






МЕЖДУНАРОДНЫЙ БАНК ЭКОНОМИЧЕСКОГО СОТРУДНИЧЕСТВА

INTERNATIONAL BANK FOR ECONOMIC CO-OPERATION

Annual Report
2013

Bank Overview

Year of Establishment

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

Status

International Bank for Economic Co-operation is an international institution established and active under the inter-government Agreement Concerning the Organization and Activities of IBEC, and the Statutes of IBEC. The above Agreement was registered by the Secretariat of the United Nations on August 20, 1964.

Member Countries

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

Vision

To become a key lever for the development of highly effective market economies in the Bank's member countries and also of the activity of their business entities whilst meeting international quality standards and organisational principles.

Mission Statement

To promote economic co-operation between the member countries and the development of their respective economies by using the Bank's status as an inter-government financial institution.

Goals

- Promoting foreign trade connections between the Bank's member countries, between their businesses, as well as between them and the businesses of other nations.
- Promoting the creation and activities of joint ventures, primarily those which involve the participation of the Bank's member countries.
- Assisting the Bank's member countries in the transition to a market economy and promoting participation in the development of market economic relations between the businesses of member countries and those of other countries.

Key Business Principles

- **Reliability.** IBEC combines strong positions on financial markets with international experience.
- **Universality.** IBEC is authorised to perform the complete range of banking operations and services employed in global banking practice and in accordance with its mission statement and goals.
- **Respect and Trust.** IBEC demonstrates behaviour that strengthens its reputation in the banking and business community, and protects confidential and sensitive information about its clients and their activities.
- **Equality.** IBEC operates on the basis of complete equality and respect for the sovereignty of the member countries of the Bank, and pays appropriate attention to all its clients.
- **Transparency.** IBEC ensures that all provided banking products and services receive timely coverage, and rapidly furnishes information about its operation results.
- **Cooperation.** IBEC offers optimal banking transactions conditions for each client.

Membership in Banking Associations

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

Statement of the Chairman of the Board of IBEC

Esteemed Clients and Partners of the Bank,

Last year had special historical significance for IBEC – in 2013 the Bank celebrated its 50th anniversary.

The Bank has travelled a long road since the founding of IBEC in 1963. This journey was not always a simple one. However, in retrospect, the Bank has always managed to find a way out of even the most difficult situations thanks to the joint efforts of its member countries.

Despite all the changes to IBEC's activities, the mission of the Bank remains the same – to promote economic co-operation between the member countries and the development of their respective economies by using the Bank's status as an inter-government financial institution.

Today IBEC is an international institution in a stable financial position, but instead of resting on our laurels we are striving to develop and move with the times. Current realities show that only banks that meet all the standards of the global banking practice can truly be called successful.

In connection with this, in 2011 the Council of IBEC approved the new, long-term IBEC Development Strategy for 2012 to 2016.

The Bank's key task when implementing the Strategy is the comprehensive modernisation of the activities of IBEC, including with regard to building a modern and effective operating model. Work on this task began in 2012.

In the reporting year IBEC continued to implement measures aimed at completing the Development Strategy. The first steps to gradually transform the Bank have already been made.

For example, in April 2013 IBEC completed the transition to a new organisational structure and staff list, which are optimal from the point of view of implementing the Bank's business processes. This has enabled us to clearly define the functions of IBEC, minimise operating risks and thereby increase the efficiency of the Bank. As a result, the member countries now have a more transparent management system that meets global banking industry standards. This in turn has simplified the control of all IBEC activities.

The Bank updated its personnel in connection with the switch to the organisational structure of IBEC. Employees of IBEC are highly qualified individuals who possess experience of working in national and international financial organisations and banks.

In 2014 IBEC is planning to continue carrying out measures in order to move to a process-based approach for managing the Bank, during which IBEC's strategic priority business processes will be set forth and optimised.

In parallel with this it is planned to introduce a system of key performance indicators for the Bank in 2014. On the basis of this the employee remuneration system will be reviewed and this will help increase employee motivation to achieve the strategic goals of IBEC.

Besides the modernisation of organisation and management systems at IBEC, the Bank will also place an enormous amount of focus on modernising its information technology and automating banking activities. In 2013 large-scale work was commenced to implement a new modern automated banking system (ABS). The launch of the new ABS is scheduled for early 2015. This will have a positive influence on the efficiency of IBEC activities and as a result, the Bank's financial indicators will grow.

Consequently, the Bank is planning to fully transition to a new, more effective operating model as soon as 2015.

The transformation of IBEC will enable the Bank to complete its strategic goals and tasks. Also this will fully unlock the potential of IBEC as a bank for development that integrates the foreign trade links of its member countries and promotes the development of their economies.

To summarise one it can be said that on the one hand, having marked half a century of activity, IBEC will now move towards bringing its activity in line with modern global banking trends for developing and operating. On the other hand, IBEC can draw on a wealth of experience and the high level of qualification of its specialists who represent all the member countries of the Bank.

This will not only enable us to build ambitious plans and set ourselves challenging tasks, but will also help us to confidently achieve them.

I would like conclude by expressing my gratitude to the Bank's team for its professionalism and to the member countries, clients and partners for their trust and support.

Respectfully yours,
Vladimir Belyy,
Chairman of the Board

Moscow,
April 2014

Board of IBEC (as of 31.12.2013)

THE RUSSIAN FEDERATION

VLADIMIR VIKTOROVICH BELYY
Chairman of the Board

THE REPUBLIC OF BULGARIA

ROSSEN IVANOV CHOBANOV
Member of the Board

THE SOCIALIST REPUBLIC OF VIETNAM

NGUYEN VAN ANH
Member of the Board

MONGOLIA

TSERENPUREV GOTOV
Member of the Board

THE REPUBLIC OF POLAND

KRZYSZTOF ANTONI MAJCZUK
Member of the Board

ROMANIA

EGIDIU HENTES
Member of the Board

THE SLOVAK REPUBLIC

JOZEF BOGDAN
Member of the Board

THE CZECH REPUBLIC

JAROSLAV VLCEK
Member of the Board

Chapter 1

Dynamics of Key Financial Indicators for the Past Five Years

Carpet weaving in Bulgaria is more than just a trade, it is a significant part of the national culture: Bulgarian carpets are embroidered with traditional ornaments, national colours, folk tales and legends. In addition, carpet weaving is an important sector of the economy as the creations of Bulgarian weavers are highly valued throughout the world.

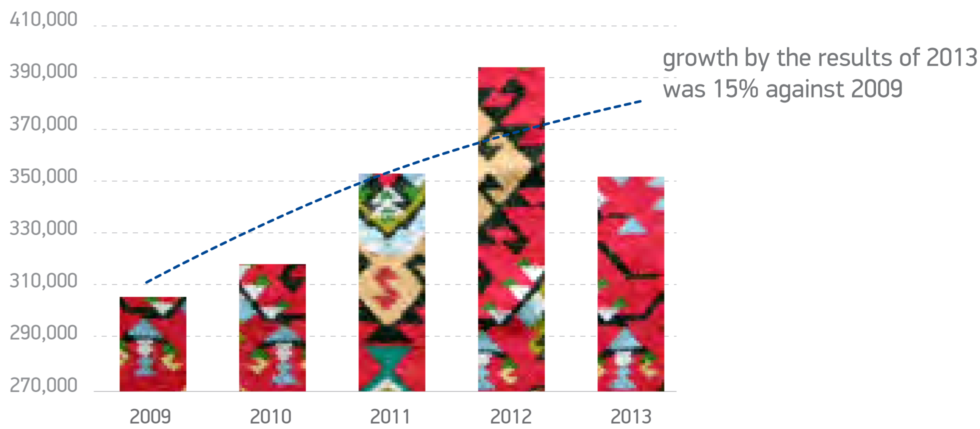
Dynamics of Key Financial Indicators for the Past Five Years

Looking back at the operation results of IBEC for 2009 to 2013, it can be said that the global economy's latest transitional stage which began in 2013 and is characterised by a slowdown in economic growth of the global economy in general, and in particular, in developing market nations such as the member countries of IBEC, had an inevitable influence on the financial results of the bank in 2013.

However, despite worsening external factors, the Bank is not changing the fundamental principles of its activities. Strong positions on financial markets, responsible management of client funds and IBEC's long term relationships with its clients mean that the Bank is able to maintain its positive dynamics of financial indicators.

For example, over the past five years the total balance of IBEC increased by 15% and equalled 351 million Euros as of 2013. The change of the balance over the past five years and also the trend of this change are represented in the graph below.

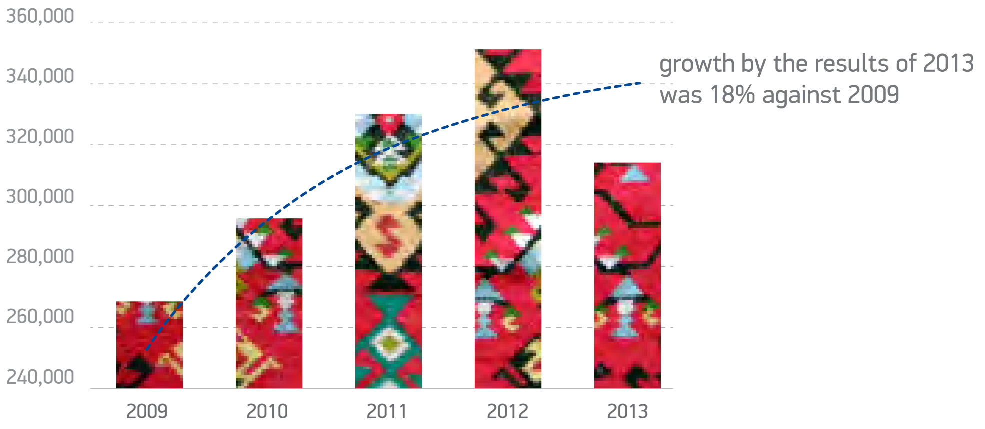
Dynamics of total balance of IBEC from 31.12.2009 to 31.12.2013
(thousand Euros)



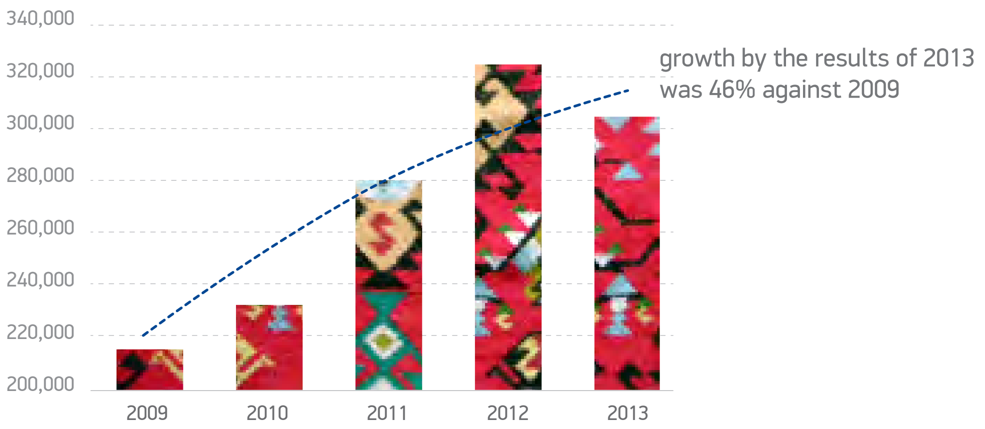
Uptrend is also inherent in IBEC equity dynamics for the past five years, as demonstrated by the graph below. By the end of 2013, the Bank's equity in absolute figures was 317 million Euros, an increase of 18% compared to the figure at the end of 2009.

The last five years were characterised by the development of the main banking activities of IBEC, which had a positive influence on the growth of the Bank's working assets. At the end of the reporting year, the Bank's working assets were worth 304 million Euros, an increase of over 95 million Euros (or 46%) compared to the 2009 figure.

IBEC equity dynamics from 31.12.2009 to 31.12.2013
(thousand Euros)



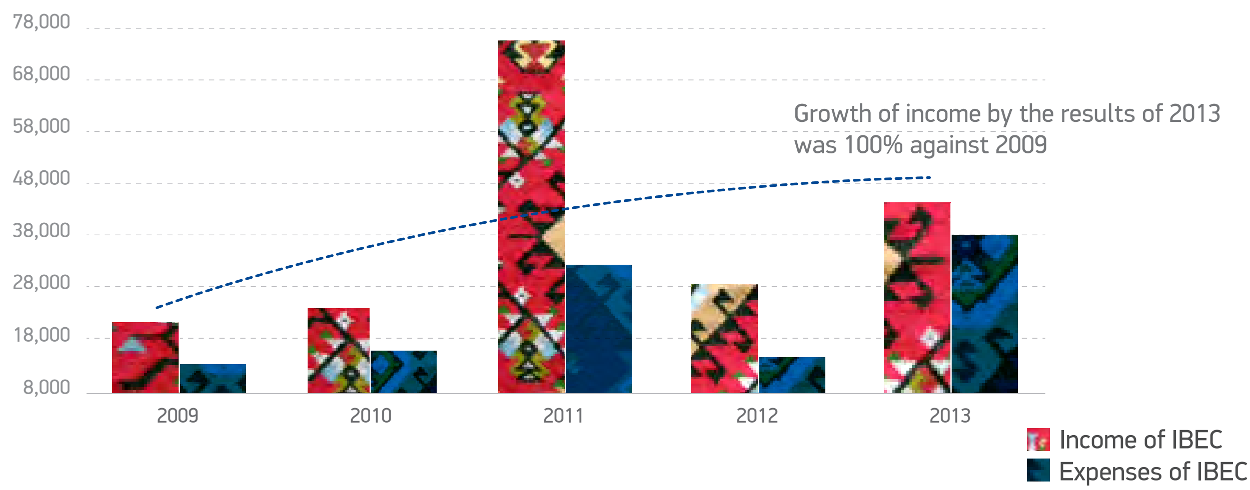
Working asset dynamics of IBEC from 31.12.2009 to 31.12.2013
(thousand Euros)



Comprehensive solutions implemented by the Bank to optimise the structure of financial assets and improve operating and financial efficiency have favourably influenced the income of the Bank.

