International Bank for Economic Co-operation

IFRS financial statements

for the year ended 2018

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Independent Auditors' Report

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

Reporting on the audit of the financial statements

Opinion

We have audited the financial statements of International Bank for Economic Co-operation (the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

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

Audited entity: International Bank for Economic Co-operation.

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

Moscow, Russian Federation.

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

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions

are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

Lukashova N.V.

JSC "KPMG"
Moscow, Russia
25 March 2019

Statement of Financial Position as at 31 December 2018

(EUR thousand)

	Note	2018	2017*
Assets			
Cash and cash equivalents	7	18 288	7 082
Securities at fair value through profit or loss	8	5 682	–
- held by the Bank		4 989	–
- pledged under sale and repurchase agreements		693	–
Securities at fair value through other comprehensive income	9	130 747	195 861
- held by the Bank		83 985	190 734
- pledged under sale and repurchase agreements		46 762	5 127
Loans and deposits to banks	11	51 100	46 003
- term deposits placed in banks of IBEC member countries		14 292	37 309
- trade financing		36 808	2 839
- syndicated loans		–	5 855
Loans to customers	12	83 401	13 145
Securities at amortized cost	10	40 916	5 188
- held by the Bank		26 388	5 188
- pledged under sale and repurchase agreements		14 528	–
Property, plant and equipment	13	72 247	73 192
Other assets	14	1 249	1 921
Total assets		**403 630**	**342 392**
Liabilities			
Due to credit institutions	15	96 082	22 719
Due to customers	16	7 092	8 662
Other liabilities	14	2 094	1 384
Total liabilities		**105 268**	**32 765**
Equity			
Share capital	17	200 000	200 000
Revaluation reserve for securities at fair value through other comprehensive income		(3 024)	7 970
Revaluation reserve for property, plant and equipment		32 388	32 388
Retained earnings less net profit for the year		67 423	61 486
Net profit for the year		1 575	7 783
Total equity		**298 362**	**309 627**
Total liabilities and equity		**403 630**	**342 392**
Off-balance sheet committments			
Credit related committments	18	38 603	16 921

*The Bank initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative data is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of comparative data (see Note 3).

Denis Ivanov — Chairman of the Board

Olga Demina — Chief Accountant

«25» March 2019

The accompanying notes 1-28 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income for 2018

(EUR thousand)

	Note	2018	2017*
Interest income calculated using the effective interest rate method:			
Loans to customers		1 432	923
Loans and deposits with banks:		2 246	1 399
- term deposits placed in banks of IBEC member countries		968	1 083
- trade financing		880	4
- syndicated loans		442	352
- correspondent accounts		(44)	(40)
Securities at fair value through other comprehensive income		5 132	5 879
Securities at amortized cost		326	51
Total interest income calculated using the effective interest rate method		**9 136**	**8 252**
Other interest income			
Securities at fair value		154	–
Total other interest income		**154**	**–**
Total interest income		**9 290**	**8 252**
Interest expense		(1 177)	(690)
Net interest income		**8 113**	**7 562**
Reversal of allowance for expected credit losses on financial assets	22	541	6 613
Net interest income after allowance for expected credit losses		**8 654**	**14 175**
Fee and commission income		632	317
Fee and commission expense		(67)	(45)
Net fee and commission income	19	**565**	**272**
Net losses from operations with securities at fair value through profit or loss		(49)	–
Net gains from operations with securities at fair value through other comprehensive income	20	3 913	5 609
Net foreign exchange operations (losses) gains:			
- trading operations		(1 564)	1 619
- revaluation of currency items		1 160	(3 491)
Net (losses) gains from disposal of a property, plant and equipment		(4)	1
Rental income		1 710	1 729
Other banking income		587	44
Administrative and management expenses	21	(13 315)	(12 043)
Other allowances and provisions	23	(41)	(55)
Other banking expenses		(41)	(77)
Profit for the year		**1 575**	**7 783**

The accompanying Notes 1-28 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income for 2018 (continued) (EUR thousand)

	Note	2018	2017*
Other comprehensive (loss) income			
Items that are or may be reclassified subsequently to profit or loss:			
Unrealised (expenses) income from securities at fair value through other comprehensive income		(8 092)	8 268
Realised income from securities at fair value through other comprehensive income transferred to profit or loss	20	(3 504)	(5 235)
Change in the allowance for expected credit losses	8	(514)	–
Total items that are or may be reclassified subsequently to profit or loss		(12 110)	3 033
Total other comprehensive (loss) income		(12 110)	3 033
Total comprehensive (loss) income for the year		**(10 535)**	**10 816**

*The Bank initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative data is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of comparative data (see Note 3).

The accompanying Notes 1-28 form part of these financial statements.

Statement of Changes in Equity for 2018

(EUR thousand)

	Share Capital	*Revaluation reserve for securities at fair value through other comprehensive income*	*Revaluation reserve for property, plant and equipment*	*Retained earnings*	*Total equity*
Balance as at 31 December 2017*	**200 000**	**7 970**	**32 388**	**69 269**	**309 627**
Impact of adopting IFRS 9 (see Note 6)	–	1 116	–	(1 846)	(730)
Restated balance as at 1 January 2018	**200 000**	**9 086**	**32 388**	**67 423**	**308 897**
Net profit for the year	–	–	–	1 575	1 575
Other comprehensive loss					
Items that are or may be reclassified subsequently to profit or loss:					
Unrealised expenses from securities at fair value through other comprehensive income	–	(8 092)	–	–	(8 092)
Realised income from securities at fair value through other comprehensive income transferred to profit or loss	–	(3 504)	–	–	(3 504)
Movements in allowance for expected credit losses	–	(514)	–	–	(514)
Total items that are or may be reclassified subsequently to profit or loss	–	*(12 110)*	–	–	*(12 110)*
Total other comprehensive loss	–	**(12 110)**	–	–	**(12 110)**
Total comprehensive loss for the year	–	**(12 110)**	–	**1 575**	**(10 535)**
Balance as at 31 December 2018	**200 000**	**(3 024)**	**32 388**	**68 998**	**298 362**

The accompanying Notes 1-28 form part of these financial statements.

Statement of Changes in Equity for 2018 (continued)

(EUR thousand)

	Share Capital	*Revaluation reserve for securities at fair value through other comprehensive income*	*Revaluation reserve for property, plant and equipment*	*Retained earnings*	*Total equity*
Balance as at 31 December 2016	**200 000**	**4 937**	**32 388**	**61 486**	**298 811**
Net profit for the year	–	–	–	7 783	7 783
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Unrealised income from securities at fair value through other comprehensive income	–	8 268	–	–	8 268
Realised income from securities at fair value through other comprehensive income transferred to profit or loss	–	(5 235)	–	–	(5 235)
Total items that are or may be reclassified subsequently to profit or loss	–	*3 033*	–	–	*3 033*
Total other comprehensive income	**–**	**3 033**	**–**	**–**	**3 033**
Total comprehensive income for the year	–	**3 033**	–	**7 783**	**10 816**
Balance as at 31 December 2017	**200 000**	**7 970**	**32 388**	**69 269**	**309 627**

* The Bank initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative data is not restated (see Note 3).

The accompanying Notes 1-28 form part of these financial statements.

Statement of Cash Flows for 2018

(EUR thousand)

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		**1 575**	**7 783**
Adjustments for:			
Accrued interest receivable		72	112
Accrued interest payable		134	9
Other accrued income receivable		(20)	133
Other accrued expenses payable		(119)	107
Depreciation and amortisation		1 440	1 401
Reversal of allowance for expected credit losses on financial assets		(541)	(6 613)
Other allowances and provisions		41	55
Revaluation of securities at fair value through profit or loss		63	–
Revaluation of currency items (gains) losses		(1 160)	3 491
Accrued interest receivable on securities at amortized cost		306	74
Net income from operations with securities at fair value through other comprehensive income		(3 913)	(5 609)
Other differences		14	–
Cash flows (used in) from operating activities before changes in operating assets and liabilities		**(2 108)**	**943**
(Increase) decrease in operating assets			
Securities at fair value through profit or loss		(5 366)	–
Loans and deposits to banks		(3 590)	19 205
Loans to customers		(70 234)	2 044
Other assets		559	220
Increase (decrease) in operating liabilities			
Due to credit institutions		71 739	(12 865)
Due to customers		(1 009)	2 341
Other liabilities		244	(545)
Net cash (used in) from operating activities		**(9 765)**	**11 343**
Cash flows from investing activities			
Purchases of securities at fair value through other comprehensive income		(95 057)	(144 522)
Sales of securities at fair value through other comprehensive income		153 490	136 842
Purchases of securities at amortized cost		(36 190)	(5 253)
Purchases of property, plant and equipment	13	(512)	(551)
Proceeds from disposal of property, plant and equipment		–	4
Net cash from (used in) investing activities		**21 731**	**(13 480)**

The accompanying Notes 1-28 form part of these financial statements.

