61,813	14,812	268,375	100,00%

(EUR thousand)

The table below shows risk concentration by geographical location as at 31 December 2015.

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%
Bulgaria	10	1,468	–	52,893	–	54,371	19.99%
Mongolia	24	–	23,590	–	–	23,614	8.68%
Poland	10	6,490	14,538	–	–	21,038	7.73%
Romania	4	12,567	–	–	–	12,571	4.62%
Austria	–	5,207	–	–	6,318	11,525	4.24%
Panama	10	9,384	1,591	–	–	10,985	4.04%
Vietnam	–	–	–	–	10,869	10,869	4.00%
Slovak Republic	1	6,215	3,643	–	–	9,859	3.62%
Luxemburg	6,286	–	–	–	–	6,286	2.31%
Czech Republic	–	3,704	–	–	–	3,704	1.36%
Germany	32	–	–	–	–	32	0.01%
Switzerland	31	–	–	–	–	31	0.01%
TOTAL	7,217	107,718	43,362	96,519	17,244	272,060	100%

(EUR thousand)

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.

The tables below show the remaining maturities of the financial liabilities of the Bank as at 31 December 2016 and as at 31 December 2015, 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:

2016	Demand and less than 30 days	31 to 180 days	181 to 365 days	Total gross amount (inflow) outflow	Carrying value
Balances from credit institutions	13,854	23,059	–	36,913	36,875
Customer accounts	6,681	–	–	6,681	6,681
Derivatives settled on a gross basis:					
- Inflow	(11,100)	(22,566)	(2,315)	(35,981)	(35,981)
- Outflow	11,452	22,881	2,354	36,687	36,687
Other liabilities	1,239	–	–	1,239	1,239
Total	22,126	23,374	39	45,539	45,501

2015	Demand and less than 30 days	31 to 180 days	181 to 365 days	Total gross amount (inflow) outflow	Carrying value
Balances from credit institutions	11,221	34,821	2,907	48,949	48,889
Customer accounts	5,099	–	–	5,099	5,099
Derivatives 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

(EUR thousand)

Classification of assets and liabilities by maturity

The table below shows breakdown of financial assets and liabilities as at 31 December 2016 by their remaining contractual maturities:

	Demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Overdue	Total
Cash and cash equivalents	10,124	–	–	–	–	–	10,124
Available-for-sale investment securities:							
- held by the Bank	–	13,585	–	38,749	99,765	–	152,099
- pledged under sale and repurchase agreements	–	–	–	2,194	27,946	–	30,140
Amounts due from credit institutions	21,960	31,746	8,107	–	–	–	61,813
Loans to customers	1	203	2	4,240	10,366		14,812
Other financial assets	801	–	1	–	–	–	802
Total financial assets	32,886	45,534	8,110	45,183	138,077	–	269,790
Balances from credit institutions	13,849	23,026	–	–	–	–	36,875
Customer accounts	6,681	–	–	–	–	–	6,681
Other financial liabilities	1,432	315	39	–	–	–	1,786
Total financial liabilities	21,962	23,341	39	–	–	–	45,342
Net position	10,924	22,193	8,071	45,183	138,077	–	224,448
Cumulative liquidity gap for financial instruments	10,924	33,117	41,188	86,371	224,448	224,448	–

(EUR thousand)

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

	Demand and less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Overdue	Total
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	–

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

(EUR thousand)

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

	2016		2015	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	397	397	549	549
100 bp parallel fall	(431)	(431)	(596)	(596)

(EUR thousand)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016				2015			
	Average effective interest rate, %				Average effective interest rate, %			
	Euro	US dollar	Russian rouble	Other currencies	Euro	US dollar	Russian rouble	Other currencies
Interest bearing assets								
Current accounts with banks in IBEC member countries	(0.49%)	(1.50%)	–	(0.75%)	(0.09%)	0.15%	0.00%	(0.19%)
Available-for-sale investment securities: - held by the Bank	3.31%	5.19%	12.25%	3.22%	4.10%	5.39%	12.25%	3.84%
- pledged under sale and repurchase agreements	2.62%	3.00%	–	–	3.43%	3.00%	–	3.16%
Amounts due from credit institutions	2.50%	1.67%	10.28%	–	4.05%	2.14%	0.00%	–
Corporate lending	6.50%	7.00%	–	–	6.50%	7.00%	–	–
Consumer lending	3.00%	–	–	–	3.00%	–	–	–
Interest bearing liabilities								
Balances from credit institutions	0.35%	1.07%	–	–	0.53%	0.87%	0.00%	0.61%

(EUR thousand)

Currency risk

Btheir policies the Board of Management of the Bank follows the conservative approach to foreign currency transactions aimed to minimise open currency positions in order to reduce the currency risk to an acceptable level. The currency positions are monitored by the Bank on a daily basis.