Income generated by IBEC in 2013 amounted to over 44 million Euros, more than double the figure for 2009. The largest rise in income received by the Bank was recorded in 2011 thanks to the securities transactions carried out by IBEC that generated income from positive change of value.

Dynamics of income and expenses of IBEC from 31.12.2009 to 31.12.2013 (thousand Euros)



Information about the Bank's income, expenses and profit listed below shows that IBEC has maintained positive financial results over the past five years thanks to its systematic approach to developing its activities and desire to adhere to an optimal income-to-expenses ratio.

In 2013 the Bank achieved financial results totalling 6 million Euros. The reduction in the financial results of IBEC in 2013 compared to 2012 was mainly due to the timely and complete provisioning of loan projects (upon identification of signs of their impairment) in order to guarantee the Bank's stable financial position.

thousand Euros

	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013
Income	21,957	24,396	77,423	27,886	43,979
Expenses	13,636	14,229	31,099	15,069	38,443
Profit	**8,321**	**10,167**	**46,324**	**12,817**	**5,536**

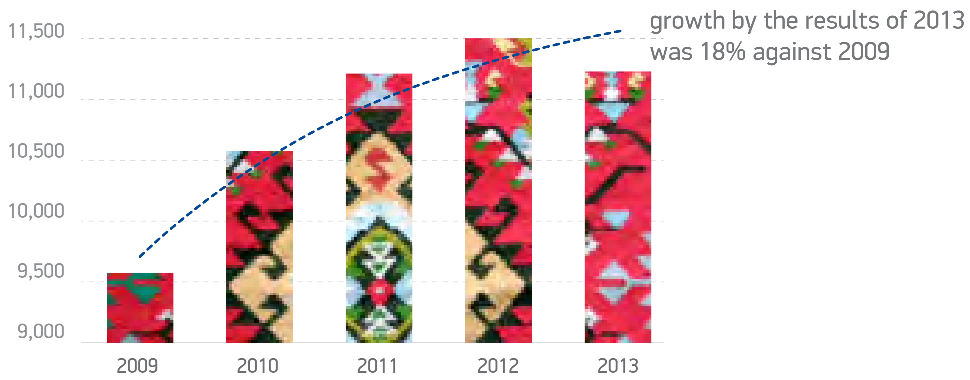
The upward trend in revenues from transactions with financial assets of IBEC continued in the reporting year. Thus, by the end of 2013, revenues from transactions with working assets of IBEC grew by 2.5 times compared to the figure as of the end of 2009.

thousand Euros

	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013
Revenues from working assets transactions	15,486	17,145	70,495[1]	21,188	38,116

The growth dynamics in interest incomes of IBEC during the last five years are demonstrated in the graph below. By the end of 2013, the indicator grew by 18% compared to 2009, and amounted to more than 11.3 million Euros.

Interest income dynamics from 31.12.2009 to 31.12.2013
(thousand Euros)



Overall, positive dynamics have been recorded in all the financial indicators of IBEC's activities for the past five years. This guaranteed that IBEC continued to fulfil its mission aimed at promoting economic cooperation and developing the economies of the Bank's member countries. IBEC is currently a stable and reliable partner that delivers a complete range of banking products and services.

[1] The largest rise increase in this figure was recorded in 2011 due to the number of securities transactions carried out by the Bank in 2011 that generated income from positive change of value.

Chapter 2

Active Operations

Wood carving
is the pride of Vietnamese cabinetmakers. This trade has a history spanning over a thousand years; in that time carvers have reached the peak of mastery – they transform wood into the gracefully folded garments of statuettes, delicate lace of wall panels, flower petals on furniture shaped and refined to perfection, and amazingly lifelike animal figures.

Active Operations

At the beginning of 2013 IBEC's accounts receivable for "old activities" were finally settled. This enabled the Bank to clean up its assets for future use of the entire resource base of IBEC in the interests of shareholders.

Credit Project Financing

In 2013 IBEC's financing operations concentrated on three areas.

First area – financing new credit projects and maintaining projects that have been approved for financing and are part of the existing loan portfolio of IBEC.

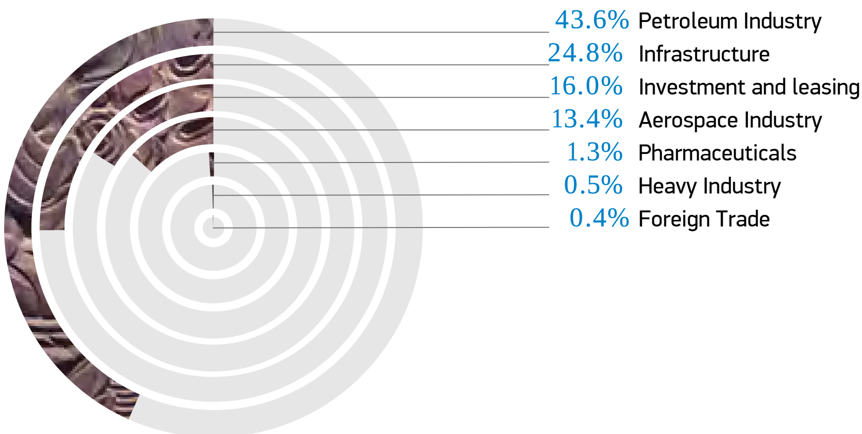
Second area – creating a client base for credit operations, including attracting potential clients, selecting and studying new credit projects and preparing proposals regarding received credit applications.

Third area – improving the existing regulations of IBEC; this task takes into account decisions made by the Bank's regulatory and control bodies and is related to the updating of internal regulatory documents and the development of new methodological materials and standard forms.

At the end of the reporting period the loan portfolio of IBEC included projects that facilitate the development of priority industries of the member countries' economies such as the petroleum industry, infrastructure, aerospace, leasing, pharmaceuticals, heavy industry and foreign trade.

The structure of IBEC's loan portfolio by industries as of the end of 2013 is shown in the diagram below.

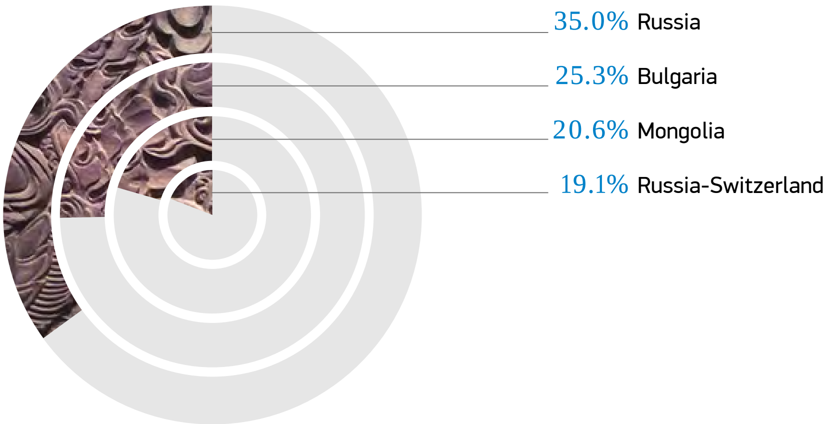
Structure of IBEC's loan portfolio by industries as of 31.12.2013



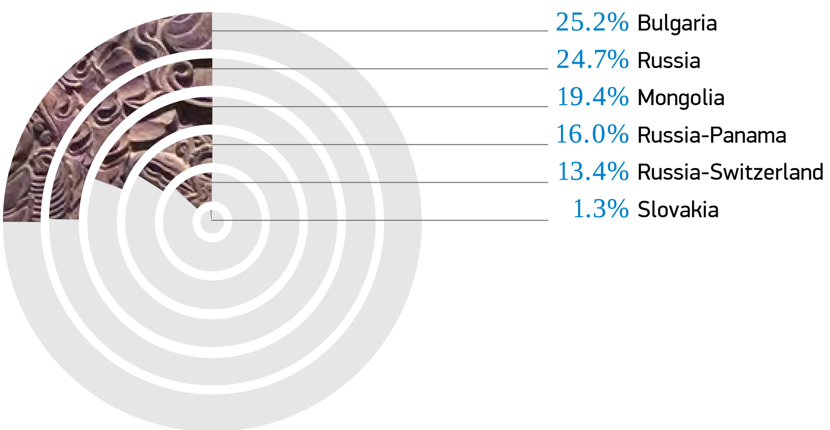
In terms of the member countries of IBEC and projects financed by IBEC that are aimed developing their economies, at the end of the reporting year the loan portfolio of the Bank had a higher country diversification than in the year before.

Changes to the structure of countries in the loan portfolio at the end of 2013 compared to 2012 are displayed in the diagram below.

Structure of IBEC's loan portfolio by countries as of 31.12.2012



Structure of IBEC's loan portfolio by countries as of 31.12.2013



In order to adequately reduce the risks of funded projects through guarantees of the legal purity of credit transaction processing and taking into account requirements of the national legislation of the country of the borrower, as well tracking the credit use and condition of collateral, IBEC in the reporting year involved external consultants and banks from the member countries in order to provide advisory and agency services for maintenance of loans.

In the reporting period active work was carried out to improve the regulations of IBEC with regard to credit operations. Methodological work on credit operations will continue throughout 2014 and will be connected to improving standard forms of credit activity contracts and developing new credit purposes in order to widen the assortment of banking products offered by the Bank.

In 2014 it is planned to review a number of other potential interesting projects after the conceptual development of a system for attracting clients and credit programmes, including cooperation with the national agencies of IBEC member countries to develop small and medium business, and with other financial institutions that perform similar functions. The portfolio of potential credit applications for 2014 includes projects from Romania, Mongolia, and Russia, and cover sectors of the economy such as the power industry, pharmaceuticals, construction, and light industry.

Activities on Financial Markets

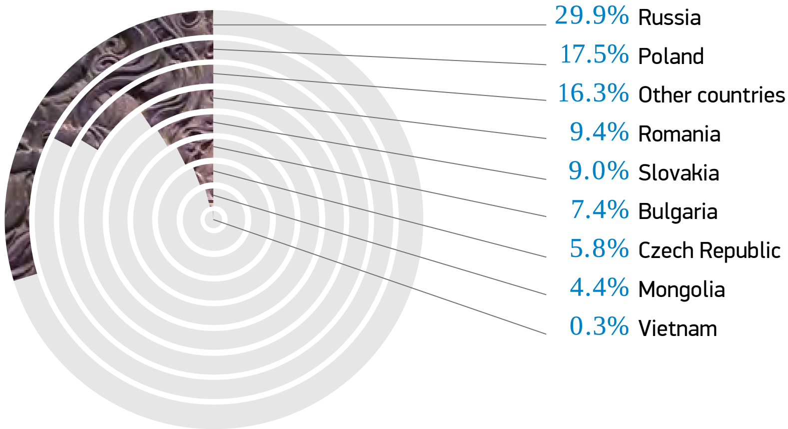
The size of the IBEC security portfolio at the end of 2013 amounted to over 141.1 million Euros.

Like in previous years, the Bank's security portfolio in 2013 was formed taking into account the requirements of a conservative policy, country concentration risk and security type concentration risk.

Thus, following the results of 2013 the structure of the Bank's security portfolio was optimised by increasing the country and industry diversification.

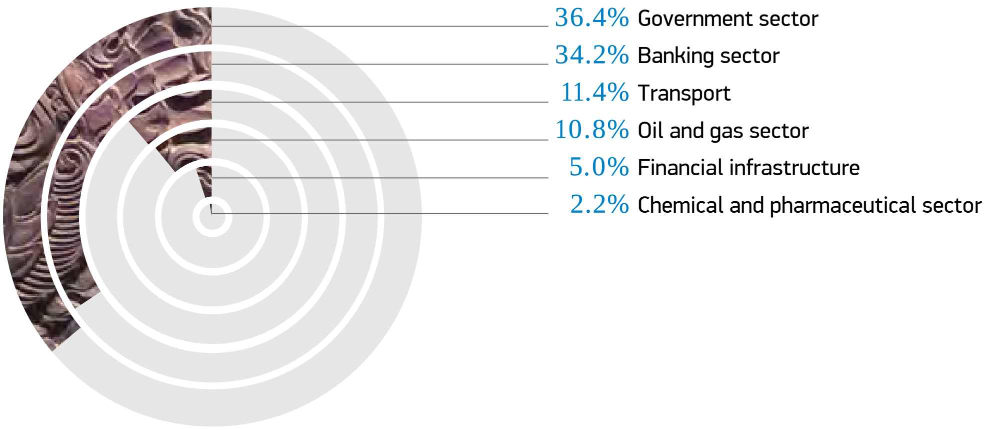
The structure of the IBEC security portfolio by countries is displayed in the diagram below.

Structure of the IBEC security portfolio by countries as of 31.12.2013



In terms of the sectors of issues, the structure of the Bank's security portfolio at the end of the reporting period was as follows:

Structure of the IBEC security portfolio by sectors of issuers as of 31.12.2013

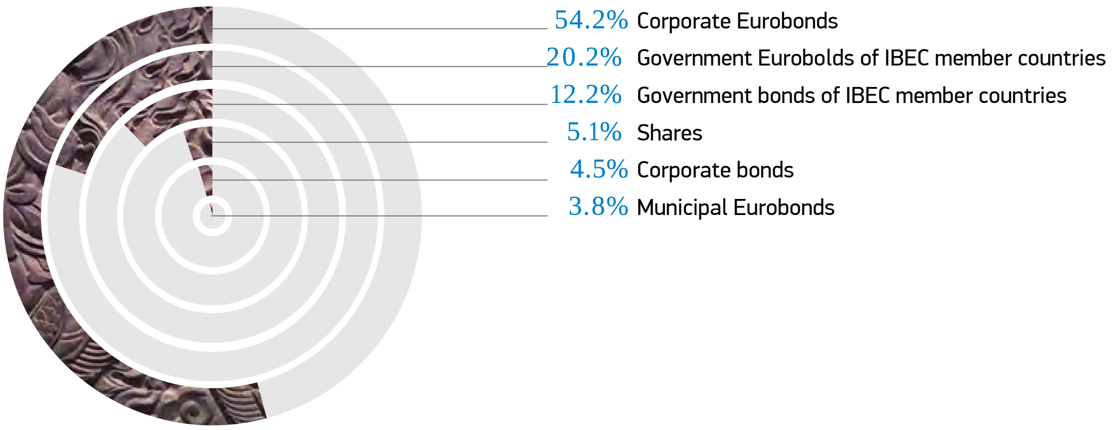


In 2013 the structure of the Bank's security portfolio was changed in the following way with regard to asset types:

- A portfolio of held-to-maturity securities was formed;
- The volume of the portfolio of securities for trading grew by more than 1.5 times since the beginning of 2013;
- The volume of the portfolio of available-for-sale securities reduced by 10.5% since the beginning of 2013.