Statement of Cash Flows for 2018 (continued)

(EUR thousand)

	Note	2018	2017
Net increase (decrease) in cash and cash equivalents before translation differences		**11 966**	**(2 137)**
Effect of exchange rate changes on cash and cash equivalents		(760)	(905)
Effect of changes in expected credit losses on cash and cash equivalents		–	–
Net increase (decrease) in cash and cash equivalents		**11 206**	**(3 042)**
Cash and cash equivalents as at 31 December of the previous year	7	**7 082**	**10 124**
Cash and cash equivalents as at 31 December of the year	7	**18 288**	**7 082**

* The Bank initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative data is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of comparative data (see Note 3).

The accompanying Notes 1-28 form part of these financial statements.

1. Bank's principal activities

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

The Bank is an international financial institution established and acting under the Intergovernmental Agreement for the Organisation and Activities of IBEC, registered with the Secretariat of the United Nations on 20 August 1964 (the "Agreement"), and the Statutes of IBEC.

The main objectives of the Bank are to:

– facilitate the development of foreign economic relations among the Bank's member countries, their business entities, and among them and business entities of other countries;

– facilitate the creation and operation of joint ventures, primarily those involving companies of the Bank's member countries;

– facilitate member countries' participation in the development of market economic relations among business entities in member countries and other countries.

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

– opening and maintenance of customer accounts, receiving funds from customers and placing their funds in the Bank's accounts, handling documents and performing export and import payment and settlement operations, conversion, arbitrage, cash, guarantee and documentary operations, provision of banking consulting etc.;

– attracting deposits and loans, issue of securities;

– issue of interbank loans and guarantees, placing deposits and other borrowed funds, capital investments, discounting of promissory notes, purchase and sale of securities, participation in the capital of banks, financial and other institutions;

– other banking operations.

The Bank's member countries are the following eight countries of Europe and Asia: the Republic of Bulgaria, the Socialist Republic of Vietnam, Mongolia, the Republic of Poland, the Russian Federation, Romania, the Slovak Republic and the Czech Republic. Shares (shareholdings) of IBEC member countries in the Bank's paid-in authorised capital are the following:

	2018	***%***	***2017***	***%***
Russian Federation	103 179	51,59	103 179	51,59
Czech Republic	26 684	13,34	26 684	13,34
Republic of Poland	24 016	12,01	24 016	12,01
Republic of Bulgaria	15 121	7,56	15 121	7,56
Romania	14 232	7,12	14 232	7,12
Slovak Republic	13 342	6,67	13 342	6,67
Mongolia	2 668	1,33	2 668	1,33
Socialist Republic of Vietnam	758	0,38	758	0,38
Total	**200 000**	**100**	**200 000**	**100**

On 31 July 2014, the Council of the European Union imposed sectoral sanctions against the Russian Federation. In the preambles, the decisions of the EU Council of 31 July 2014 (paragraph 9) and the EU Council Regulation No. 833/2014 of 31 July 2014 (paragraph 5) developed on its basis specifically stipulate that "the imposed sanctions do not apply to institutions based in the Russian Federation having international legal status and established on the basis of intergovernmental agreements in which the Russian Federation is one of the participants." Thus, IBEC is directly excluded from the list of financial institutions to which restrictive measures of the Council of the European Union are applied.

On 16 March 2018 the Bank received investment ratings from Fitch Ratings: long-term rating of BBB- stable and short-term rating F3.

2. Economic environment in which the Bank operates

According to preliminary estimates, in 2018, the world economic growth rates slightly increased from 3.0% to 3.1% due to the effects of multidirectional changes both in the real sector and in financial markets.

In the group of developed economies, economic growth remained at the level of 2017 - 2.3%. The key factor that influenced the economic development of this group of countries in 2018 was the stiffening of the conditions of world trade, the US protectionist measures and the response measures, in particular, from China.

For European and Asian countries with developed economies, US protectionism had a negative impact on foreign trade, which led to a slowdown in their GDP growth rates.

In the Eurozone, the growth of domestic consumption against the positive trends in the labour market and an increase in the volume of investments supported by high business activity and utilization of production capacities could not compensate for the negative influence of external factors. In Asian countries with developed economies, the growth in domestic demand also did not compensate the impact of negative factors related to foreign trade.

The overall rate of economic growth of a group of emerging market and developing countries, which include the majority of IBEC member countries, in 2018, according to preliminary estimates, showed an increase from 4.4% to 4.5%.

In 2018, prices for basic commodities, primarily for oil, increased, which led to an increase in export earnings of exporting countries and, accordingly, increased costs for commodity-importing countries.

The degree of influence of the stiffening of foreign trade conditions on economic growth for the countries of this group depends on the degree of economic openness, in particular, on the volume of trade with the United States and China. Other factors affecting economic growth, such as monetary policy of regulators, political and geopolitical uncertainty, as well as domestic demand, are individual for each country.

Taken together, general macroeconomic and idiosyncratic factors led to negative trends in the financial markets of developing countries and resulted in lower prices for assets and currencies of emerging markets.

Political and economic development in the IBEC member countries has an impact, including on the activities of enterprises in these countries. Considering this, the Bank performs operations taking into account the regional characteristics of member countries in order to comprehensively evaluate and control credit and operational risks.

3. Basis for presentation of financial statements

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

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

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

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

This is the first set of annual financial statements of the Bank, in the presentation of which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied. Changes in accounting policies are described in Note 4.

Financial statements is prepared on the historical cost basis, except for financial instruments measured at fair value through profit or loss and financial instruments measured at fair value through OCI recognised at fair value, and buildings recognised at revalued cost.

Use of estimates and judgments

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Adjustments in estimates are recognized in the reporting period in which the relevant estimates were revised and in any subsequent periods that they affect.

Estimate is the process of determining the value at which the objects of financial accounting should be reflected in the financial statements of the Bank. The Bank uses the following methods for assessing (recognizing) financial assets and liabilities.

Fair value is the price that would have been received for the sale of an asset or paid for the transfer of an obligation in a transaction normally concluded between market participants at the valuation date. The fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs:

– either in the principal market for the asset or liability;

– or, in the absence of main market, in the most favourable market for the asset or liability. The initial cost is the amount of cash or cash equivalents paid or the fair value of other resources provided for the acquisition of the asset at the date of purchase, including transaction costs.

Transaction costs are additional costs and are directly related to the acquisition, issue or disposal of a financial instrument.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following Notes:

Applicable to 2018 only:

– classification of financial assets: assessment of the business model within which the financial assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (Note 4).

– establishing criteria for assessing whether there has been a significant increase in the credit risk of a financial asset since its initial recognition, defining a methodology for including forecast data in estimating expected credit losses, and selecting and approving models used to estimate expected credit losses (Note 24).

Applicable to 2017 only:

Allowance for loan impairment

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

Applicable to 2018 and 2017:

Sensitivity of fair value of the building

As at 31 December 2018, the fair value of the building beneficially owned by the Bank is EUR 71 547 thousand (2017: EUR 72 749 thousand). Fair value per one square meter is EUR 2 190 thousand (2017: EUR 2 227 thousand). If the value of one square meter increases by 10%, the fair value of the building will be EUR 78 702 thousand (2017: EUR 80 024 thousand), if the value of one square meter decreases by 10%, the fair value of the building will be EUR 64 392 thousand (2017: EUR 65 474 thousand).

Assumptions and uncertainty of estimates

Data about the assumptions and uncertainty of estimates, for which there is a significant risk that they may cause a significant adjustment in the financial statements for the year ended 31 December 2018, is disclosed in the following Notes:

Applicable to 2018 only:

- impairment of financial instruments: determination of inputs for a model for estimating expected credit losses, including projections (Note 24).

Applicable to 2017 only:

– impairment of financial instruments (see this Note, section *Allowance for loan impairment*).

Applicable to 2018 and 2017:

– estimate of the fair value of financial assets and liabilities (Note 26);
– revaluation of the building (Note 13).