The table below shows a general analysis of currency risk of the Bank for financial assets and liabilities as at 31 December 2016:

	Note	US dollar	Russian rouble	Euro	Other	Total
Cash and cash equivalents		1,060	744	8,256	64	10,124
Available-for-sale investment securities:						
- held by the Bank		23,828	368	118,630	9,273	152,099
- pledged under sale and repurchase agreements		3,734	–	26,406	–	30,140
Amounts due from credit institutions		13,185	1,301	47,327	–	61,813
Loans to customers		10,556	–	4,256	–	14,812
Other financial assets (excluding derivatives)	13, 22	32	806	435	5	1,278
Total financial assets		52,395	3,219	205,310	9,342	270,266
Balances from credit institutions		11,960	188	24,726	1	36,875
Customer accounts		481	1,573	4,627	–	6,681
Other financial liabilities (excluding derivatives)	13, 22	–	124	1,115	–	1,239
Total financial liabilities		12,441	1,885	30,468	1	44,795
Net balance sheet position		39,954	1,334	174,842	9,341	225,471
Net off-balance sheet position		(29,569)	–	36,775	(7,911)	(705)
Net balance sheet and off-balance sheet position		10,385	1,334	211,617	1,430	224,766

(EUR thousand)

The table below shows a general analysis of currency risk of the Bank 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)	13, 22	–	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)	13, 22	–	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

(EUR thousand)

A weakening of the EUR, as indicated below, against the following currencies as at 31 December 2016 and 2015, 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.

	2016	2015
20% appreciation of US dollar against EUR	2,077	4,163
20% appreciation of RUB against EUR	267	169

A strengthening of the EUR against the above currencies at 31 December 2016 and 31 December 2015 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.

22. 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.

(EUR thousand)

	Note	2016		2015	
		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 (-)		–	29,568	–	16,213
- Receivables in euros (+)		794	35,981	15,514	18,177
- Payables in other currencies (-)		793	7,119	15,007	3,259
Net fair value of currency forward contracts and swap contracts	13	1	(706)	507	(1,295)

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 favorable terms (and are assets), or potentially unfavorable 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.

23. 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 2016			
Financial assets			
Available-for-sale investment securities held by the Bank:			
- eurobonds of IBEC member countries	60,170	–	60,170
- bonds of IBEC member countries	2,119	–	2,119
- eurobonds of IBEC member countries	46,326	–	46,326
- bonds of banks	368	–	368
- corporate eurobonds	43,116	–	43,116
Available-for-sale investment securities pledged under sale and repurchase agreements:			
- eurobonds of IBEC member countries	27,946	–	27,946
- bonds of IBEC member countries	2,194	–	2,194
Derivative financial assets	–	1	1
	182,239	1	182,240
Financial liabilities			
Derivative financial liabilities	–	(706)	(706)

(EUR thousand)

	Level 1	Level 2	Total
31 December 2015			
Financial assets			
Available-for-sale investment securities held by the Bank:			
- eurobonds of IBEC member countries	21,881	–	21,881
- bonds of IBEC member countries	7,426	–	7,426
- eurobonds of IBEC member countries	43,756	–	43,756
- bonds of banks	290	–	290
- corporate eurobonds	34,365	–	34,365
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)

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.

(EUR thousand)

Fair value measurement procedures

In order to valuate 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 12.

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

As at 31 December 2016 and 31 December 2015, 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.

Assets and liabilities 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.

24. 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 9 and 10. In the ordinary course of business the Bank mainly carries out transactions with organisations from IBEC member countries.

In 2016 remuneration to management of the Bank amounts to EUR 1,597 thousand (2015: EUR 1,755 thousand). The remuneration to management of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 26 thousand (2015: EUR 48 thousand), Pension funds of IBEC member countries – EUR 11 thousand (2015: EUR 11 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 13 thousand (2015: EUR 23 thousand).

As at 31 December 2016 and 2015, balances on accounts of the Bank's management comprised:

	2016	2015
Current accounts	1,955	1,888

There were no other transactions with related partied carried out by the Bank in 2016 and 2015.

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25. 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 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 2016 and 2015 makes up 140% and 116% accordingly and shows that the Bank's capital adequacy is maintained at the appropriate level in terms of significant prevalence of equity over liabilities.

26. Subsequent events

On 22 March 2017 the Bank received investment ratings from Fitch Ratings: long-term rating of BBB– stable and short-term rating F3.