The structure of the IBEC security portfolio by types of securities is displayed in the diagram below.

Structure of the IBEC security portfolio by types of securities as of 31.12.2013

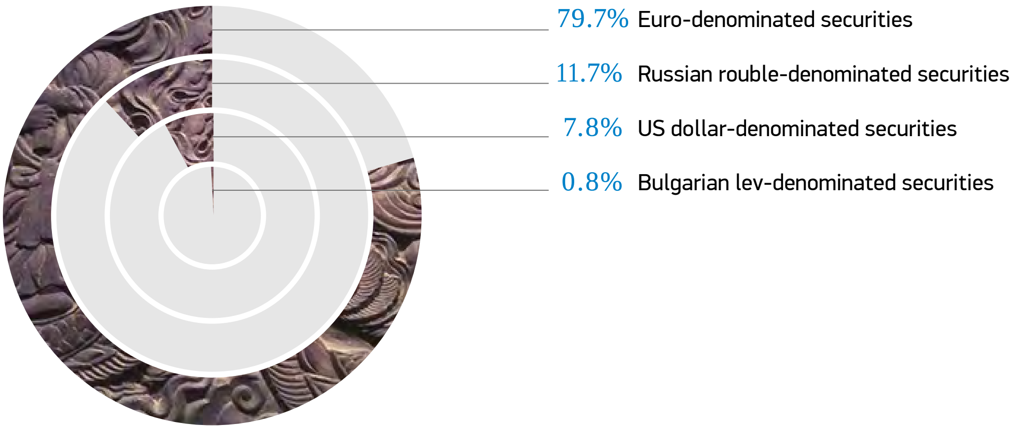


In 2013 the following changes were made to the currency structure of the Bank's securities in order to reduce currency risk:

- The share of Euro-denominated securities was increased by 17.6% compared to the beginning of 2013;
- The share of Russian rouble-denominated securities was decreased by 69.2% compared to the beginning of 2013;
- During the reporting year US dollar-denominated securities were acquired;
- Investments were made in government securities of IBEC member countries which area denominated in the corresponding national currencies.

The structure of IBEC securities by currencies is displayed in the diagram below.

Currency structure of the portfolio of IBEC securities as of 31.12.2013



In the reporting year the Bank performed operations on off-exchange and exchange markets. Also, in 2013 IBEC took part in a number of initial bond offerings.

The Bank, acting in the interests of its shareholders, made investments in all the IBEC member countries via financial market operations and thereby facilitated the development of priority industries of these countries.

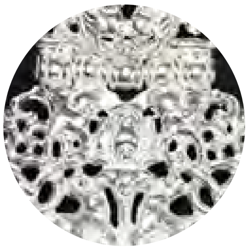
Deposit Portfolio

In 2013 IBEC continued placing its disengaged funds in inter-bank deposits at banks in the IBEC member countries, acting in strict compliance with approved quotas. During the reporting period, trends of the financial market were carefully monitored. In this regard, it is worth noting that the continuing trend of reducing interest rates on the financial market affected IBEC's activity involving placement of funds in deposits. For example, the refinancing rate of the European Central Bank was lowered on November 7, 2013 and is now at a historic minimum of 0.25%.

As of December 31, 2013 the amount of the Bank's funds invested in credit organisations totalled almost 93 million Euros, an 8% decreased compared to the figure for the end of 2012. This is connected with the fact that IBEC transferred part of the funds to more profitable assets due to falling interest rates.

At the same time, during the reporting year the list of IBEC counterparties among Bulgarian and Vietnamese banks was broadened and placements of deposits were made in various currencies.

Currency risk was hedged by the Bank in 2013 in order to maintain the approved limits of open currency position values when placing deposits and performing other active operations in currencies different to the balance sheet currency.



Chapter 3

The Bank's Borrowed Funds

Mongolian metal carving is an ancient art, the secrets of which have survived until the present day – beautiful samples can be seen in both museums and modern art galleries. Masters use sharp cutting tools to create patterns in metal that are comparable to lace in terms of complexity, lightness and elegance.

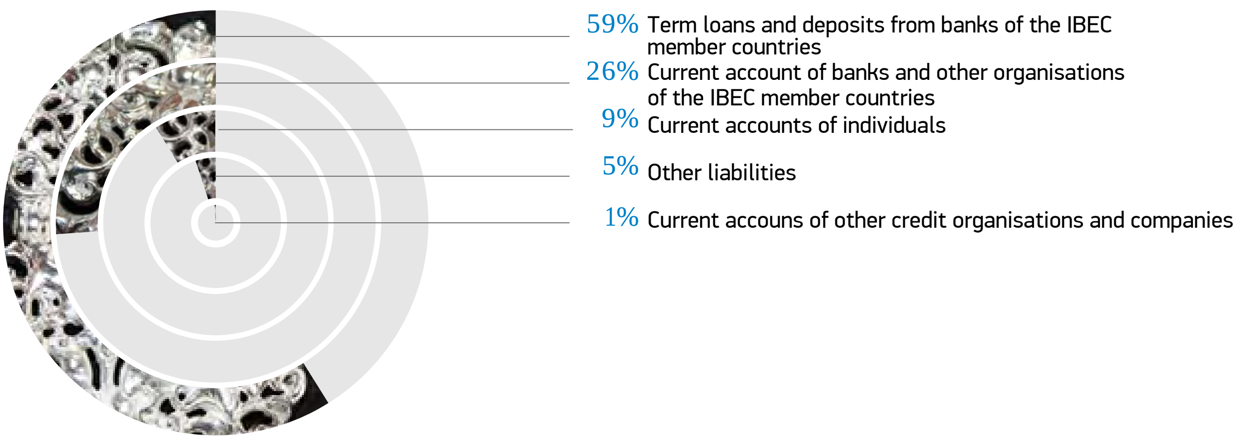
The Bank's Borrowed Funds

In the reporting year the Bank carried out measures to borrow funds on the Russian and international markets.

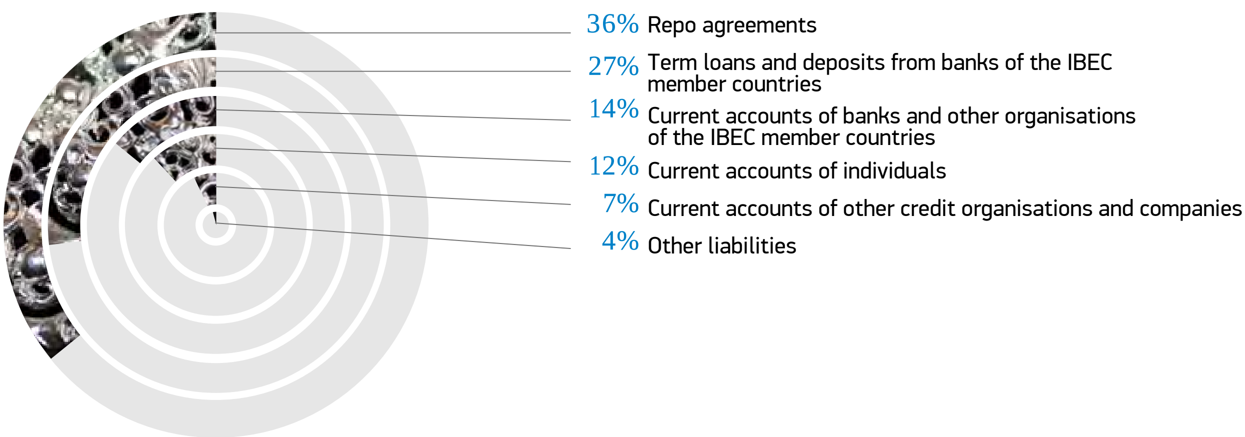
The diagrams below display the structure of IBEC's borrowed funds in 2012 and 2013. At the end of 2013, repo agreements and term deposits and loans from banks of the IBEC member countries accounted for the largest shares in the structure of IBEC's borrowed funds – 36% and 27%, respectively.

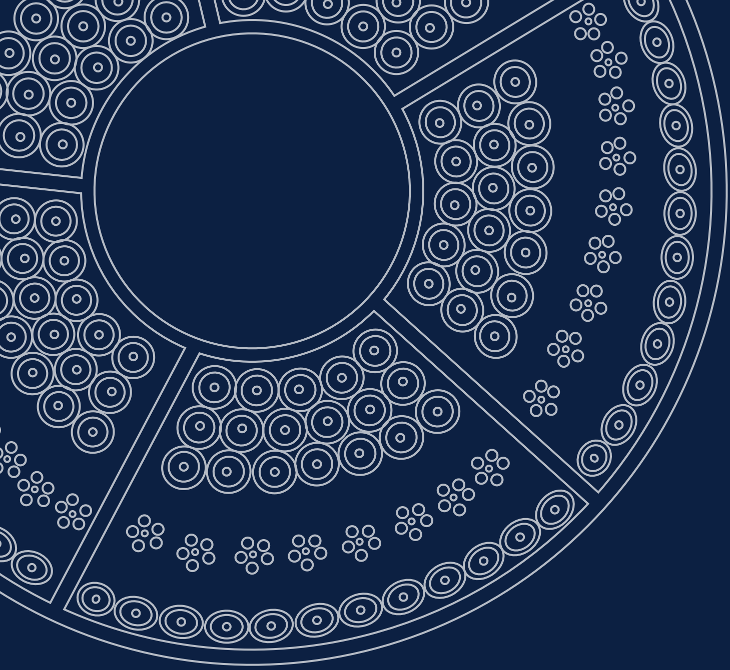
Diversification of the portfolio of borrowed funds helped the Bank to considerably lower the cost of the funds during the reporting period.

Structure of IBEC's borrowed funds
as of 31.12.2012



Structure of IBEC's borrowed funds
as of 31.12.2013





Chapter 4

The Bank's Equity

Boleslawiec pottery
is a Polish trade that started as a minor ceramics enterprise 350 years ago and since then has transformed into a global brand. The heat resistant and moisture-proof white clay of Boleslaw is moulded into stoneware piece on a potter's wheel and then decorated using a unique stamping technique that transforms it into an original piece of art.

The Bank's Equity

In the reporting period the size of IBEC's equity fell by almost 10% compared to 2012 and amounted to 317 million Euros at the end of the reporting period. This decrease was mainly due to the decision made by the Bank's Council to pay dividends to IBEC shareholders for 2012.

In accordance with the Agreement Concerning the Organisation and Activities of IBEC, the Bank's stated capital is 400 million Euros.

In 2013 the Council of IBEC decided to increase the paid part of the Bank's authorised capital by 58 million Euros. In connection with this, in 2013 the size of the authorised capital of IBEC (paid part) amounted to 187 million Euros.

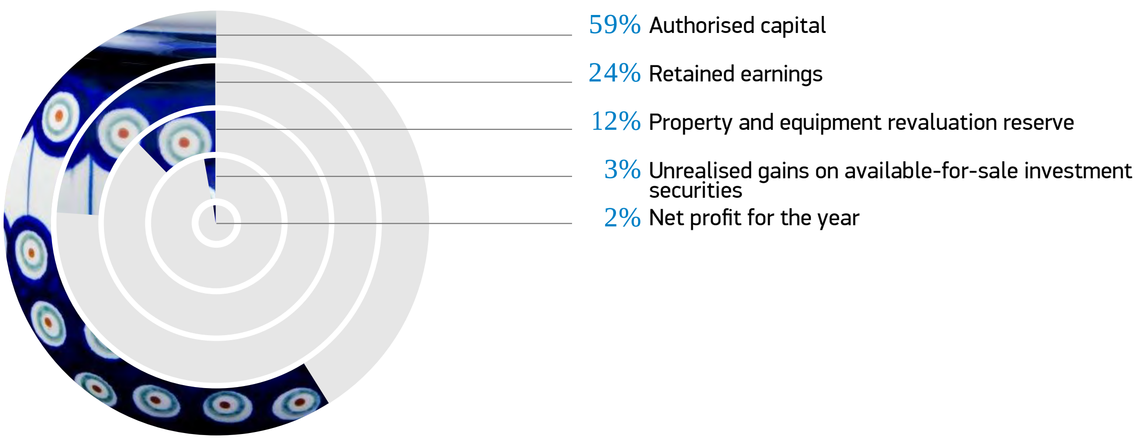
The structure of the paid part of the authorised capital by IBEC member countries is shown below.

thousand Euros

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

The share of the paid part of the Bank's authorised capital prevails in the equity structure of IBEC. This is demonstrated in the diagram below.

Structure of IBEC's equity
as of 31.12.2013

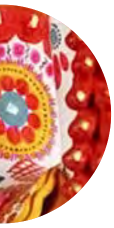


The Bank's capital adequacy ratio at the end of 2013 and 2012 was 158% and 147%, respectively. In accordance with the Risk Management Policy of IBEC, which has approved by the Council of IBEC, the capital adequacy ratio must be no less than 25%. Therefore the Bank maintains the requisite level of capital adequacy.

Chapter 5

Settlement and Cash Services for Clients

Dymkovo toys
are an ancient Russian art – traditional clay figurines that illustrate scenes from village life. Every toy is conceived, created and decorated as a unique item; there is no such thing as two identical Dymkovo toys.