Changes in accounting policies and data presentation

The Bank has adopted IFRS 9 and IFRS 15 from 1 January 2018. Also, the Bank early adopted Prepayment Features with Negative Compensation (Amendments to IFRS 9), issued in October 2017.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition methods chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has applied consequential amendments to IAS 1 ‘Presentation of Financial Statements’, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Bank disclosed the amount of such income in the “interest income” of the statement of profit or loss and other comprehensive income.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 ‘Financial Instruments: Disclosures’ that are applied to disclosures about 2018 but have not been applied to the comparative information.

The effect of initially applying these standards is mainly attributed to the following:

– an increase in impairment losses recognised on financial assets (Note 6),
– additional disclosures in accordance with the requirements of IFRS 7 (Note 6, 24).

The key changes to the Bank’s accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 6.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and

- the remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the “losses incurred” model used in IAS 39 with the model of “expected credit losses”. The new impairment assessment model also applies to certain loan commitments and financial guarantee contracts, but does not apply to investments in equity instruments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Notes 4, 24.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present ‘interest income calculated using the effective interest rate’ as a separate line item in the statement of profit or loss and other comprehensive income, the Bank has reclassified comparative interest income on non-derivative debt financial assets measured at FVTPL to ‘other interest income’ and changed the description of the line item from ‘interest income’ reported in 2017 to ‘interest income calculated using the effective interest method’.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

– The determination of the business model within which a financial asset is held.

– If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 6.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

Presentation of comparative data

As a result of adoption of IFRS 9 the Bank changed presentation of certain captions in the primary forms of financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the statement of financial position is disclosed in Note 6.

The effect of main changes in presentation of the statement of financial position as at 31 December 2017 is as follows:

– the items Investment securities available for sale and Investment securities held to maturity are now represented as Securities at fair value through other comprehensive income and Securities at amortized cost, respectively.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

– the presentation of interest income was amended to present interest on non-derivative financial assets measured at FVTPL separately under Other interest income line item, interest income was renamed into Interest income calculated using the effective interest rate;
– the presentation of impairment losses was amended to present impairment losses on debt financial assets (including net investments in finance leases), loan commitments and financial guarantees, and other assets separately;
– Net income from transactions with investment securities available-for-sale is represented as part of Net income from transactions with securities at fair value through other comprehensive income;
– net income (expense) on trading operations is represented separately as part of Net losses from transactions with securities at fair value through profit or loss.

The effect of main changes in presentation of the statement of cash flows for the year ended 31 December 2017 is as follows:

– the items Purchases of investment securities available-for-sale, Sales of investment securities available-for-sale, Purchases of investment securities held to maturity are presented as Purchases of securities at fair value through other comprehensive income, Sales of securities at fair value through other comprehensive income, Purchases of securities at amortized cost, respectively.

4. Significant accounting policies

Except for the changes disclosed in Note 3, the Bank has consistently applied the following accounting policies to all periods represented in these financial statements.

Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or
– the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and amounts paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

Amortized cost of a financial asset or liability is the value of the financial asset or liability at initial recognition less any principal repayments, plus or minus accumulated depreciation of the difference between the initial amount and payable amount at maturity calculated using the effective interest rate method and, with regard to financial assets, adjusted for expected credit losses allowance (or impairment allowance before 1 January 2018).

Gross carrying amount of a financial asset measured at amortized cost is the amortized cost of the financial asset before adjustment for the amount of expected credit losses allowance.

Calculation of interest income and expenses

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. When calculating interest income and expenses the effective interest rate is applied to the amount of the asset gross carrying amount (when the asset is not credit-impaired) or amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However for financial assets that became credit-impaired after initial recognition interest income is calculated through applying the effective interest rate to the amortized cost of the financial assets. If a financial asset is no longer credit-impaired, interest income is calculated based on gross carrying amount.

For financial assets that were credit-impaired at initial recognition interest income is calculated through applying the effective interest rate adjusted for credit risk to the amount of the financial asset amortized cost. For such assets interest income is not calculated based on gross carrying amount even if the related credit risk subsequently decreases.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

– interest on financial assets measured at amortized cost;
– interest on debt instruments measured at FVOCI.

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the statement of profit or loss and other comprehensive income include:
– interest expense on financial liabilities measured at amortized cost;
– interest expense on non-derivative debt financial liabilities measured at FVTPL.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and amounts paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income and expenses calculated using the effective interest method represented in the statement of profit or loss and other comprehensive income included:

– interest income and expenses on financial assets and liabilities measured at amortized cost;
– interest income on debt instruments measured at FVOCI.
– interest expense on non-derivative debt financial liabilities measured at FVTPL.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Additional fees and commissions under contracts that are not part of the effective interest rate are recognised as fee and commission income.

Other fee and commission expenses included mainly service costs that are expensed as the services are received.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, and foreign exchange differences.

Cash and cash equivalents

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

Financial assets and liabilities

Classification of financial assets

Financial assets – Policy applicable from 1 January 2018

Upon initial recognition, financial assets are classified as measured at amortized cost or fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL).

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

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

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

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

– the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial instruments measured at FVOCI gains and losses are recognised in other comprehensive income except for the following items that are recognised in profit or loss in the same manner as for financial assets at amortized cost:

– interest income calculated using the effective interest rate method;
– ECL and reversals, and
– foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Reclassification

Classification of financial assets after initial recognition does not change, except for in the period following the period when the Bank changes its business model with regard to financial assets management. The Bank shall reclassify financial assets only when it has changed the business model used to manage these financial assets. Such changes are expected to be very rare. Such changes must be designated by the top management of the Bank as a result of external or internal changes and must be significant for the Bank's activity and evident for external parties. Therefore, a change of the Bank's business model can occur when and only when the Bank starts or ceases to conduct certain activity which is significant for its operations; for instance, when the Bank acquired, disposed of or terminated a certain business line.

Classification of financial liabilities after their initial recognition can not be changed.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those accounting policies in practice. Particularly, whether the Banks's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

– how the performance of the portfolio is evaluated and reported to the Bank's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model), and how those risks are managed;

– how managers of the business are compensated;

– the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criterion), the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

– contingent events that would change the amount and timing of cash flows;
– leverage features;
– prepayment and extension terms;
– terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
– features that modify consideration for the time value of money (e.g. periodic reset of interest rates);

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of business environment. The borrowers have an option to either accept the revised rate or redeem the loan at par without significant penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that interest represents consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Thus, the Bank treats these loans as essentially those with a variable interest rate.

Financial assets – Policy applicable before 1 January 2018

The Bank classified its financial assets into one of the following categories:
– loans and receivables;
– held-to-maturity;
– available-for-sale; and
– at FVTPL.

Financial liabilities

The Bank classified its financial liabilities as measured at amortized cost or at FVTPL. Classification of financial liabilities after their initial recognition can not be changed.

Derecognition of financial assets and liabilities

The Bank derecognised financial assets when:

– the financial assets were redeemed or the rights to the cash flows from the assets had otherwise expired, or
– the Bank had transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement and also transferred substantially all the risks and rewards of ownership of the assets or lost control over such assets.

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

The Bank derecognised a financial liability when its contractual obligations were discharged, cancelled or expired.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank entered into transactions whereby it transferred assets recognised on its statement of financial position, but retained either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets were not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retained nor transferred substantially all of the risks and rewards of ownership of a financial asset and it retained control over the asset, the Bank continued to recognise the asset to the extent of its continuing involvement, determined by the extent to which it was exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognised a financial liability when its contractual obligations were discharged, cancelled or expired.

Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Bank assesses whether cash flows related to such modified asset significantly differ. If cash flows differ significantly (significant modification) the rights for contractual cash flows related to the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

– fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
– other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows differ insignificantly, then according to IFRS 9, the Bank should recalculate the gross carrying amount of a financial asset (or amortized cost of a financial liability) by discounting the modified contractual cash flows at initial effective interest rate and recognise any amount resulting from the adjustment as profit or loss from modification in profit or loss.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:
– change the currency of the financial asset;
– change in collateral or other credit enhancement;

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Bank performs quantitative and qualitative assessment of whether modification is material analysing qualitative factors, quantitative factors and the overall effect of qualitative and quantitative factors. The Bank concludes that a modification is significant based on the following qualitative factors:

– change the currency of the financial liability;
– change in collateral or other credit enhancement;
– inclusion of conversion option;
– change of the financial liability subordination.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value plus any eligible transaction costs.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment of financial assets

Policy applicable from 1 January 2018

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

– financial assets that are debt instruments;
– lease receivables; and
– loan commitments and financial guarantees.