Settlement and Cash Services for Clients

While working with corporate clients during 2013, IBEC strived to establish and develop long-term partnership relations and at the same time, adapt the entire range of products to suit the needs of clients, primarily for carrying out international settlement operations.

During the reporting period, the Bank signed 32 contracts for cash and payment services and opened 66 accounts for clients (nonbank organisations) from IBEC member countries.

Client account turnover at the Bank in 2013 totalled around 3.6 billion Euros.

During the reporting period IBEC provided settlement and cash services for corporate clients (nonbank organisations) under international contracts. The Bank's fee income for servicing client operations over the reporting period was almost 1.9 million Euros.

Chapter 6

Correspondent Relations

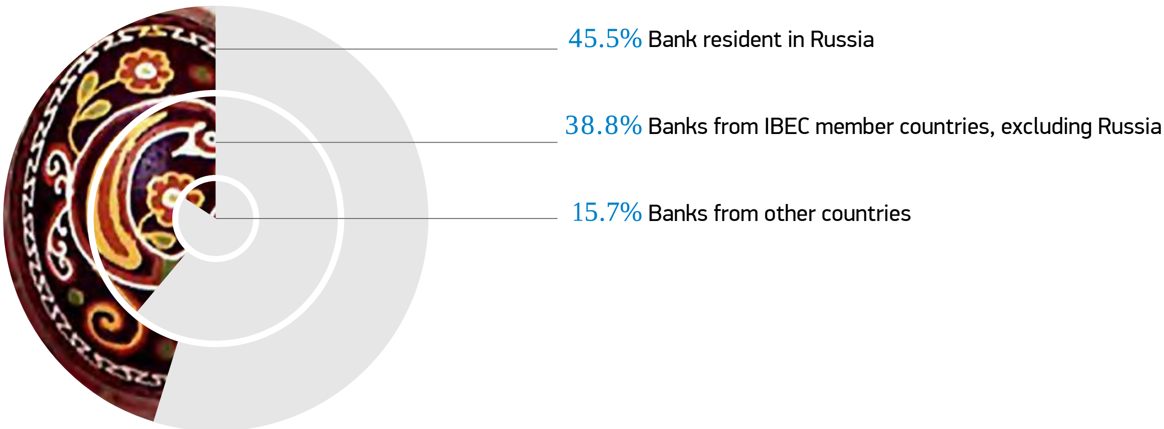
In Romania, egg painting is not just an Easter tradition. It’s a separate field of art. Bird eggs aren’t the only thing that gets decorated; wooden, clay and papier-mâché eggs are used as well. They are decorated with traditional Romanian ornaments and sometimes feature biblical imagery.

Correspondent Relations

In the reporting period IBEC continued to develop cooperation with banks. A priority area was establishing and developing business relations with banks from the Bank's member countries in accordance with the long-term IBEC Development Strategy for 2012 to 2016.

It is noteworthy that in 2013 the most interest in performing operations was shown by partner banks from the following member countries of the Bank: Russia, Bulgaria, Vietnam and Mongolia. The structure of the base of IBEC partner banks as of the end of the reporting period is displayed in the graph below.

Structure of the base of IBEC partner banks as of 31.12.2013



During the reporting period the Bank continued improving its base of partner banks. This work included IBEC maintaining relations with previous counterparty banks and entering into agreements with new ones.

Also in 2013 the Bank performed measures to improve electronic document exchange within the payment system of the Bank of Russia.

During the reporting period the Bank continued to participate in trades and clearing services when carrying out deals on the currency exchange market of OJSC Moscow Exchange MICEX-RTS.

Overall, the existing network of partner banks of IBEC provides for the ability to function effectively when carrying out all banking operations.

Chapter 7

Business Cooperation

Modra ceramics
is a Slovakian folk craft that has retained its popularity for seven centuries. These ceramic kitchen utensils and decorative items are made exclusively by hand. Ceramics from Modra are especially cherished for the bright, natural colours that retain their freshness and richness for centuries.

Business Cooperation

In order to develop relations with businesses in the Bank's member countries, IBEC in 2013 continued to broaden business cooperation with central banks and banking associations in the IBEC member countries, chambers of commerce and industry of member countries of the Bank, and also with other financial and government organisations in IBEC member countries.

During the reporting period, the Bank's representatives attended the 24th Congress of the Association of Russian Banks. In 2013, IBEC also continued cooperation with the Banking Association for Central and Eastern Europe, and the Asian Bankers Association, as their member.

To develop and improve foreign trade between the Bank's member countries, during 2013 IBEC continued to carry out information exchange under existing cooperation agreements signed with chambers of commerce and agencies for foreign investments and foreign trade in the IBEC member countries, and also with embassies of the Bank's member countries and representatives of ministers from the IBEC member countries.

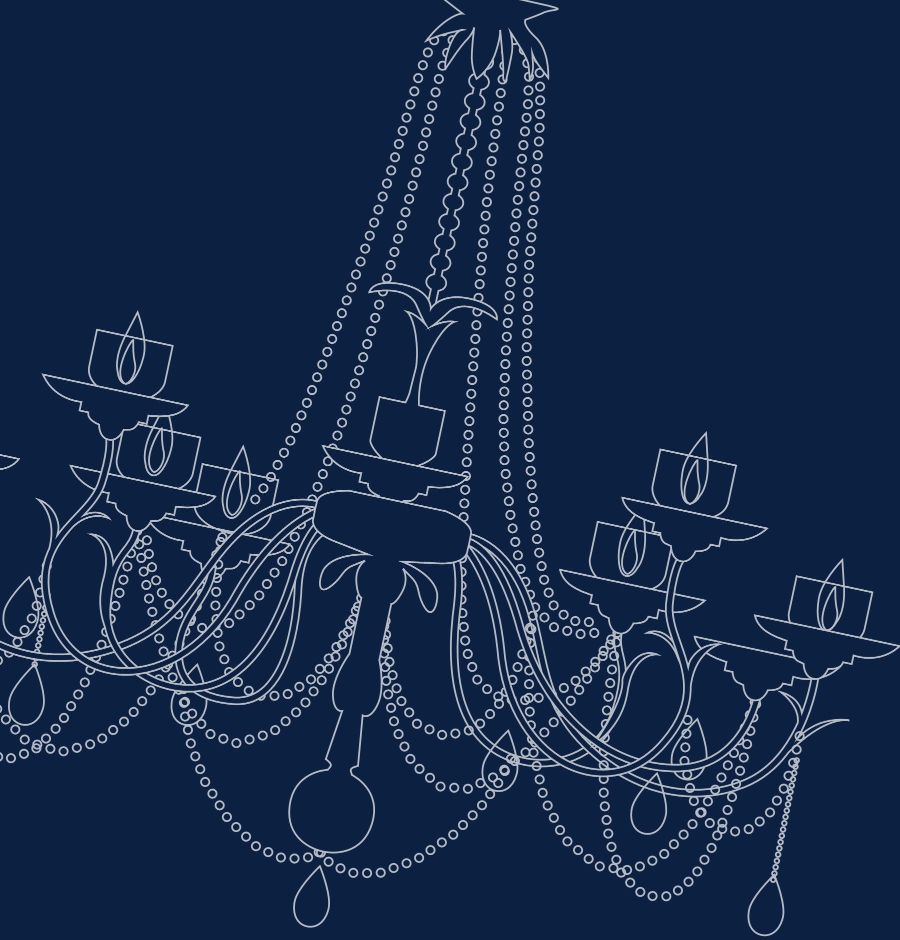
In April 2013 representatives of IBEC held business meetings in Romania with Eximbank, the Business Council for Economic Cooperation between Romania and the Russian Federation, and the Romanian-Russian Bilateral Chamber of Commerce (within the Institute of the National Economy under the Romanian Scientific Academy).

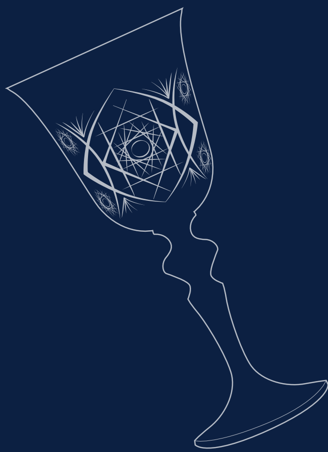
In October 2013 the Bank took part in a Business Forum in Poland in order to develop cooperation with Polish banks and companies.

In November 2013 representatives of IBEC participated in the 7th Slovak Matchmaking Fair organised by the Slovak Investment and Trade Development Agency (SARIO).

At the end of the reporting year, representatives of the Bank participated in a presentation of the economic, industrial and investment potential of the Perm Region, which was organised by the Chamber of Commerce and Industry of the Russian Federation.

Development of IBEC operations to strengthen and build up business cooperation with organisations from the Bank's member countries contributes to mutually beneficial interaction of businesses in those nations, and provides the opportunity to finance projects that support and develop the economies of IBEC member countries.





Chapter 8

Risk Management

Bohemian crystal
was born out of the combination of a unique production method and an ancient glass decoration technique. Czech glassblowers carefully preserve their traditions: the polishing of the crystal and creation of the famous diamond-like edges that produce a magical refraction of light is done by hand to this very day.

Risk Management

Risk management at IBEC is an integral part of the Bank's overall management system. The Bank's risk management policy is aimed at creating a coherent risk management system which is consistent with the nature and scale of the activities of IBEC and level of accepted risk.

Risk management is carried out taking into account the recommendations of the Basel Committee on Banking Supervision, as well as international banking practices in risk management. Overall supervision of the risk profile and condition of the risk management system is a function of IBEC's Council. The Bank adheres to conservative policies and avoids transactions with high risk level however profitable they might seem.

The Bank has a stand-alone department that independently assesses and controls banking risks, and develops and improves risk management regulations. The function of the risk management department is separate and independent from other subdivisions.

During the reporting period IBEC continued to improve the regulatory and methodological and organisational components of the risk management system. Under the current risk management system procedures were applied for evaluating, analysing, monitoring and controlling the risks taken by the Bank. In addition, measures were taken to develop the system of limits and create reserves for impairment losses on active operations, and internal management reports on risks were prepared in order for the leadership of IBEC to make managerial decisions.

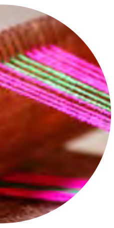
In line with the effort to improve its risk management system, the Bank continued developing and organising the system of risk indicators and limits as well as improving credit risk management. One of the priority areas in risk management in 2013 was the development of the operational risk management system and the practical application of provisions for managing operational risk which were developed by IBEC.

To reduce the negative impact of operating risks, the Bank accumulated and systemized data about operational risk events, created a database of risk events, evaluated and monitored operational risk and prepared internal management reports. In line with the existing methodology, IBEC measured operational risk using the base indicator in accordance with the recommendations of the Basel Committee for Banking Supervision. Results of the assessment of operational risk are used to calculate the ratio of capital adequacy of the Bank.

The ratio of capital adequacy is one of the main indicators of IBEC's financial position and reflects an overall assessment of the Bank's reliability and risk exposure. Commitment to maintaining a high level of capital adequacy is one of IBEC's priorities and guarantees that the interests of the Bank's member countries, partners and clients are sufficiently protected.

Chapter 9

Internal Control and Audit



Internal Control and Audit

Internal Control System

In 2013 work on improving the Bank's internal control system was continued. On a regular basis the Bank monitored the compliance of various aspects of financial and economic activity of IBEC with the provisions of the Agreement Concerning the Organisation and Activities of IBEC and Charter of the Bank, regulatory and legal documents and acts of IBEC, as well as with the fulfilment of directives of the Council of IBEC, resolutions of the Board of IBEC and the fulfilment of the recommendations of the Audit Committee of IBEC.

In addition to this, during the reporting period measures were performed for internal auditing of the Bank's operations such as planned (thematic) and unplanned checks of specific areas of activity and banking techniques, including checks of the fulfilment of the Action Plan for Fulfilling Directives 119, 120 and 121 Issued by the Council of IBEC and the fulfilment of the recommendations of the Audit Committee of IBEC, Action Measures for Implementing IBEC's 2012 Business Plan and the Action Plan for Implementing IBEC's 2013 Business Plan in the first half of 2013.

Thematic checks were planned taking into account the analysis of the results of previous checks, changes made to various areas of activity of the Bank's subdivisions and the related risks.

Also, in 2013 work was launched to develop regulatory documents governing the implementation of control measures of specific areas and objects of the structural subdivisions of the Bank.

Therefore, IBEC's existing internal control system and the measures carried out as a part of this system allow for provision of adequate control of structural subdivisions in the Bank, and operations of IBEC as a whole, contribute to the continuous improvement of the corporate management system of the Bank and minimise the risks of IBEC's activity.

The Bank's Activities Auditing

IBEC's auditing system ensures reliable and timely preparation and presentation of both financial and managerial reports.

For this purpose, the Bank discloses its financial data on a quarterly basis in reports prepared under the International Accounting Standards.

A third-party auditor from the "Big Four" is contracted through tender procedures by IBEC to examine and confirm its financial reports.

Chapter 10

Combating Money Laundering and Terrorism Financing

Combating Money Laundering and Terrorism Financing

Attaching great importance to the efforts of the international community and the international banking community to combat money laundering and terrorism financing (hereinafter "AML/CFT"), IBEC pays special attention to compliance with international law, as well as the legislation of the country where the Bank is resident – the Russian Federation – having received in 2013 the status of the President of the Financial Action Task Force on Money Laundering (FATF) in the field of AML/CFT.

In the reporting year measures were completed to organise information exchange between IBEC and the authorised body of the Russian Federation on AML/CFT issues – Rosfinmonitoring.

In 2013 the Bank made changes to the IBEC Rules of Internal Control to Combat Money Laundering and Financing of Terrorism (hereinafter "RIC AML/CFT") and the Bank's Programme for Identifying Clients and Establishing and Identifying Beneficiaries. These changes focused on:

- optimising the regulatory and legal base of IBEC regarding issues for identifying operations subject to control, and bringing it in line with existing banking practices and taking into account the volumes and specific features of the operations performed by the Bank's clients;
- bringing regulatory and legal acts that govern IBEC's AML/CFT work in line with the regulatory and legal acts (of the country where the Bank is located) which were considerably changed in 2013.

In accordance with the Program for Preparing and Training the Bank's Employees on AML/CFT, last year the Bank organised both internal training of employees of IBEC structural subdivisions and external training held by specialist organisations and featuring representatives of state regulatory bodies from the Bank's country of residence.

IBEC is gradually implementing an AML/CFT internal control system under which the adherence to standards in this area is the responsibility of every employee of the Bank who interacts with clients and (or) carries out (supports) banking operations or other transactions. At the same time focus is being placed on any suspicious operations and transactions that are different to standard banking practices.

The main principles for organising AML/CFT internal control are:

- protecting the Bank from being infiltrated by proceeds from crime;
- managing the risk of legalisation (laundering) of proceeds from crime and financing of terrorism in order to minimise it;
- appointing an independent special official who is responsible for adherence to RIC AML/CFT;
- participation of the independent special official who is responsible for adherence to RIC AML/CFT, and employees of divisions involved in carrying out banking operations and other transactions, legal division, and Bank's internal control division, regardless of position and in line with their competency, in the identification of operations subject to mandatory control and operations that give rise to the suspicion that they are being carried out in order to launder the proceeds from crime or finance terrorism.

Chapter 11

IBEC Development Vectors for the Nearest Future

IBEC Development Vectors for the Nearest Future

In 2013 the Bank continued performing measures to implement the IBEC Development Strategy for 2012 to 2016.

In order to achieve the tasks and goals that are outlined by the Strategy, in 2014 IBEC will continue its comprehensive modernisation of the Bank's activities, including in the following areas:

- Developing interaction with IBEC member countries by:
  - building effective interaction with government bodies that oversee state investment programmes and projects, including with government agencies in order to support small and medium business, chambers of industry and commerce and representative offices under the embassies of IBEC member countries;
  - establishing relations between IBEC and government export and import insurance agencies and national banks that are focused on financing the foreign economic activity of their clients;
  - hiring organisations and banks from IBEC member countries in order to provide the Bank with consultation and agency services for supporting credit projects in the IBEC member countries;
  - providing export and import financing and targeted lines of credit to national development banks in the IBEC member countries.

- Developing credit activities and expanding the client base of IBEC by:
  - widening the range of banking products taking into account the special status and mission statement of IBEC in two principle areas of development for the bank:
    - *integration* – realising the mission of IBEC as an inter-government financial institution; an acceptable level of profitability of the Bank without focusing on maximising profits;
    - *commerce* – developing commercial lending of IBEC according to market conditions with a focus on increasing the profitability of the Bank, coupled with a full set of commercial risks;
  - improving the credit procedures of IBEC, including the procedures for selecting potential credit applications and their analysis;
  - updating the key principles of working with the Bank's clients;
  - building an effective system for organising sales and servicing clients' loan operations.

- Continuing the measures to construct an operating model at IBEC, including:
  - regulating and improving the Bank's business processes;
  - selecting and implementing a modern automated banking system to optimise and automate IBEC business processes;
  - implementing a KPI system that will allow the effectiveness of the Bank on the whole as well the effectiveness of every employee to be evaluated.

- Performing operations with securities in line with the conservative policy which focuses on the principles of reliability before profit and the priority of country diversification, minimisation of risks and supporting sufficient liquidity of financial instruments, and taking into account the situation on the financial markets and assessment of individual issuers, including:

- obtaining securities with investment-grade credit ratings, including high investment-grade credit ratings;
- participating in IPOs of issuers from IBEC member countries, developing operations within the portfolios for trading, prior to maturity and available-for-sale in the event of a favourable situation;
- increasing the effectiveness of the Bank's security portfolio taking into account possible market factors;
- studying the possibilities of developing operations with new financial instruments, including the securities of issuers from outside the IBEC member countries, credit notes (CLN/FTD) and others;
- using additional instruments to increase portfolio returns, including repo, loans of securities that are secured by other securities, etc.;
- developing hedging operations;
- developing securities operations on the internal markets of IBEC member countries, including using their national currencies;
- widening the circle of the Bank's counterparties on securities markets and searching for new opportunities for performing operations on leading trade platforms as a way to increase the effectiveness of operations and access to instruments of the internal markets of IBEC member countries;
- establishing relations with banks that underwrite the bonds of member countries and preliminary passing of the necessary "know your client" procedures in order to take part in initial public offerings of securities and also operate on the secondary market in the future.

- Carrying out depository operations in order to provide liquidity to and preserve equity, ensure the profitability of operations, place client funds in deposits with collection of a margin and attract resources in order to carry out other active operations, including:
  - widening the circle of counterparty banks, monitoring new forms and developing cooperation on the interbank market of IBEC member countries;
  - maintaining the profitability of banking operations in view of the situation on the financial markets;
  - searching for opportunities to increase and further develop the resource base;
  - performing operations to hedge currency risk when placing deposits in currencies other than Euro, expanding the list of counterparties for these operations, including on the international financial market.

- Carrying out all essential measures aimed at combating money laundering and the financing of terrorism;

- Improving the image of IBEC, including by launching a new website for the Bank that meets current requirements;

- Continuing work on forming a highly-qualified team that is capable of fulfilling all the tasks of IBEC to a high standard.

The objectives and activities planned for implementation in 2014 will contribute to the effective work of IBEC and allow the Bank to achieve its long-term strategic goals.

Financial Statements for 2013 together with Independent Auditor's Report

Contents

Independent auditors' report

Notes to financial statements

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Independent auditors' report

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

We have audited the accompanying financial statements of International Bank for Economic Co-operation (the "Bank"), which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of International Bank for Economic Co-operation as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

18 March 2014

Ernst & Young Vneshaudit ZAO

Statement of financial position as at 31 December 2013

(thousands of euro)

	Note	2013	2012
Assets			
Cash and cash equivalents	6	10,721	15,968
Trading securities	7	7,461	2,578
Due from credit institutions	9	92,915	101,141
Loans to customers	10	20,706	42,817
Investment securities:	8		
- available-for-sale		118,176	145,457
- held-to-maturity		2,244	–
Investment securities pledged under repurchase agreements	8, 23	13,225	–
Property and equipment	11	83,556	84,686
Other assets	12	1,868	932
Total assets		**350,872**	**393,579**
Liabilities			
Due to credit institutions	13	21,640	25,290
Due to customers	14	11,057	14,919
Other liabilities	12	1,178	1,948
Total liabilities		**33,875**	**42,157**
Equity			
Paid-in authorized capital	15	186,981	143,456
Unrealized gains on available-for-sale investment securities	15	10,669	40,630
Property and equipment revaluation reserve		38,338	38,338
Retained earnings		75,473	116,181
Net profit for the year		5,536	12,817
Total equity		**316,997**	**351,422**
Total equity and liabilities		**350,872**	**393,579**

V.V. Belyy — Chairman of the Board

I.V. Timoshin — Chief Accountant

18 March 2014

The accompanying notes 1 to 26 are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2013
(thousands of euro)

	Note	2013	2012 (restated – Note 3)
Interest income			
Loans to customers		1,473	3,310
Due from credit institutions		3,685	3,897
Investment securities		6,079	4,270
Cash and cash equivalents		22	35
		11,259	**11,512**
Trading securities		349	21
Total interest income		**11,608**	**11,533**
Interest expenses		(279)	(389)
Net interest income		**11,329**	**11,144**
Allowance for loan impairment	10	(22,331)	(1,473)
Net interest income (expense) after allowance for loan impairment		**(11,002)**	**9,671**
Net fee and commission income	17	1,856	4,649
Net gains (losses) from trading securities		(125)	68
Net gains (losses) from available-for-sale investment securities	18	24,178	4,588
Net gains (losses) from foreign currencies:			
- dealing		250	(117)
- translation differences		(2,870)	596
Dividend income		264	259
Rental income		5,776	6,089
Other banking income		87	13
Non-interest income		**29,416**	**16,145**
Administrative and management expenses	19	(11,348)	(10,635)
Depreciation	11	(1,476)	(1,487)
Other provisions	20	(52)	(795)
Other banking expense		(2)	(82)
Non-interest expense		**(12,878)**	**(12,999)**
Profit for the year		**5,536**	**12,817**
Other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods			
Unrealized gains (losses) on revaluation of available-for-sale securities	15	(29,961)	9,304
Total comprehensive income (expense) for the year		**(24,25)**	**22,121**

The accompanying notes 1 to 26 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2013

(thousands of euro)

	Note	Paid-in capital	Unrealized gains (losses) on available-for-sale investment securities	Property and equipment revaluation reserve	Retained earnings	Net profit for the year	Total equity
31 December 2011		**143,456**	**31,326**	**38,338**	**69,857**	**46,324**	**329,301**
Distribution of profit		–	–	–	46,324	(46,324)	–
Comprehensive income (expense) for the year ended 31 December 2012		–	9,304	–	–	12,817	**22,121**
31 December 2012		**143,456**	**40,630**	**38,338**	**116,181**	**12,817**	**351,422**
Redistribution of paid-in authorized capital arising from Cuba membership withdrawal	15	(2,528)	–	–	2,528	–	–
Redistribution of paid-in authorized capital arising from the Republic of Hungary membership withdrawal	15	(12,038)	–	–	12,038	–	–
Increase in paid-in authorized capital	15	58,091	–	–	(58,091)	–	–
Distribution of profit		–	–	–	12,817	(12,817)	–
Dividends to member-countries of the Bank		–	–	–	(10,000)	–	**(10,000)**
Comprehensive income (expense) for the year ended 31 December 2013		–	(29,961)	–	–	5,536	**(24,425)**
31 December 2013		**186,981**	**10,669**	**38,338**	**75,473**	**5,536**	**316,997**

The accompanying notes 1 to 26 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2013
(thousands of euro)

	Note	2013	2012
Cash flows from operating activities			
Profit for the year		5,536	12,817
Adjustments for:			
Accrued interest receivable (accrued interest payable)		(1,833)	(682)
Other accrued income receivable (other accrued expense payable)		(1,092)	248
Depreciation		1,476	1,487
Allowances for loan impairment		22,331	1,473
Other provisions		52	164
Translation differences		2,870	(596)
Revaluation of trading securities		188	(53)
Net gains (losses) from investment securities		(24,178)	(4,588)
Dividend income		(264)	(259)
Other differences		(44)	514
Cash flows from operating activities before changes in operating assets and liabilities		**5,042**	**10,525**
(Increase)/decrease in operating assets:			
Trading securities		(5,211)	(2,608)
Due from credit institutions		7,470	(20,601)
Loans to customers		(140)	1,772
Other assets		(305)	(238)
Increase/(decrease) in operating liabilities:			
Due to credit institutions		(2,970)	20,005
Due to customers		(3,613)	(1,052)
Other liabilities		(89)	(45)
Net cash from operating activities		**184**	**7,758**

The accompanying notes 1 to 26 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2013 (continued)

(thousands of euro)

	Note	2013	2012
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(65,613)	(38,892)
Proceeds from sale and redemption of available-for-sale investment securities		73,002	44,719
Purchase of held-to-maturity investment securities		(2,500)	–
Proceeds from redemption of held-to-maturity investment securities		–	51
Purchase of property and equipment	11	(352)	(103)
Proceeds from disposal of property and equipment		50	–
Dividend income		264	259
Net cash from investing activities		**4,851**	**6,034**
Cash flows from financing activities			
Dividends paid to member-countries of IBEC	15	(9,829)	–
Net cash used in financing activities		**(9,829)**	**–**
Net increase (decrease) in cash and cash equivalents before translation differences		**(4,794)**	**13,792**
Effect of exchange rate changes on cash and cash equivalents		(453)	(45)
Net increase (decrease) in cash and cash equivalents		**(5,247)**	**13,747**
Cash and cash equivalents as at 31 December of the previous year	6	**15,968**	**2,221**
Cash and cash equivalents as at 31 December of the reporting year	6	**10,721**	**15,968**

The accompanying notes 1 to 26 are an integral part of these financial statements.

(thousands of euro)

1. Principal activities

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

The Bank is an international financial institution organized and operating in accordance with an intergovernmental Agreement concerning the organization and activities of the IBEC (registered with the United Nations Secretariat on 20 August 1964) (hereinafter, the "Agreement") and its Statutes. The Bank's member-countries are eight countries located in Europe and Asia: the Republic of Bulgaria, the Socialist Republic of Vietnam, Mongolia, the Republic of Poland, the Russian Federation, Romania, the Slovak Republic and the Czech Republic. Negotiations are continued with the Republic of Hungary in connection with its withdrawal from membership in the Bank.

IBEC's mission is to promote economic cooperation between and development of the economies of the member-countries by making use of its status as an intergovernmental financial institution.

In accordance with its Statutes, the Bank has the right to conduct and provide the full range of banking operations and services in line with the Bank's goals and objectives, including:

- opening and keeping customer accounts, receiving funds from customers and placing funds in accounts with the Bank, handling document circulation and performing payment and settlement transactions related to import and export, performing conversion, arbitrage, cash, guarantee and documentary operations, banking consulting and others;
- attracting deposits and credits, issuing securities;
- lending bank loans and guarantees, placing deposits and other borrowings, financing capital investments, discounting promissory notes, purchasing and selling securities, participating in the capital of banks and financial and other institutions;
- other banking operations.

2. Operating environment of the Bank

According to the data of the International Monetary Fund (IMF) related global economy outlook, published in October 2013, the next transition phase has commenced in the global economy. In 2013, growth in developing economies slowed more than forecasted before. However, according to new forecasts, in 2014, the growth will be much higher as compared to the developing economies but lower than the higher levels of the last years. This trend is caused both by cyclic factors and slower growth in potential output.

In general, IMF analysts note that the global economic recovery after the crisis continues but slowly. The emerging economies are currently in the focus in view of their slower economic growth and tighter financial conditions caused by the USA monetary policy.

Due to these factors, the economic growth in IBEC's member-countries also slowed down in 2013.

3. Basis of presentation

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

The Bank has neither subsidiaries nor affiliates and, therefore, these financial statements have been prepared on a non-consolidated basis.