The model of ECLs is used.

No impairment losses are recognised on equity investments.

Allowances for ECLs shall be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECLs are recognised are classified as "Stage 1" financial instruments.

Lifetime ECLs ("lifetime ECLs") are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments that are not acquired or created credit-impaired assets, for which ECLs for the entire term are recognised, are classified as "Stage 2" financial instruments (if the credit risk on the financial instrument has significantly increased since its initial recognition, but the financial instrument is not credit-impaired) and "Stage 3" (in case the financial instrument is credit-impaired).

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

– debt investment securities that are determined to have low credit risk at the reporting date; and
– other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses that are measured as follows.

– *financial assets that are not credit-impaired at the reporting date*: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive;
– *financial assets that are credit-impaired at the reporting date*: the difference between the gross carrying amount of assets and the present value of estimated future cash flows;
– *undrawn loan commitments*: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
– *financial guarantees*: the present value of the expected payments to reimburse the holder's credit losses less any amounts that the Bank expects to recover.

Allowances for ECLs from lease receivables are measured in the amount equal to lifetime ECLs.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised, and ECL are measured as follows:

– if the expected restructuring does not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;

– if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date the Bank assesses financial assets carried at amortized cost and debt financial assets carried at FVOCI for credit impairment. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that financial assets are credit-impaired can include, for instance, the following observable data:

– significant financial distress of a debtor or issuer;
– breach of contractual terms such as default or delinquency;
– probability of bankruptcy or other financial reorganization of the borrower; or
– the disappearance of an active market for a security due to financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of an allowance for expected credit losses in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

– *financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets;
– *debt instruments measured at FVOCI:* no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve;
– *loan commitments and financial guarantees:* generally, as a provision;
– *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify a loss allowance for the ECL on the loan commitment component separately from those on the drawn component (loan issued):* The Bank presents a combined loss allowance for ECLs for both components. The combined amount is represented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance for ECLs over the gross amount of the drawn component is represented as a provision.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. In relation to the written off financial assets, the Bank continues debt collection activities.

Recoveries of amounts previously written off are included within allowance for expected credit losses in the statement of profit or loss and other comprehensive income.

Policy applicable before 1 January 2018

Objective evidence of impairment

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

The following principal criteria were used to determine if there was an objective evidence of impairment:
– overdue in any regular payment that cannot be attributed to a delay in operation of settlement systems;
– significant financial difficulties experienced by the borrower, which is confirmed by financial information available to the Bank;
– probability that the borrower will go bankrupt in the near future or other financial reorganisation;
– an adverse change in the payment status of the borrower as a result of changes in the economic conditions affecting the borrower;
– decline in the value of the collateral as a result of deteriorating market conditions.

A loan the terms of which were renegotiated due to an adverse change of the borrower's financial condition was usually considered impaired if there was no evidence that the risk of not receiving contractual cash flows had decreased significantly and there were no other indicators of impairment.

Measurement of impairment

Impairment losses were recognised in the financial statements through an allowance account to write down the asset's carrying value to the present value of expected cash flows discounted at the original effective interest rate of the asset.

Presentation

Impairment losses were recognised in profit or loss through an allowance account against loans and receivables or held-to-maturity investment securities.

Write-offs

Uncollectible financial assets (declared bad debt) were written off against the impairment allowance, after all the necessary procedures for full or partial recovery had been completed and the ultimate loss amount had been determined.

Loans to customers

Policy applicable from 1 January 2018

"Loans to customers" caption of the statement of financial position includes loans issued to customers measured at amortized cost; they are initially measured at fair value plus additional direct transaction costs and subsequently at their amortized cost using the effective interest rate method.

Policy applicable before 1 January 2018

Loans and receivables are a category of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables were recognised by IBEC at the settlement date. Loans and receivables were represented in the financial statements at amortized cost using the effective interest rate method. Gains and losses from such assets were recognised in the statement of profit or loss and other comprehensive income when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Financial assets held to maturity

Policy applicable before 1 January 2018

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

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

Gains and losses from investments in financial assets held-to-maturity were recognised in the statement of profit and loss and other comprehensive income when such assets were redeemed or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Policy applicable before 1 January 2018

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

Derivative financial instruments

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

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

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

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

Financial assets under repurchase transaction

Repurchase transactions are the type of collateralised lending in the form of securities.

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

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

Financial guarantees and loan commitments

Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

Policy applicable from 1 January 2018:

at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

Policy applicable before 1 January 2018:

at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, the cumulative amount of amortisation recognised in accordance with the principles of IAS 18.

The Bank has no loan commitments measured at FVTPL.

Loan commitments

For other loan commitments:

Policy applicable from 1 January 2018:

The Bank recognises loss allowance for expected credit losses;

Policy applicable before 1 January 2018:

The Bank recognised allowance in accordance with IAS 37 when the agreement was deemed onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Property, plant and equipment

For the accounting purposes all the property, plant and equipment are divided into the following groups: building, office equipment and computer hardware, furniture, and vehicles.

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

Depreciation of all groups of property, plant and equipment is calculated using the straight-line method.
Depreciation of an asset begins when it is available for use and ends when the asset is derecognised.

Depreciation is calculated over the following estimated useful lives of the property, plant and equipment as follows:

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

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

Any surplus from the revaluation of the building is credited in the statement of financial position to the revaluation reserve for property, plant and equipment being part of the equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss and other comprehensive income. In which case the increase is recognised in the statement of profit or loss and other comprehensive income. A revaluation deficit is recognised in the statement of profit or loss and other comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus recorded in the revaluation reserve for property, plant and equipment.

The revaluation reserve for property, plant and equipment is taken directly to retained earnings (accumulated loss) when the asset is written off or disposed of.

Operating lease

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term as lease income.

Due to credit institutions

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

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

Due to customers

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

Provisions for liabilities and charges

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

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

Trade and other payables

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

Foreign currency translation

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

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

Items of the statement of profit and loss and other comprehensive income denominated in foreign currencies are translated to the functional currency at the exchange rate effective at the date of such transaction. All translation differences from foreign currencies are recorded in the statement of profit or loss and other comprehensive income.

Offsetting

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

Income and expense recognition

Interest income and expenses are recognised in the financial statements on an accrual basis. Such amounts are recognised in the statement of profit or loss and other comprehensive income with a simultaneous recognition of debt in the statement of financial position to be recorded as part of other claims/liabilities.

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

Taxation

Pursuant to the Agreement and the Statutes of IBEC, the Bank is exempt of all direct taxes and duties, both national and local ones.

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

5. Transition to new or revised standards or interpretations

Standards issued but not yet effective

A number of new standards and adjustments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted. However, the Bank has not early adopted them in preparing these financial statements, with the exception of the adjustment to IFRS 9 affecting prepayment features with negative compensation issued in October 2017.

Of those standards that are not yet effective, IFRS 16 Leases is not expected to have a significant impact on the Bank's financial statements in the period of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. According to this model, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessees shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. A lessee shall remeasure the lease liability if a certain event occurs (for instance, a change in lease term, a change in future lease payments resulting from a change in an index or a rate used to determine those payments). In most cases, the lessee will recognise the amounts of revaluation of the lease liability as an adjustment to the right-of-use-asset. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting in accordance with IFRS 16 remains similar to the currently applicable requirements of IAS 17 – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that the Bank will apply IFRS 16 to all the contracts concluded before 1 January 2019 and identified as leases under IAS 17 and IFRIC 4. The Bank is only a lessor and, therefore, will use the same classification principles as in IAS 17, and is also in the process of assessing the possible impact of IFRS 16 on the Bank's financial statements. In addition, IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires more disclosures from lessors and lessees than IAS 17.

Other standards

The following standards, amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements:

– Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;
– Adjustments to References to Conceptual Framework in IFRS.