The financial statements are presented in euros, which is the Bank's functional and presentation currency. Financial information presented in these financial statements has been 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.

3. Basis of presentation (continued)

Reclassifications

The Bank recognized a contribution of EUR 61 thousand to the risk coverage fund of CJSC JSCB NCC as amounts due from credit institutions in the financial statements for the year ended 31 December 2012. In 2013, the Bank decided to recognize this contribution as other assets since it has a certain designated purpose and low liquidity.

In 2013, the Bank renamed Operating expenses into Administrative and management expenses, reclassified an insignificant part of income and expenses for a better understanding of information by the users of the financial statements.

In order to provide more relevant and reliable information, administrative and management expenses are recorded based on a net presentation of expenses and related income arising on the same transaction.

The effect of the above adjustments is present in the table below:

(thousands of euro)

	2012 as previously reported	Reclassification amount	2012 as restated
Statement of financial position			
Due from credit institutions	101,202	(61)	101,141
Other assets	871	61	932
Statement of comprehensive income			
Other operating expenses	7,979	(7,979)	–
Rental income	–	6,089	6,089
Other banking income	–	13	13
Expenses for repairs and maintenance of the building	(741)	741	–
Administrative and management expenses:	(11,841)	1,206	(10,635)
Other banking expense	(12)	(70)	(82)

Some reclassifications were made to 2012 corresponding amounts in the relevant notes to conform to 2013 presentation.

4. Accounting policy

Changes in accounting policy

The Bank has applied the following amended IFRS during the year.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

IFRS 13 also requires specific disclosures on fair values that replace existing disclosure requirements in other standards including IFRS 7 *Financial Instruments: Disclosures*.

Amendment to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance.

(thousands of euro)

4. Accounting policy (continued)

Changes in accounting policy (continued)

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Bank's financial position or performance.

Amendment to IAS 1 Clarification of Requirements for Comparative Information
The amendment clarifies the difference between voluntary disclosure of additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendment affects presentation only and has no impact on the Bank's financial position or performance.

Basic approaches to measurement

Measurement is a process of determining the value at which accounting items must be recorded in the Bank's financial statements. The Bank uses the following methods of measurement (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;
- in the absence of a principal market, in the most advantageous market for the asset or liability.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

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

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

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

The amortized cost in the financial statements is approximately equal to the carrying value based on the materiality principle.

(thousands of euro)

4. Accounting policy (continued)

Cash and cash equivalents

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

Financial assets

Initial recognition of financial instruments

According to IAS 32 and 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 regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. All regular way purchases and sales of financial assets include transactions that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales).

Reclassification of financial assets

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

- a financial asset that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

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

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

Financial assets at fair value through profit or loss

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

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

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

(thousands of euro)

4. Accounting policy (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized by IBEC at the settlement date. Long-term assets are presented in the financial statements at amortized cost using the effective interest method. Gains and losses from such assets are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Held-to-maturity financial assets

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

Held-to-maturity securities are accounted for at amortized cost using the effective interest rate method less impairment provision, calculated as the difference between their carrying value and the present value of expected future cash flows discounted at the securities' original effective interest rate.

Gains and losses are recognized in the statement of comprehensive income when the investments are redeemed or impaired, as well as through the amortization process.

Available-for-sale financial assets

This category includes securities which are intended to be held for an indefinite period of time and which can be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Impairment of financial assets carried at amortized cost

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

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

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

Impairment losses are recognized 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.

(thousands of euro)

4. Accounting policy (continued)

Derecognition of financial assets

The Bank derecognizes financial assets when:

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

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety without a need to impose additional restrictions on the sale.

Due from credit institutions

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

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

Subsequently due from banks is measured at amortized cost less allowance for impairment.

Property and equipment

For accounting purposes, all property and equipment are divided into the following groups: buildings, office equipment and computer hardware, furniture, vehicles, and other property and equipment. Land (land plots) is recognized at cost including acquisition cost. The building is carried at fair value. All other property and equipment and investments in property and equipment and construction in progress items are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Fair value of the building is determined on the basis of market indicators through the valuation performed by the professional appraisal. If no market indicator available due to specific character of the property item, its fair value is determined based on income or replacement costs.

Depreciation of all groups of property 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 derecognized. Depreciation is calculated over the following estimated useful lives of property and equipment:

- Buildings and structures – 67 years;
- Office equipment and computer hardware – from 2 to 10 years;
- Furniture – from 5 to 10 years;
- Vehicles – 5 years;
- Other property and equipment – 50 years.

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

Any revaluation surplus of a building is credited in the statement of financial position to the property and equipment revaluation reserve within equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of comprehensive income, in which case the increase is recognized in the statement of comprehensive income. A revaluation deficit is recognized in the statement of comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus recorded in the property and equipment revaluation reserve.

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

(thousands of euro)

4. Accounting policy (continued)

Intangible assets

Intangible assets include identifiable non-monetary assets that do not have a physical form. All intangible assets are divided into the following groups:

- software;
- licenses;
- other intangible assets.

Intangible assets are initially recognized at acquisition cost and are subsequently carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful life of intangible assets is determined depending on their type: for licenses – according to the term for which they are issued, and for software – according to its expected time of use. Amortization of all groups of intangible assets is calculated using the straight-line method. The remaining useful lives and amortization method are reviewed annually.

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 recognized in the statement of comprehensive income on a straight-line basis over the lease term as other operating income.

Financial liabilities

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

Except for financial liabilities at fair value through profit or loss, all long-term liabilities are measured at amortized cost, if not subject for hedge accounting.

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

Due to credit institutions

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

Due to customers

Amounts due to customers are financial liabilities to individuals, state or corporate customers and are carried at fair value on initial recognition. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method.

Debt securities

Debt securities include promissory notes, bonds and deposit certificates issued by the Bank.

Debt securities issued are initially recognized at fair value being the proceeds received less transaction costs. Debt securities are subsequently measured at amortized cost using the effective interest method.

(thousands of euro)

4. Accounting policy (continued)

Derivative financial instruments

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

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

Provisions for liabilities and charges

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

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required 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 the Bank.

Trade and other payables

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

Foreign currency translation

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

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

Items of the statement of comprehensive income denominated in foreign currencies are translated to the functional currency at the exchange rate effective at the date of such transaction. Translation differences from foreign currencies are recorded in the statement of comprehensive income.

Off-balance sheet assets

Assets held by the Bank in its own name but for the account of third parties, are not recorded in the statement of financial position. Commissions received from such transactions are presented in fee and commission income. Off-balance sheet assets also comprise interest on overdue loans and deposits.

Offsetting

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

Income and expense recognition

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time;
- Fee income from providing transaction services.

(thousands of euro)

4. Accounting policy (continued)

Income and expense recognition (continued)

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Financial guarantees and similar commitments

Financial guarantees and similar commitments given by the Bank are initially recorded off-balance sheet, at fair value, and further this amount is amortized 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 expenditure required to settle commitment at the reporting date.

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

Future changes in accounting policy

Standards issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets but will have no impact on the classification and measurement of the Bank's financial liabilities. The Bank will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment entities

The amendments become effective for annual periods beginning on or after 1 January 2014 and provide an exception from the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not expected to have any impact on the Bank, since the Bank does not qualify to be an investment entity under IFRS 10.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments become effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to have any impact on the Bank.

IFRIC Interpretation 21 Levies

The interpretation clarifies that an entity should recognize a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. IFRIC Interpretation 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have a material impact on its financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments provide an exception to the requirement for the discontinuation of hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments become effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current reporting period. However, these amendments would be considered for future novations.

(thousands of euro)

5. Significant accounting estimates

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced 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.

6. Cash and cash equivalents

	2013	2012
Cash on hand	493	276
Current accounts with banks in the IBEC member-countries	1,928	5,460
Current accounts with other credit institutions	8,300	10,232
Cash and cash equivalents	**10,721**	**15,968**

7. Trading securities

Trading securities comprise:

	2013	2012
Eurobonds of banks	4,059	–
Bonds of IBEC member-countries	3,125	508
Bonds of banks	277	–
Eurobonds of IBEC member-countries	–	2,070
Trading securities	**7,461**	**2,578**

8. Investment securities

Available-for-sale investment securities comprise:

	2013	2012
Shares of Moscow Exchange	6,899	51,974
Eurobonds of IBEC member-countries	15,376	36,682
Corporate Eurobonds	59,524	35,616
Eurobonds of cities of IBEC member-countries	5,295	6,298
Bonds of IBEC member-countries	13,974	14,887
Bonds of banks	17,108	–
Available-for-sale investment securities	**118,176**	**145,457**

(thousands of euro)

8. Investment securities (continued)

During 2013, the Bank sold a significant portion of Moscow Exchange shares. Recognized financial result is disclosed in Notes 15 and 18.

Eurobonds of IBEC member-countries are issued in EUR and USD for circulation on markets external to issuing country.

Corporate Eurobonds are debt securities nominated in EUR and USD and issued by financial and industrial entities of IBEC member-countries and OECD countries for circulation on markets external to the issuer.

Eurobonds of cities of IBEC member-countries are debt securities nominated in EUR and USD and circulating on markets external to the issuer.

Bonds of IBEC member-countries are nominated in EUR and BGN and issued for circulation on domestic markets of issuing countries.

Bonds of banks are debt securities issued by German and Russian banks in EUR and RUB respectively for circulation on domestic markets of the issuers.

As at 31 December 2013, available-for-sale investment securities pledged under repurchase agreements in the amount of EUR 13,225 thousand include Eurobonds of IBEC member-countries nominated in EUR.

Interest rate risk related to available-for-sale investment securities including those pledged under repurchase agreements, is disclosed in Note 21.

As at 31 December 2013, held-to-maturity investment securities in the amount of EUR 2,244 thousand include bonds of VTB Bank nominated in RUB with coupon rate of 7.9% p.a.

9. Due from credit institutions

Amounts due from credit institutions comprise:

	2013	2012
Term loans and deposits with banks in the IBEC member-countries	92,915	101,141
Overdue loans and deposits provided as part of former-period activity	–	233,444
Total	**92,915**	**334,585**
Allowance for impairment	–	(233,444)
Due from credit institutions	**92,915**	**101,141**

As at 31 December 2013, balances with three main counterparties comprise EUR 29,025 thousand, or 31.24% of total loans and deposits provided as part of new activity (31 December 2012: EUR 30,597 thousand, or 30.23% of total loans and deposits provided as part of new activity).

The movements in the allowance for impairment of overdue loans and deposits provided as part of former-period activity to BANCO NACIONAL DE CUBA were as follows (Notes 15 and 16):

	2013	2012
As at 1 January	**233,444**	**233,019**
Translation difference	(999)	425
Write-offs	(232,445)	–
As at 31 December	**–**	**233,444**

(thousands of euro)

10. Loans to customers

Loans to customers comprise:

	2013	2012
Corporate lending	59,710	59,428
Consumer lending	77	139
Total loans to customers	**59,787**	**59,567**
Allowance for impairment	(39,081)	(16,750)
Loans to customers	**20,706**	**42,817**

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

	2013	2012
As at 1 January	**16,750**	**15,277**
Change for the year	22,331	1,473
As at 31 December	**39,081**	**16,750**
Individual impairment	39,081	16,750
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**41,124**	**29,798**

Collateral and other credit enhancements

In accordance with its internal rules and procedures, the Bank accepts the following types of collateral from its borrowers:

- guarantees from governments and member-countries of IBEC;
- bank guarantees;
- guarantees from third parties;
- commercial real estate properties;
- liquid company equipment, which is in fairly wide use and equipment which may be considered unique in exceptional circumstances;
- government securities and highly liquid corporate securities.

When the bank provides loans, the value of assets obtained as collateral should be higher than the amount of the loan, loan interest and other payments to the Bank over the entire term of the loan as provided by international law, requirements of the legislation effective in the country where the Bank is present, market convention or contract/agreement.

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

- guarantees from governments of IBEC member-countries;
- charges over real estate;
- charges over equipment;
- guarantees from third parties.

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

(thousands of euro)

10. Loans to customers (continued)

Concentration of loans to customers

Loans have been extended to the following types of customers:

	2013	2012
Private companies	59,710	59,428
Individuals	77	139
	59,787	**59,567**

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

	2013	2012
Oil industry	26,031	26,705
Infrastructure	14,785	14,785
Aerospace engineering and manufacturing	8,000	11,380
Investments: leasing	9,574	–
Pharmaceuticals	762	–
Heavy industry	308	308
Foreign trade	250	250
Manufacturing	–	6,000
Individuals	77	139
	59,787	**59,567**

Loans are provided to customers operating in the following IBEC member and non-member countries:

	2013	2012
Bulgaria	15,093	15,093
Russia	14,782	20,844
Mongolia	11,576	12,250
Panama	9,574	–
Switzerland	8,000	11,380
Slovak Republic	762	–
	59,787	**59,567**

As at 31 December 2013, the Bank had a concentration of loans represented by EUR 40,816 due from the three major borrowers, which is equivalent to 68.27% of gross loan portfolio (31 December 2012: EUR 41,490, or 69.65% of gross loan portfolio of the Bank). An allowance for impairment of EUR 38,891 thousand was recognized by the Bank against these loans (2012: EUR 16,674 thousand).

(thousands of euro)

11. Property and equipment

The movements in property and equipment were as follows:

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

2012	Buildings and constructions	Office equipment and computer hardware	Furniture	Vehicles	Total
Cost					
31 December 2011	**107,882**	**1,346**	**617**	**595**	**110,440**
Additions	–	79	24	–	**103**
Disposals	–	(83)	(75)	–	**(158)**
31 December 2012	**107,882**	**1,342**	**566**	**595**	**110,385**
Accumulated depreciation					
31 December 2011	**22,297**	**1,037**	**489**	**539**	**24,362**
Depreciation charge for 2012	1,317	120	10	40	**1,487**
Disposals	–	(82)	(68)	–	**(150)**
31 December 2012	**23,614**	**1,075**	**431**	**579**	**25,699**
Net book value					
Net book value as at 31 December 2011	**85,585**	**309**	**128**	**56**	**86,078**
Net book value as at 31 December 2012	**84,268**	**267**	**135**	**16**	**84,686**

(thousands of euro)

11. Property and equipment (continued)

Buildings are recognized at revalued amount. The buildings were revalued at fair value as at 31 December 2009. The fair value of buildings was determined using the respective valuation techniques and information on transactions in the real estate market.