6. Transition to IFRS 9

Since 1 January 2018 the Bank has been applying IFRS 9 and created allowances for ECLs according to the requirements of the standard in the amount of EUR 1,846 thousand.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018:

	Classification under IAS 39	***Classification under IFRS 9***	***Note***	***Carrying amount under IAS 39***	***Carrying amount under IFRS 9***
Assets					
Cash and cash equivalents (excluding cash on hand)	Loans and receivables	Amortized cost	7	6 510	6 510
Securities at FVOCI (1)	Available-for-sale	FVOCI	9	195 861	195 861
Loans and deposits to banks	Loans and receivables	Amortized cost	11	46 003	45 317
Loans to customers	Loans and receivables	Amortized cost	12	13 145	13 145
Securities at amortized cost (2)	Held-to-maturity	Amortized cost	10	5 188	5 144
Other financial assets	FVTPL	FVTPL (mandatory)	14	963	963
	Loans and receivables	Amortized cost		502	502

(1) Certain debt securities are held by the Bank in separate portfolios to meet liquidity needs. The Bank seeks to minimize the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

(2) Certain debt securities are held by the Bank in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortized cost under IFRS 9.

There were no changes in classification of financial liabilities.

Analysis of the transition to IFRS 9 for provisions and retained earnings is shown below:

Revaluation reserve for securities at fair value through other comprehensive income	
Balance as at 31 December 2017 in accordance with IAS 39	**7 970**
Allowance for expected credit losses according to IFRS 9 for securities at fair value through other comprehensive income	1 116
Restated balance as at 1 January 2018 in accordance with IFRS 9	**9 086**
Retained earnings	
Balance as at 31 December 2017 in accordance with IAS 39	**69 269**
Allowance for expected credit losses in accordance with IFRS 9, including securities at fair value through other comprehensive income	(1 846)
Recalculated balance as of 1 January 2018 in accordance with IFRS 9	**67 423**
Total changes in equity due to the application of IFRS 9	**(730)**

The following table represents a reconciliation of the allowance for impairment according to IAS 39 with the allowance for expected credit losses according to IFRS 9 when transiting to a new standard on 1 January 2018.

Measurement category	*31 December 2017(IAS 39)*	*Remeasurement*	*1 January 2018 (IFRS 9)*
Cash and cash equivalents (excluding cash on hand)	–	–	–
Loans and deposits to banks	(11)	(686)	(697)
Loans to customers	(39 212)	–	(39 212)
Held-to-maturity investment securities under IAS 39 / Securities at amortized cost under IFRS 9	–	(44)	(44)
Other financial assets	(17)	–	(17)
Available-for-sale investment securities under IAS 39 / Securities at FVOCI under IFRS 9	–	(1 116)	(1 116)
Impact of adopting IFRS 9 on the Bank's equity		**(1 846)**	

There were no changes in the assessment of financial liabilities.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	Note	***IAS 39 carrying amount 31 December 2017***	***Remeasure-ment***	***IFRS 9 carrying amount 1 January 2018***
Loans and receivables under IAS 39 / Financial assets measured at amortized cost under IFRS 9:				
– Cash and cash equivalents (excluding cash on hand)	7	6 510	–	6 510
– Loans and deposits to banks	11	46 003	(686)	45 317
– Loans to customers	12	13 145	–	13 145
– Other financial assets	14	502	–	502
Investment securities held-to-maturity under IAS 39 / Securities at amortized cost under IFRS 9	10	5 188	(44)	5 144
Total amortized cost		**71 348**	**(730)**	**70 618**
Investment securities available-for-sale under IAS 39 / Securities at FVOCI under IFRS 9	9	195 861	–	195 861
Total FVOCI		**195 861**	**–**	**195 861**
Other financial assets at FVTPL under IAS 39 / Other financial assets at FVTPL under IFRS 9	14	963	–	963
Total FVTPL		**963**	**–**	**963**
Credit related commitments		16 921	–	16 921

7. Cash and cash equivalents

	2018	2017
Cash on hand	1 135	572
Correspondent accounts with banks in IBEC member countries	799	3 171
Correspondent accounts with other credit banks	16 354	3 339
Total cash and cash equivalents	**18 288**	**7 082**
Allowance for ECLs	–	–
Cash and cash equivalents less allowance for ECLs	**18 288**	**7 082**

As at 1 January 2018, all balances of cash and cash equivalents are classified as Stage 1. There was no allowance for expected credit losses on cash and cash equivalents as at 1 January 2018 and as at 31 December 2018, and there was no movement in allowance for ECLs for 2018. As at 1 January 2017 and December 31, 2017, and there was no movement in impairment allowance for 2017.

Cash and cash equivalents are not credit-impaired. The credit quality of cash and cash equivalents is disclosed in Note 24.

As at 31 December 2018, the balances of three major counterparties of the Bank amounted to EUR 16,338 thousand or 89.34% of the total amount of cash and cash equivalents (31 December 2017: the balances of three main counterparties accounted for EUR 4,541 thousand or 64.12% of total amount of cash and cash equivalents).

8. Securities at fair value through profit or loss

Securities at fair value through profit or loss comprise:

	2018	2017
Held by the Bank		
Eurobonds of the IBEC member countries	2 924	–
from BBB+ to BB-	*2 924*	–
Corporate bonds	1 197	–
from BBB+ to BB-	*1 197*	–
Eurobonds of banks	868	–
from B+ to B-	*868*	–
	4 989	**–**
Pledged under sale and repurchase agreements		
Corporate bonds (Note 15)	693	–
from BBB+ to BB-	*693*	–
	693	**–**
Total securities at FVTPL	**5 682**	**–**

Securities at FVTPL include securities provided as collateral under sale and repurchase agreements, fair value of which as at 31 December 2018 amounted to EUR 693 thousand (31 December 2017: nil). According to the agreement, upon maturity of the transaction the counterparty is obliged to return securities transferred under sale and repurchase agreements (Note 15).

The eurobonds of the IBEC member countries were issued in euros, with a maturity date of March 2029, the coupon rate is 2.875% per annum. Corporate eurobonds were issued in Russian roubles, with a maturity date of March 2034, the coupon rate is 9.1% per annum. Eurobonds of banks were issued in US dollars, with a maturity date of October 2023, the coupon rate is 7.25% p.a.

As at 31 December 2018, the Bank held EUR 1,890 thousand of securities at fair value through profit or loss, issued by organizations with state participation of the Russian Federation, or 33.26% of the total amount of securities at fair value through profit or loss (31 December 2017: there were no securities at fair value through profit or loss).

The risk of changes in the interest rate of securities at fair value through profit or loss is disclosed in Note 24.

9. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	2018	2017
Held by the Bank		
Corporate eurobonds	50 515	57 539
from BBB+ to BB-	*35 858*	*53 269*
from B+ to B-	*14 657*	*4 270*
Eurobonds of the IBEC member countries	21 107	97 105
from AAA to A-	*3 158*	*16 404*
from BBB+ to BB-	*14 015*	*73 734*
from B+ to B-	*3 934*	*6 967*
Bonds of the IBEC member countries	1 134	2 220
from AAA to A-	–	*1 072*
from BBB+ to BB-	*1 134*	*1 148*
Eurobonds of funds	7 691	–
from AAA to A-	*7 691*	–
Eurobonds of banks	3 538	33 870
from AAA to A-	–	*1 015*
from BBB+ to BB-	*3 538*	*32 855*
	83 985	**190 734**
Pledged under sale and repurchase agreements (Note 15)		
Eurobonds of the IBEC member countries	34 218	5 127
from AAA to A-	*8 685*	*5 127*
from BBB+ to BB-	*25 533*	–
Corporate eurobonds	10 024	–
from BBB+ to BB-	*10 024*	–
Corporate bonds	2 520	–
from BBB+ to BB-	*2 520*	–
	46 762	**5 127**
Securities at FVOCI	**130 747**	**–**
Available-for-sale investment securities	**–**	**195 861**

Movement in allowance for ECLs on securities at FVOCI is represented below:

	Stage 1	Stage 2	2018 Total
As at 31 December 2017	–	–	–
Effect of adopting IFRS 9 (Note 6)	906	210	1 116
Balance as at 1 January 2018	**906**	**210**	**1 116**
Net allowance for ECLs	46	–	46
Financial assets that have been derecognised	(365)	(215)	(580)
Foreign exchange differences	15	5	20
Balance as at 31 December 2018	**602**	**–**	**602**

There was no allowance for impairment of available-for-sale investment securities as at 1 January 2017 and 31 December 2017 and there was no movement in impairment allowance for 2017.

Securities at FVOCI include securities provided as collateral under sale and repurchase agreements, fair value of which as at 31 December 2018 amounted to EUR 46,762 thousand (31 December 2017: EUR 5,127 thousand). According to the agreement, upon maturity of the transaction the counterparty is obliged to return securities transferred under sale and repurchase agreements (Note 15).

Corporate eurobonds are the debt securities denominated in euro, US dollars and Swiss francs issued by financial and industrial entities of the IBEC member countries for circulation and trading in the markets that are external to the issuer and the over-the-counter market. Corporate bonds denominated in Russian roubles are issued by financial entities of the IBEC member countries for circulation in the internal markets of the countries of the issuers and the over-the-counter market. The maturity period of corporate eurobonds is from January 2021 to June 2025 (31 December 2017: from February 2018 to November 2024), coupon rate is in the range from 1.66% to 8.25% p.a. (31 December 2017: from 2.10% to 8.25% p.a.). The maturity period of corporate bonds is March 2034, coupon rate is 9.10% p.a. (31 December 2017: there were no corporate bonds).

Eurobonds of the IBEC member countries are issued in euro and US dollars for circulation and trading in markets that are external to the country of the issuers and the over-the-counter market. The maturity period of eurobonds is from April 2021 to May 2028 (31 December 2017: from April 2021 to October 2028), coupon rate is in the range from 1.5% to 10.88% p.a. (31 December 2017: from 1% to 10.88% p.a.).

Bonds of the IBEC member countries are denominated in euro and Bulgarian levs and issued for circulation and trading in the internal and stock markets of the countries of the issuers and the over-the-counter market. The maturity period of these bonds is April 2025 (31 December 2017: from April 2025 to January 2027), coupon rate is 2.3% (31 December 2017: in the range from 1.38 % to 2.3 % p.a.).

Eurobonds of funds are denominated in euro and are Eurobonds of international financial funds circulated in the stock markets external to the country of the issuer. The maturity period of eurobonds of funds is from October 2019 to January 2020, Coupon rate is in the range from 0.875% to 1.5% p.a. (31 December 2017: there were no eurobonds of funds).

Eurobonds of banks are debt securities denominated in euro and US dollars for circulation and trading in the markets that are external to the issuer. The maturity period of eurobonds of banks is March 2019 (31 December 2017: from February 2018 to February 2023), coupon rate is 3.08% p.a. (31 December 2017: from 0.75% to 6.55% p.a.).

As at 31 December 2018 the Bank held securities at fair value through other comprehensive income in the amount of EUR 20,948 thousand, which were issued by the state-owned organisations of the Russian Federation, or 16.02% of the total amount of securities at fair value through other comprehensive income (31 December 2017: EUR 66,873 thousand or 34.14% of the total amount of available-for-sale investment securities).

Credit quality and interest rate risk of securities at fair value through other comprehensive income are disclosed in Note 24.

10. Securities at amortized cost

Securities at amortized cost comprise:

	2018	*2017*
Held by the Bank		
Eurobonds of banks	20 648	5 188
from BBB+ to BB-	*20 648*	*5 188*
Corporate eurobonds	5 799	–
from BBB+ to BB-	*5 799*	–
	26 447	**5 188**
Pledged under sale and repurchase agreements (Note 15)		
Corporate eurobonds	10 177	–
from BBB+ to BB-	*10 177*	–
Corporate bonds	4 410	–
from BBB+ to BB-	*4 410*	–
	14 587	–
Total securities at amortized cost	**41 034**	**5 188**
Allowance for ECLs	**(118)**	**–**
Securities at amortized cost	**40 916**	**–**
Held-to-maturity investment securities	**–**	**5 188**

Movement in allowance for ECLs on securities at amortized cost is represented below:

		2018
	Stage 1	**Total**
As at 31 December 2017	–	–
Impact of adopting IFRS 9 (see Note 6)	44	44
As at 1 January 2018	**44**	**44**
Net allowance for ECLs	74	74
Balance as at 31 December 2018	**118**	**118**

There was no alllowance for impairment of investment securities held to maturity as at 1 January 2017 and 31 December 2017, there was no movement in impairment allowance for 2017.

Securities at amortized cost include securities provided as collateral under sale and repurchase agreements, fair value of which as at 31 December 2018 amounted to EUR 14,528 thousand (31 December 2017: nil). According to the agreement, upon maturity of the transaction the counterparty is obliged to return securities transferred under sale and repurchase agreements (Note 15).

Eurobonds of banks are debt securities issued in euro for circulation on markets that are external to the issuer with a maturity from March 2019 to February 2023 (31 December 2017: March 2019), the coupon rate is in the range from 3.08% to 4.032% p.a. (31 December 2017: 3.08% p.a.).

Corporate eurobonds and bonds are debt securities issued in euro and Russian rubles by financial organizations and industrial enterprises of the IBEC member countries for circulation in the internal and stock markets of the countries of the issuers and in markets that are external to the country of the issuer and trading on the over-the-counter and stock exchange market. The maturity period of corporate eurobonds is from May 2021 to June 2025, the coupon rate is in the range from 2.25% to 3.50% p. a. The maturity period of corporate bonds is March 2034, the coupon rate is 9.1% p. a. (31 December 2017: there were no corporate eurobonds and bonds).

As at 31 December 2018, the Bank held EUR 30,689 thousand of securities at amortized cost, which were issued by the state-owned organisations of the Russian Federation, or 75% of the total amount of securities at amortized cost (31 December 2017: EUR 5 188 thousand or 100% from the total amount of investment securities held to maturity).

During 2018, the Bank made investments in debt securities of companies from the IBEC member countries, which were acquired on the initial offering by issuers. Starting from 1 July 2018, the Bank considers investments in such securities purchased on the initial offering as a loan and investment activity, i.e. as a form of participation in financing socially significant infrastructure projects in the territory of the IBEC member countries, as well as promoting the development of small and medium businesses. In the table below, such securities, which are presented in the table above in the statement of financial position, as securities at amortized cost, are presented in the loan and investment portfolio of securities.

	2018	*2017*
Credit and investment portfolio of securities	9 466	–
Securities purchased in capital markets	31 450	5 188
Securities at amortized cost	**40 916**	**5 188**

The credit quality and interest rate risk of securities at amortized cost are disclosed in Note 24.

11. Loans and deposits to banks

Loans and deposits to banks comprise:

	2018	*2017*
Term deposits placed in banks of IBEC member countries	14 338	37 320
Trade financing	37 000	2 839
Syndicated loans	–	5 855
Total loans and deposits to banks	**51 338**	**46 014**
Allowance for ECLs	(238)	(11)
Loans and deposits to banks	**51 100**	**46 003**

Movement in allowance for ECLs on loans and deposits to banks for 2018 is presented below:

	Stage 1	Stage 3	2018 Total
As at 31 December 2017	–	11	11
Impact of adopting IFRS 9 (see Note 6)	686	–	686
As at 1 January 2018	**686**	**11**	**697**
Net allowance for ECLs	503	–	503
Financial assets that have been derecognised	(980)	–	(980)
Foreign exchange differences	18	–	18
Balance as at 31 December 2018	**227**	**11**	**238**

Movement in allowance for impairment of loans and deposits to banks for 2017 is represented below:

	2017
As at 1 January 2017	**5 020**
Net reversal	(5 009)
As at 31 December 2017	**11**

As at 31 December 2018, the balances of loans and deposits to banks with participation of the Russian Federation amounted to EUR 881 thousand or 1.72% of the total amount of loans and deposits to banks (31 December 2017: EUR 7 472 thousand or 16.24% of the total amount of loans and deposits to banks).

As at 31December 2018, the balances of three major counterparties of the Bank amounted to EUR 33,205 thousand or 64.98% of the total amount of loans and deposits to banks (31 December 2017: EUR 22,968 thousand or 49.93% of the total amount of loans and deposits to banks).

The credit quality and interest rate risk on loans and deposits to banks are disclosed in Note 24.

12. Loans to customers

Loans to customers comprise:

	2018	*2017*
Loans for foreign trade purposes to legal entities of the IBEC member countries	30 007	–
Loans to legal entities of the IBEC member countries	45 385	43 579
Loans to legal entities of other countries	8 411	8 694
Consumer lending	64	84
Total loans to customers	**83 867**	**52 357**
Allowance for ECLs	(466)	(39 212)
Loans to customers less allowance for ECLs	**83 401**	**13 145**

Movement in allowance for ECLs on loans to customers for 2018 is presented below:

	2018			
	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2017	**–**	**–**	**39 212**	**39 212**
Effect of adopting IFRS 9 (Note 6)	–	–	–	–
Balance as at 1 January 2018	**–**	**–**	**39 212**	**39 212**
Net allowance (reversal) for ECLs	312	155	(116)	351
Write-offs	–	–	(39 096)	(39 096)
Foreign exchange differences	(1)	–	–	(1)
Balance as at 31 December 2018	**311**	**155**	**–**	**466**

In 2018 the Bank made a decision to write off loans to legal entities in the amount of EUR 39,096 thousand against allowance for ELCs.