As at 31 December 2013, fair value of revalued buildings did not differ significantly from their carrying value, therefore revaluation was not performed.

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

	2013	2012
Cost	**60,999**	**60,999**
Accumulated depreciation	(13,557)	(12,804)
Net book value	**47,442**	**48,195**

12. Other assets and liabilities

Other assets comprise:

	Note	2013	2012
Receivables under financial and business operations		1,159	805
Derivative financial assets		570	–
Inventory		81	65
Contribution to the risk coverage fund of JSCB NCC		58	61
Fees and commissions receivable		26	15
Allowance for overdue fee and commission receivables	20	(26)	(14)
		1,868	**932**

During the reporting period, fee and commission receivables of EUR 16 thousand were written off against the allowance (Note 20).

Other liabilities comprise:

	Note	2013	2012
Payables under financial and business operations		361	49
Social obligations		183	992
Dividends payable to the member-countries of the Bank	15	171	–
Deferred income		4	13
Derivative financial liabilities		3	–
Provision for:			
- year-end bonus payments	20	384	654
- litigation charges	20	72	111
Other		–	129
		1,178	**1,948**

(thousands of euro)

12. Other assets and liabilities (continued)

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

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

In 2012, the Bank did not enter into any derivative transactions.

13. Due to credit institutions

	2013	2012
Repurchase agreements	12,226	–
Term loans and deposits from banks in the IBEC member-countries	8,987	24,863
Current accounts of banks in the IBEC member-countries	414	422
Current accounts of other credit institutions	13	5
Due to credit institutions	**21,640**	**25,290**

The Bank entered into direct repurchase agreements with a resident bank of a IBEC member-country. The subject of these agreements is Eurobonds of IBEC member-countries with a fair value of EUR 13,225 thousand. Refer to Notes 8 and 23.

As at 31 December 2013, the share of a major counterparty in amounts due to credit institutions comprised EUR 21,213 thousand, or 98.03% of total due to credit institutions (31 December 2012: EUR 12,880 thousand, or 50.93% of total due to credit institutions).

14. Due to customers

	2013	2012
Current accounts of entities in the IBEC member-countries	4,416	10,750
Current accounts of other entities	2,473	461
Current accounts of individuals	4,168	3,708
Due to customers	**11,057**	**14,919**

Current accounts of entities include funds of private companies. As at 31 December 2013, balances due to three major customers of the Bank amounted to EUR 5,499 thousand, or 49.73% of total due to customers (31 December 2012: EUR 5,176 thousand, or 34.69% of total due to customers).

(thousands of euro)

15. Equity

In accordance with the Agreement, the authorized capital formed from the equity contributions made by the IBEC member-countries is EUR 400,000 thousand.

As at 31 December 2013, the paid-in authorized capital of IBEC amounted to EUR 186,981 thousand (according to the statement of changes in equity of IBEC) with account of the following changes which occurred in 2013:
1) On 5 June 2013, the Council of IBEC decided to increase the paid-in part of the Bank's authorized capital by EUR 58,091 thousand.
2) Due to the final resolution of the matter related to repayment of funds provided by the Bank as part of former activities to BANCO NACIONAL DE CUBA, respective derecognition of the contingent liability of IBEC to Hungary and its membership withdrawal, the paid-in part of the Bank's authorized capital was decreased by amounts equivalent to equity contributions made by the Republic of Cuba and the Republic of Hungary to paid-in authorized capital, in particular, by EUR 2,528 thousand and EUR 12,038 thousand respectively (Notes 9 and 16).

The Bank's authorized capital did not change in 2012.

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

	Note	2013	2012
Republic of Bulgaria		14,137	9,745
Republic of Hungary	16	–	12,038
Socialist Republic of Vietnam		708	488
Republic of Cuba	9	–	2,528
Mongolia		2,495	1,720
Republic of Poland		22,453	15,477
Russian Federation		96,462	66,494
Romania		13,305	9,171
Slovak Republic		12,474	8,598
Czech Republic		24,947	17,197
Total		**186,981**	**143,456**

In 2013, the Council of the Bank declared dividends for the year ended 31 December 2012, totaling to EUR 10,000 thousand. As at the end of 2013, dividends were paid in the amount of EUR 9,829 thousand (remaining liability comprised EUR 171 thousand – Note 12).

(thousands of euro)

15. Equity (continued)

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

	Unrealized gains on available-for-sale investment securities
As at 1 January 2012	**31,326**
Net unrealized gains from available-for-sale investment securities	13,892
Realized gains on investment securities available-for-sale reclassified to profit or loss	(4,588)
Movements in unrealized revaluation reserve for securities available-for-sale	**9,304**
As at 31 December 2012	**40,630**
Net unrealized losses on investments securities available-for-sale	(737)
Realized gains on investment securities available-for-sale reclassified to profit or loss	(29,224)
Movements in unrealized revaluation reserve for securities available-for-sale	**(29,961)**
As at 31 December 2013	**10,669**

Realized gains on available-for-sale investment securities for 2013 in the amount of EUR 26,828 thousand are related to the partial sale of Moscow Exchange shares.

16. Commitments and contingencies

As at 31 December 2013, the Bank's commitments and contingencies comprised the following:

	2013	2012
Credit-related commitments		
Undrawn loan commitments	5,715	620
Total	**5,715**	**620**

In 1992, the Republic of Hungary declared its withdrawal from the IBEC membership. Until 2013, the Bank recognized Hungary's share in the paid-in part of the IBEC's authorized capital in the amount of EUR 12,038 thousand as contingent liability. In 2013, following the final resolution of the matter related to repayment of funds provided as part of former-period activities to BANCO NACIONAL DE CUBA (Notes 9, 15), the contingent liability to the Republic of Hungary was derecognized and Hungary's share in the Bank's paid-in part of the authorized capital was withdrawn.

(thousands of euro)

17. Net fee and commission income

	2013	2012
Conversion operations	1,017	2,757
Cash and settlement operations	412	898
Currency control	392	936
Account keeping	120	149
Fee and commission income	**1,941**	**4,740**
Fee and commission expense	**(85)**	**(91)**
Net fee and commission income	**1,856**	**4,649**

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

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

	2013	2012
Partial sale of Moscow Exchange shares	21,354	–
Result from disposal of debt securities	2,824	4,588
Total gains from investment securities available-for-sale	**24,178**	**4,588**

Gain from revaluation of available-for-sale investment securities was transferred from other comprehensive income to net gains (losses) from available-for-sale investment securities due to their sale in the amount of EUR 29,224 thousand, including gain from revaluation of Moscow Exchange shares of EUR 26,826 thousand.

19. Administrative and management expenses

	2013	2012 (restated)
Payroll expenses	7,735	7,203
Building, equipment and apartment repair and maintenance	1,585	1,519
Charges for professional services	669	562
Vehicle expenses	517	487
Meetings of the Council, Audit Committee, Working Group of Authorized Representatives and entertainment expenses	250	233
Telecommunication expenses	241	229
Business travel expenses	148	174
Office expenses	78	91
Training	60	62
Other administrative and management expenses	65	75
Total administrative and management expenses	**11,348**	**10,635**

(thousands of euro)

20. Other provisions

	Allowance for other assets	Provision for litigation	Provision for year-end bonuses	Total
As at 31 December 2011	**9**	**–**	**465**	**474**
Charge	22	142	631	**795**
Write-offs	(17)	(31)	(442)	**(490)**
As at 31 December 2012	**14**	**111**	**654**	**779**
Charge	28	24	–	**52**
Write-offs	(16)	(63)	(270)	**(349)**
As at 31 December 2013	**26**	**72**	**384**	**482**

Allowance for impairment of assets is deducted from the carrying values of the related assets. Provisions for litigation and year-end bonuses are recorded in other liabilities. As at 31 December 2013, provisions for litigation included the amount of expected legal expenses arising from law suits the Bank initiated to recover overdue loans.

21. Risk management

Introduction

The Bank manages its risks through the process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls.

Risk measurement and reporting systems

The Bank's risk management policy is based on the conservative approach which assumes that the Bank does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

Risks are measured and managed using the comprehensive approach whereby all existing risk factors and relationships between such factors are taken into account. Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept.

Information compiled from all the businesses is examined by the Bank's divisions and processed in order to analyze, control and identify risks on a timely basis. The Bank's divisions prepare regular reports on their operations and communicate current risk status to the Risk Management Department. For the purpose of effective risk management the Bank's divisions together with the Risk Management Department monitor the current risk exposure on the Bank's customers, counterparties, certain transactions and portfolios. The respective information is reported to the collegiate bodies, the Board of Management and the Council of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses various risk limitation and neutralization methods: diversification, limitation, hedging, etc. The Bank accepts collateral to reduce its credit risks.

Excessive risk concentration

Risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

(thousands of euro)

21. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties failed to discharge their contractual obligations to the Bank in full or in part. The Bank manages and controls credit risk by setting limits on the amount of risk it is prepared to accept for individual counterparties, and by monitoring exposures in relation to such limits.

All transactions which bear credit risk are measured using the quantitative and qualitative analysis methods established in accordance with the credit and risk management regulations of the Bank. The Bank uses its internal methodology to assign each client or counterparty a risk rating that reflects the Bank's exposure to credit risk. The Bank establishes counterparty limits to control the credit risk for counterparties.

The Bank manages credit risk through regular analysis of the ability of its clients and counterparties to discharge their principal and interest repayment obligations. The Bank's clients or counterparties are regularly monitored; their financial positions are reviewed to ensure that the internal credit ratings are appropriately assigned and, where necessary, take corrective action. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take mitigation action. In addition, the credit risk is managed by obtaining collateral, guarantees and warranties from legal entities and individuals.

Maximum exposure to credit risk is disclosed in Notes 6-10, 12 and 16.

Credit-related commitments risks

Credit-related commitments risk is defined as the possibility of sustaining a loss as a result of another party to a transaction failing to perform in accordance with the terms of the contract. They expose the Bank to similar risks to loans and these are mitigated by the same assessment, monitoring and control procedures.

Credit quality by class of financial asset

The credit quality of financial assets is managed by the Bank using internal credit ratings.

The table below shows the credit quality by class of financial assets for debt-related lines in the statement of financial position.

	Neither past due nor impaired		Individually impaired	Total 2013
	High grade	Standard grade		
Due from credit institutions	48	92,867	–	**92,915**
Loans to customers				
Corporate lending	–	18,586	2,043	**20,629**
Consumer lending	77	–	–	**77**
	125	**111,453**	**2,043**	**113,621**
Debt investment securities				
– available-for-sale (excluding shares)	43,338	67,939	–	**111,277**
– available-for-sale, pledged under repurchase agreements	–	13,225	–	**13,225**
– held-to-maturity	–	2,244	–	**2,244**
	43,338	**83,408**	–	**126,746**
Total	**43,463**	**194,861**	**2,043**	**240,367**

(thousands of euro)

21. Risk management (continued)
Credit risk (continued)

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total 2012
	High grade	Standard grade			
Due from credit institutions	10,432	90,709	–	–	**101,141**
Loans to customers					
Corporate lending	–	17,630	12,000*	13,048	**42,678**
Consumer lending	139	–	–	–	**139**
	10,571	**108,339**	**12,000**	**13,048**	**143,958**
Debt investment securities					
– available-for-sale (excluding shares)	28,170	65,313	–	–	**93,483**
	28,170	**65,313**	–	–	**93,483**
Total	**38,741**	**173,652**	**12,000**	**13,048**	**237,441**

* *Past due as at 31 December 2012 – less than 30 days.*

The Bank assigns credit ratings to its counterparties using the scales of international rating agencies in accordance with the table below:

IBEC's scale	Equivalent scale, S&P (or similar Moody's and Fitch)	Rating description
From AAA to A-	From AAA to A-	High grade
From BBB to B-	From BBB+ to B-	Standard grade
From CCC to D	From CCC+ to D	Sub-standard grade

Carrying value by class of financial assets whose terms have been renegotiated
The table below shows the carrying value of renegotiated financial assets, by class (after provision for impairment).