Movement in allowance for impairment of loans to legal entities for 2017 is presented below:

	2017
As at 1 January 2017	**40 816**
Net reversal	(1 604)
As at 31 December 2017	**39 212**

Collateral and other instruments to reduce credit risk

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

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

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

The main types of collateral obtained for loans to legal entities are as follows:

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

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

Information on collateral for loans to legal entities is presented below:

	2018	*2017*
Loans guaranteed by other parties, including loan insurance	8 257	8 694
Loans secured by real estate	25 357	4 367
Unsecured loans:	49 723	–
– *loans collateral for which will be registered after the reporting date*	*49 723*	–
Total loans to customers – legal entities	**83 337**	**13 061**

For unsecured loans, the terms of the loan agreements provide for concluding collateral agreements within six months from the date of loan agreements.

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

The credit quality and interest rate risk of the loan portfolio are disclosed in Note 24.

Concentration of loans to customers

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

	2018		*2017*	
	Amount	**%**	**Amount**	**%**
Investment: leasing	28 018	33,59	8 694	66,14
Nuclear industry	29 962	35,93	-	-
Pharmaceutical industry	-	-	3 367	25,61
Trading with agricultural products	402	0,48	1 000	7,61
Telecommunications	24 955	29,92	-	-
Consumer lending	64	0,08	84	0,64
Total loans to customers	**83 401**	**100**	**13 145**	**100**

As at 31 December 2018, the balances of three major counterparties of the Bank amounted to EUR 64,671 thousand or 77.54% of the total net loan portfolio of the Bank (31 December 2017: EUR 13,061 thousand or 99.36% of the total net loan portfolio of the Bank).

13. Property, plant and equipment

Below is the movement of property, plant and equipment:

2018	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Total*
Initial cost						
Balance as at 31 December 2017		**100 768**	**1 462**	**614**	**381**	**103 225**
Additions		91	41	52	328	512
Disposals		–	(48)	(89)	(141)	(278)
Balance as at 31 December 2018		**100 859**	**1 455**	**577**	**568**	**103 459**
Accumulated depreciation						
Balance as at 31 December 2017		**28 019**	**1 288**	**432**	**294**	**30 033**
Depreciation for the year	21	1 293	69	17	61	1 440
Disposals		–	(47)	(74)	(140)	(261)
Balance as at 31 December 2018		**29 312**	**1 310**	**375**	**215**	**31 212**
Carrying value						
As at 31 December 2017		**72 749**	**174**	**182**	**87**	**73 192**
As at 31 December 2018		**71 547**	**145**	**202**	**353**	**72 247**

2017	*Note*	*Building*	*Office equipment and computer hardware*	*Furniture*	*Transport*	*Total*
Initial cost						
Balance as at 31 December 2016		**100 353**	**1 525**	**610**	**358**	**102 846**
Additions		415	59	12	65	551
Disposals		-	(122)	(8)	(42)	(172)
Balance as at 31 December 2017		**100 768**	**1 462**	**614**	**381**	**103 225**
Accumulated depreciation						
Balance as at 31 December 2016		**26 756**	**1 341**	**425**	**279**	**28 801**
Depreciation for the year	21	1 263	66	14	58	1 401
Disposals		-	(119)	(7)	(43)	(169)
Balance as at 31 December 2017		**28 019**	**1 288**	**432**	**294**	**30 033**
Carrying value						
As at 31 December 2016		**73 597**	**184**	**185**	**79**	**74 045**
As at 31 December 2017		**72 749**	**174**	**182**	**87**	**73 192**

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

	2018	*2017*
Initial cost	61 965	61 874
Accumulated depreciation	(17 949)	(17 130)
Carrying value	**44 016**	**44 744**

Revalued assets

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

In 2018 and 2017 the Bank did not hire an independent appraiser for independent appraisal of fair value of the building. Management of the Bank carried out the analysis and concluded that in 2018 there were no significant changes in the real estate market and in the building condition. Management of the Bank considers that as at 31 December 2018 the fair value of the building has not significantly changed in comparison with 31 December 2015.

The basis used for the appraisal is the market approach and the income capitalisation approach.

The market approach is based on an analysis of the results of comparable sales of similar buildings. The following key assumptions were used in applying the market approach:

– sale prices of similar buildings in the range from EUR 2 thousand to EUR 5 thousand per sq. m were used for the appraisal;
– the price of similar buildings was reduced by a 6% negotiated discount;
– the price of similar buildings was adjusted for location and space of the building in the range of 0-30%;
– the price of similar buildings was adjusted for interior decoration in the range of 3%-8%.

The following key assumptions were used in applying the income capitalisation approach:
– cash flows are based on a 1 to 5 years projection period, excluding the effects of inflation;
– rental rates vary from EUR 315 to 387 per sq. m annually;
– rental rate increases are projected from 4.2% to 4.39% per year during the projection period;
– net cash flows were discounted to their present value using annual discount rate of 11.12%.

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external and internal information sources.

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

The Bank leases out part of the building to third parties; however, the building is primarily intended to be used by the Bank for its own purposes. Moreover, the leased part was insignificant in 2018 against the total space of the building. Rental income is also insignificant. It is impossible for the Bank to physically separate the leased parts; in addition, taking into account the insignificance of the leased parts, the Bank classifies the whole building as an item of property, plant and equipment.

14. Other assets and liabilities

Other assets comprise:

	Note	*2018*	*2017*
Financial assets			
Receivables under financial and business operations		452	391
Guarantee deposit		320	110
Derivative financial assets		15	963
Fees and commissions receivable from customers		12	18
Allowance for ECLs	22	(11)	(17)
Total financial assets less allowance for ECLs		**788**	**1 465**
Non-financial assets			
Repossessed collateral		403	403
Inventory		58	53
Total non-financial assets		**461**	**456**
Total other assets		**1 249**	**1 921**

Movement in allowance for ECLs on other financial assets for 2018 is presented below:

	Other financial assets Stage 1	**Total**
As at 31 December 2017	17	17
Effect of adopting IFRS 9 (Note 6)	–	–
Balance as at 1 January 2018	**17**	**17**
Net allowance for ECLs	9	9
Write-offs	(15)	(15)
Balance as at 31 December 2018	**11**	**11**

Movement in impairment allowance on other financial assets for 2017 is presented below:

	2017
As at 1 January 2017	18
Charge	4
Write-offs	(5)
As at 31 December 2017	**17**

Other liabilities comprise:

	Note	*2018*	*2017*
Social obligations		945	1 060
Derivative financial liabilities		723	11
Payables under financial and business operations		219	134
Provision for unused vacations	23	119	129
Allowance for ECLs for credit related commitments	18, 22	36	-
Provision for litigations	23	11	11
Advances received		8	2
Other accrued liabilities		33	37
		2 094	**1 384**

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

	2018		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Financial derivatives – agreements with residents of the IBEC member countries	24 012	15	622
Financial derivatives – agreements with non-residents of the IBEC member countries	9 029	–	101
Total derivative assets/liabilities		**15**	**723**

	2017		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Financial derivatives – agreements with residents of the IBEC member countries	30 354	628	11
Financial derivatives – agreements with non-residents of the IBEC member countries	18 694	335	–
Total derivative assets/liabilities		**963**	**11**

15. Due to credit institutions

Due to credit institutions comprises:

	2018	2017
Loans from banks of the IBEC member countries	44 236	17 426
Repurchase agreements	51 776	5 020
Correspondent accounts of banks of the IBEC member countries	70	273
Due to credit institutions	**96 082**	**22 719**

As at 31 December 2018, balances of three major counterparties of the Bank amounted to EUR 62,989 thousand or 65.56% of total amounts due to credit institutions (31 December 2017: balances of the main counterparty of the Bank amounted to EUR 15,264 thousand or 67.19% of total amounts due to credit institutions).

The Bank entered into sale and repurchase agreements with resident banks of the IBEC member countries and banks from other countries with pledge of securities whose fair value as at 31 December 2018 amounts to EUR 61,983 thousand (31 December 2017: EUR 5,127 thousand) (Notes 8,9,10).