	2013	2012
Loans to customers		
Corporate lending	2,043	13,048
Total	**2,043**	**13,048**

21. Risk management (continued)

Credit risk (continued)

Impairment assessment

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

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

Geographical concentration of risk

Information on risk concentration by geographical regions is based on geographical location of the Bank's counterparties. The table below shows risk concentration by geographical location as at 31 December 2013:

(thousands of euro)

Country	Amounts due from credit institutions	Cash and cash equivalents (less cash on hand)	Trading securities	Debt securities available-for-sale (less shares)	Debt securities pledged under repurchase agreements	Debt securities held-to-maturity	Loans to customers	Total 2013	Share, %
Austria	–	10	–	10,178	–	–	–	10,188	3.95%
Bulgaria	–	1	–	1,513	8,813	–	118	10,445	4.05%
Germany	–	7,184	–	13,271	–	–	–	20,455	7.93%
Luxemburg	–	32	–	–	–	–	–	32	0.01%
Mongolia	33,412	–	–	6,216	–	–	2,175	41,803	16.20%
Vietnam	1,459	–	–	475	–	–	–	1,934	0.75%
Poland	–	–	–	24,765	–	–	–	24,765	9.60%
Panama	–	–	–	–	–	–	9,574	9,574	3.71%
Russia	58,044	1,927	7,461	25,473	–	2,244	77	95,226	36.90%
Romania	–	–	–	8,780	4,412	–	–	13,192	5.11%
Slovak Republic	–	–	–	12,461	–	–	762	13,223	5.12%
USA	–	1,072	–	–	–	–	–	1,072	0.42%
Czech Republic	–	–	–	8,145	–	–	–	8,145	3.15%
Switzerland	–	2	–	–	–	–	8,000	8,002	3.10%
Total	**92,915**	**10,228**	**7,461**	**111,277**	**13,225**	**2,244**	**20,706**	**258,056**	**100.00%**

(thousands of euro)

21. Risk management (continued)

Geographical concentration of risk (continued)

The table below shows risk concentration by geographical location as at 31 December 2012:

Country	Amounts due from credit institutions	Cash and cash equivalents (less cash on hand)	Trading securities	Debt securities available-for-sale (less shares)	Debt securities held-to-maturity	Loans to customers	Total 2012	Share, %
Austria	–	3	–	–	–	–	3	0.00%
Bulgaria	–	–	–	10,789	–	232	11,021	4.31%
Germany	–	8,731	–	–	–	–	8,731	3.42%
Luxemburg	–	3	–	–	–	–	3	0.00%
Mongolia	25,370	–	–	–	–	12,250	37,620	14.71%
Poland	–	–	2,070	29,879	–	–	31,949	12.49%
Russia	75,771	5,460	508	14,227	–	18,955	114,921	44.94%
Romania	–	–	–	15,674	–	–	15,674	6.13%
Slovak Republic	–	–	–	14,440	–	–	14,440	5.65%
USA	–	1,489	–	–	–	–	1,489	0.58%
Czech Republic	–	–	–	8,474	–	–	8,474	3.32%
Switzerland	–	2	–	–	–	11,380	11,382	4.45%
Finland	–	4	–	–	–	–	4	0.00%
Total	**101,141**	**15,692**	**2,578**	**93,483**	**–**	**42,817**	**255,711**	**100.00%**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal or stress 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 with the objective of ensuring that funds will be available at all times to meet all cash flow obligations as they become due. The Treasury is the key element in the Bank's system responsible for the liquidity management.

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December 2013 and 31 December 2012 based on contractual undiscounted repayment obligations. On-call liabilities are treated as if notice were to be given immediately.

31 December 2013	On demand and less than 30 days	31 to 180 days	181 days to 1 year	Total 2013
Due to credit institutions	6,321	15,610	–	**21,931**
Due to customers	11,057	–	–	**11,057**
Other liabilities	791	3	384	**1,178**
Total	**18,169**	**15,613**	**384**	**34,166**

(thousands of euro)

21. Risk management (continued)

Liquidity risk and funding management (continued)

31 December 2012	On demand and less than 30 days	31 to 180 days	Total 2012
Due to credit institutions	13,318	12,010	**25,328**
Due to customers	14,919	–	**14,919**
Other liabilities	1,317	631	**1,948**
Total	**29,554**	**12,641**	**42,195**

The table below represents the contractual maturity of the Bank's commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down (Note 16).

	On demand and less than 1 month	With no defined maturity	Total
2013	5,715	–	**5,715**
2012	620	12,037	**12,657**

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

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's equity.

The sensitivity of equity is calculated by revaluing trading securities and fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	Increase in basis points 2013	Sensitivity of equity 2013
EUR	12	700
USD	76	370
RUB	182	595
BGN	72	60

(thousands of euro)

21. Risk management (continued)
Market risk (continued)

Currency	Decrease in basis points 2013	Sensitivity of equity 2013
EUR	(12)	(700)
USD	(76)	(370)
RUB	(182)	(595)
BGN	(72)	(60)

Currency	Increase in basis points 2012	Sensitivity of equity 2012
EUR	16	853

Currency	Decrease in basis points 2012	Sensitivity of equity 2012
EUR	(16)	(853)

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The policy of the Board of Management is to use the conservative approach to foreign currency transactions, whereby the Bank sets limits on open currency positions so as to reduce the currency risk to an acceptable level. The currency positions are monitored by the Bank on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2013 on its non-trading monetary assets and liabilities and its forecast cash flows. The performed analysis calculates the effect of a reasonably possible movement of the currency rate against the euro on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. All other variables are held constant. Negative amounts in the table reflect a potential net reduction in the income statement or equity, while positive amounts reflect a net potential increase.

Currency	Change in currency rate, % 2013	Effect on profit 2013	Change in currency rate, % 2012	Effect on profit 2012
RUB	8.76%/(8.76%)	1,336/(1,120)	9.53%/(9.53%)	2,240/(1,851)
USD	9.41%/(9.41%)	1,368/(1,133)	10.63%/(10.63%)	65/(53)

(thousands of euro)

21. Risk management (continued)

Operational risk

Operating risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operating risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework, and monitoring and responding to potential risks could be effective tools to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

22. Fair value of financial instruments

Fair value hierarchy

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Total
31 December 2013			
Financial assets			
Trading securities	7,461	–	**7,461**
Available-for-sale investment securities	118,176	–	**118,176**
Investment securities pledged under repurchase agreements	13,225	–	**13,225**
Derivatives financial assets	–	570	**570**
	138,862	**570**	**139,432**
Financial liabilities			
Derivative financial liabilities	–	(3)	**(3)**

	Level 1	Level 3	Total
31 December 2012			
Financial assets			
Trading securities	2,578	–	**2,578**
Available-for-sale investment securities	93,483	51,974	**145,457**
	96,061	**51,974**	**148,035**

(thousands of euro)

22. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value:

	1 January 2013	Sales	Gains (loss) recorded in profit and loss	Transfers to level 1	31 December 2013
Financial assets					
Available-for-sale investment securities	51,974	(36,714)	–	(15,260)	–

During the year ended 31 December 2013 the Bank transferred available-for-sale investment securities from level 3 to level 1 of the fair value hierarchy. Total carrying value of transferred assets amounted to EUR 15,260 thousand and included unrealized comprehensive income in the amount of EUR 9,016 thousand. Transfer from level 3 to level 1 was determined by IPO of Moscow Exchange after which shares of the issuer are regularly traded on Moscow Exchange and have current quoted market price.

	1 January 2012	Gains recorded in other comprehensive income	31 December 2012
Financial assets			
Available-for-sale investment securities	50,493	1,481	51,974

These gains in other comprehensive income for 2012 are the effect of revaluation of exchange rates of the currencies in which financial assets are denominated.

Significant unobservable inputs and sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

Value of available-for-sale investment securities classified as level 3 financial instruments as at 31 December 2012 was measured by expert assessment on the basis of the price of share repurchase by the issuer equal to RUB 63.5 per share.

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable inputs by increasing the assumed price of the shares by 15 per cent, which was considered by the Bank to be within a range of reasonably possible alternatives based on price earnings ratios of companies with similar industry and risk profiles. The impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions amounted to EUR 7,796 thousand.

Procedures for fair value measurement

The Treasury applies judgment based on analysis of available directly unobservable market data to measure fair value of financial instruments classified as level 3 of the fair value hierarchy, similar as for unquoted securities available-for-sale, unquoted financial derivatives. The Bank's Board of Management assesses reasonableness of assumptions and approves assessment.

External appraisers are engaged for valuation of significant assets, such as the Bank's building. The Bank's Board of Management annually decides on engagement of external appraisers. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

(thousands of euro)

22. Fair value of financial instruments (continued)

Fair value of financial assets and liabilities not recorded at fair value

As at 31 December 2013 and 31 December 2012, fair value of financial assets and liabilities not carried at fair value in the statement of financial position did not differ significantly from their carrying value. Amounts due from credit institutions, loans to customers, amounts due to credit institutions, and amount due to clients are included in financial assets and liabilities not recorded at fair value in the statement of financial position. The methods and assumptions used to determine fair value are as follows.

Assets for which fair value approximates carrying value
The fair value of financial assets and financial liabilities which are liquid or have a short-term maturity (less than three months) is approximately equal to their carrying value.

Fixed and variable interest rate financial instruments
For quoted debt instruments, fair values are calculated based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

23. Transferred financial assets and assets held or pledged as collateral

Transferred financial assets not derecognized in their entirety

The following table provides a summary of financial assets for the year 2013 which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

	Note	Repurchase agreements
Carrying value of transferred assets and available-for-sale investment securities	8	13,225
Carrying value of associated liabilities – amounts due to credit institutions	13	(12,226)
Net position		**999**

In 2012, the Bank did not entered into transactions with financial assets not derecognized in their entirety.

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

(thousands of euro)

24. Classification of assets and liabilities by maturities

The table below shows an analysis of financial assets and liabilities as at 31 December 2013 by remaining contractual maturity:

	Within one year	More than one year	Total
Cash and cash equivalents	10,721	–	**10,721**
Trading securities	7,461	–	**7,461**
Due from credit institutions	92,915	–	**92,915**
Loans to customers	8,249	12,457	**20,706**
Investment securities:			
- available-for-sale	–	118,176	**118,176**
- held-to-maturity	–	2,244	**2,244**
Investment securities pledged under repurchase agreements	–	13,225	**13,225**
Derivatives financial assets	570	–	**570**
Total financial assets	**119,916**	**146,102**	**266,018**
Due to credit institutions	21,640	–	**21,640**
Due to customers	11,057	–	**11,057**
Derivative financial liabilities	3	–	**3**
Total financial liabilities	**32,700**	**–**	**32,700**
Net position	**87,216**	**146,102**	**233,318**

The table below shows an analysis of financial assets and liabilities at 31 December 2012 by remaining contractual maturity:

	Within one year	More than one year	Total
Cash and cash equivalents	15,968	–	**15,968**
Trading securities	2,578	–	**2,578**
Due from credit institutions	101,141	–	**101,141**
Loans to customers	12,263	30,554	**42,817**
Available-for-sale investment securities	1,455	144,002	**145,457**
Total financial assets	**133,405**	**174,556**	**307,961**
Due to credit institutions	25,290	–	**25,290**
Due to customers	14,919	–	**14,919**
Total financial liabilities	**40,209**	**–**	**40,209**
Net position	**93,196**	**174,556**	**267,752**

(thousands of euro)

24. Classification of assets and liabilities by maturities (continued)

Financial assets that are past due under contractual maturity as at 31 December 2013 were included in financial assets maturing after one year since their return period is not determined. Trade securities were included in financial assets maturing within one year on the basis of the Bank's assumption that these financial assets will be sold by the Bank in the short term.

25. Related party disclosures

For the purposes of these financial statements, parties are considered related if one of them has a possibility to control the other party or exercise significant influence over the other party in making strategic, financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In the ordinary course of business, the Bank enters into transactions with member-countries of IBEC.

Compensation to the Bank's management personnel in 2013 amounted to EUR 1,054 thousand (2012: EUR 667 thousand).

There were no other related party transactions during 2013 and 2012.

26. Capital adequacy

The Bank manages capital adequacy to cover risks inherent in banking business. The adequacy of the Bank's capital is monitored using, among other measures, the methods, principles and ratios established by the Basel Capital Accord 1988 with amendments to incorporate market risk.

The primary objective of the Bank's capital management is to ensure that the Bank maintains the required level of capital adequacy in order to support its business.

The Bank's capital adequacy ratio approved by the Council of the Bank is established at not less than 25%. The Bank calculates capital adequacy ratio on the basis of internal Methodology for assessment of capital adequacy of International Bank for Economic Co-operation approved by the Board of Management.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The Bank's capital adequacy ratio for 2013 and 2012 composed 158% and 147%, respectively. This indicates that the Bank maintains the requisite level of capital adequacy, with its equity being significantly prevalent over its liabilities.

IBEC's Council
(as of 31.12.2013)

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Undersecretary of State of the Ministry of Finance of the Republic of Poland

ANDRZEJ CIOPINSKI
Deputy Director of the International Department of the Ministry of Finance of the Republic of Poland

RUSSIAN FEDERATION

DMITRIY VLADIMIROVICH PANKIN
Deputy Minister of Finance of the Russian Federation

ALEKSANDR VASILYEVICH GORBAN
Director of the Economic Cooperation Department of the Ministry of Foreign Affairs of the Russian Federation

ROMANIA

CLAUDIU DOLTU
State Secretary of the Ministry of Public Finance of Romania

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

REPUBLIC OF SLOVAKIA

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General Director of the Department of International Relations of the Ministry of Finance of the Slovak Republic

CZECH REPUBLIC

EVA ANDEROVA (Ms.)
Deputy Minister of Finance of the Czech Republic

RADOMÍR KOP
Director of the Security and Crisis Management Department of the Ministry of Finance of the Czech Republic

Audit Committee

Chairman of the Committee

BYAMBATSETSEG DAMDINSUREN (Ms.)
Senior Economist of the General Management Department of the Bank of Mongolia

Members of the Committee

Republic of Poland
WALDEMAR SZOSTAK
Director of the Branch of National Bank of Poland in Poznan

Russian Federation
ANASTASIYA LOGINOVA (Ms.)
Chief Consultant of the Section for International Development Banking Relations of the Department of International Financial Relations of the Ministry of Finance of the Russian Federation

Romania
IRINA GRANZULEA (Ms.)
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Slovak Republic
ANDREJ SOLAR
General State Counsellor of the Ministry of Finance of the Slovak Republic

Czech Republic
RADOMÍR KOP
Director of the Security and Crisis Management Department of the Ministry of Finance of the Czech Republic

The Bank's Management
(as of 31.12.2013)

ALEXANDRU ORASCU
Director of the Operations Department

VALERY KHAET
Director of the Information Technology Department

VLADIMIR IONKIN
Director of the Administrative Department

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

OLGA PAVLOVA[2] (Ms.)
Director of the Legal Department

PETER MARČIČIAK
Director of the Credit Service Department

RINAT GOLDA
Director of the Treasury

SERGEI LOKTAEV
Director of the Client Relations Department

ZDENEK TEJKL
Deputy Director of the Strategic Planning and Analysis Department

IGOR TIMOSHIN
Deputy Director of the Operations Department – Chief Accountant

PETR MANCHEV
Deputy Director of the Treasury

PETR PODSTAVKA
Deputy Director of the Client Relations Department

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

NATALIA GORCHAKOVA (Ms.)
Head of the Internal Control Division

MIKHAIL GARETOVSKIY
Assistant of the Chairman – Executive Secretary of the Board

[2] Olga Alekseevna Pavlova was appointed Director of the Legal Department on 01.01.2014.

Contacts

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