Transferred financial assets that are not derecognised in their entirety

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

	Note	*Sale and repurchase agreements 2018*
Carrying value of transferred assets – Securities at FVTPL	8	693
Carrying value of transferred assets – Securities at FVOCI	9	46 762
Carrying value of transferred assets – Securities at amortized cost	10	14 528
Carrying value of associated liabilities – Due to credit institutions	15	(51 776)

	Note	*Sale and repurchase agreements 2017*
Carrying value of transferred assets – Available-for-sale investment securities	9	5 127
Carrying value of associated liabilities – Due to credit institutions	15	(5 020)

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

16. Due to customers

Due to customers comprises:

	2018	2017
Current accounts and deposits of entities in the IBEC member countries	1 213	3 524
Current accounts of other entities	453	110
Other current accounts	5 426	5 028
Due to customers	**7 092**	**8 662**

As at 31 December 2018, the balances of three major clients of the Bank amounted to EUR 1,859 thousand or 26.21% of total amounts due to customers (31 December 2017: EUR 3,132 thousand or 36.16% of total amounts due to customers).

Classification of due to customers (entities) by industries is presented below:

	2018		2017	
	Amount	*%*	***Amount***	*%*
Trade	986	59,2	2 752	75,7
Financial sector	187	11,2	18	0,5
Transport	139	8,3	253	7,0
Manufacturing	128	7,7	100	2,8
Construction	36	2,2	328	9,0
Other	190	11,4	183	5,0
Total due to customers	**1 666**	**100**	**3 634**	**100**

17. Share capital

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

As at 31 December 2018, the paid-in authorised capital of IBEC amounts to EUR 200,000 thousand (31 December 2017: EUR 200,000 thousand).

18. Credit related commitments

Credit related commitments comprise:

	2018	***2017***
Loan commitments	24 985	16 921
Guarantees issued	12 082	-
Letters of credit	1 322	-
Reimbursement obligations	250	-
Total credit related commitments	**38 639**	**16 921**
Allowance for ECLs (Note 22)	(36)	-
Credit related commitments	**38 603**	**16 921**

Movement of allowance for ECLs on credit related commitments for 2018 is presented below:

		2018
	Stage 1	**Total**
As at 31 December 2017	–	–
Effect of adopting IFRS 9 (Note 6)	–	–
Balance as at 1 January 2018	**–**	**–**
Net allowance for ECLs	36	36
Balance as at 31 December 2018	**36**	**36**

There was no impairment allowance on credit related commitments as at 1 January 2017 and as at 31 December 2017, there was no movement in impairment allowance for 12 months 2017.

The Bank has credit related commitments to provide credit resources. These credit related commitments provide for the issuance of credit resources under loan agreements.

The Bank issues guarantees and opens letters of credit in order to ensure the fulfilment of its customers' obligations to third parties. Reimbursement obligations are irrevocable reimbursement obligations of the Bank issued by order of issuing banks of documentary letters of credit confirmed and financed by foreign partner banks within the agreed amount when certain conditions are met, secured with appropriate supplies of goods and, therefore, have a lower level of risk than direct lending. Guarantees represent the amount of the Bank's obligation to make payments in the event that a customer cannot fulfil its obligations to third parties. Documentary letters of credit are a written obligation of the Bank to make payments on behalf of customers within the agreed amount when certain conditions are met and are secured with appropriate supplies of goods.

The Bank applies the same risk management policies and procedures when issuing guarantees, letters of credit, reimbursement obligations, credit commitments as it does for issuing loans to customers.

Credit related commitments may expire or terminate without being fully or partially funded. Therefore, the above contractual credit related commitments do not represent the expected cash outflow.

19. Net fee and commission income

	2018	2017
Currency control	239	197
Fee and commission for granting a loan/credit facility	209	–
Cash and settlement operations	88	76
Account maintenance	59	43
Documentary operations	37	1
Fee and commission income	**632**	**317**
Fee and commission expense	**(67)**	**(45)**
Net fee and commission income	**565**	**272**

20. Net gains from operations with securities at FVOCI

Net gains from operations with securities at FVOCI recognised in profit or loss comprise:

	2018	2017
Result from disposal of debt securities	3 913	5 609
Total net gains from operations with securities at FVOCI	**3 913**	**–**
Total net gains from operations with available-for-sale investment securities	**–**	**5 609**

Gain from the revaluation of securities at FVOCI due to their disposal during 2018 is transferred from other comprehensive income to "Net gains from operations with securities at FVOCI" in the amount of EUR 3,504 thousand (2017: EUR 5,235 thousand).

21. Administrative and management expenses

	2018	2017
Staff costs	8 142	7 031
Building, equipment and apartment repair and maintenance expenses	1 694	1 834
Depreciation expenses	1 440	1 401
Meetings of the Council of the Bank, Audit Committee, Working Group of Authorised Representatives and representative expenses	446	205
Information and advisory expenses	311	272
Building security expenses	306	343
Telecommunication expenses	270	291
Transport expenses	233	259
Business trip expenses	192	130
Office expenses	130	118
Expenses for audit services	61	49
Training expenses	42	53
Other administrative and management expenses	48	57
Total administrative and management expenses	**13 315**	**12 043**

Staff costs include contributions to:

	2018	2017
Pension Fund of the Russian Federation	623	548
Compulsory Medical Insurance Fund of the Russian Federation	229	201
Pension funds of other IBEC member countries	50	31
Social Insurance Fund of the Russian Federation	27	24
Total	**929**	**804**

22. Allowance for expected credit losses

The table below shows (income) expenses for allowance for ECLs on financial assets recognised in profit or loss for 2018:

		2018			
	Note	*Stage 1*	Stage 2	*Stage 3*	*Total*
Securities at FVOCI	9	(319)	(215)	–	(534)
Securities at amortized cost	10	74	–	–	74
Loans and deposits to banks	11	(477)	–	–	(477)
Loans to customers	12	312	155	(116)	351
Credit related commitments	18	36	–	–	36
Other financial assets	14	9	–	–	9
		(365)	**(60)**	**(116)**	**(541)**

Movement of impairment allowance on financial assets for 2017 is presented below:

	Note	1 January 2017	Allowance (reversal)	Exchange differences	Write-offs	31 December 2017
Loans and deposits to banks	11	5 020	(5 009)	–	–	11
Loans to customers	12	40 816	(1 604)	–	–	39 212
Other financial assets	14	18	4	–	(5)	17
		45 854	**(6 609)**	**–**	**(5)**	**39 240**

The following table provides a reconciliation between amounts shown in the above tables reconciling opening and closing balances of allowance for ECLs on financial assets:

	Securities at FVOCI	Loans and deposits to banks	Loans to customers	Securities at amortized cost	Other financial assets	Credit related commit ments	Total
As at 31 December 2017	**–**	**11**	**39 212**	**–**	**17**	**–**	**39 240**
Effect of adopting IFRS 9 (Note 6)	1 116	686	–	44	–	–	1 846
Balance as at 1 January 2018	**1 116**	**697**	**39 212**	**44**	**17**	**–**	**41 086**
Net allowance for ECLs	46	503	351	74	9	36	1 019
Financial assets that have been derecognized	(580)	(980)	–	–	–	–	(1 560)
Write-offs	–	–	(39 096)	–	(15)	–	(39 111)
Foreign exchange differences	20	18	(1)	–	–	–	37
Balance as at 31 December 2018	**602**	**238**	**466**	**118**	**11**	**36**	**1 471**

23. Other provisions

Movement of other provisions for 2018 and 2017 is presented below:

	Provision for litigations	*Provision for unused vacations*	*Total*
As at 31 December 2016	**11**	**148**	**159**
Charge	–	51	51
Write-offs	–	(70)	(70)
As at 31 December 2017	**11**	**129**	**140**
Charge	–	41	41
Write-offs	–	(51)	(51)
As at 31 December 2018	**11**	**119**	**130**

Provisions for unused vacations and litigations are recognised as part of other liabilities. As at 31 December 2018, provisions for litigations include the amount of expected legal expenses and possible payments in connection with the proceedings in which the Bank acts as a plaintiff and/or defendant.

24. Risk management

Introduction

The Bank manages risks in the course of the ongoing process of identification, assessment and monitoring as well as through establishing risk limits and other internal control measures. The risk management process is crucial to maintain stable operation of the Bank. In the course of its business the Bank is exposed to financial risks: credit, liquidity and market risks. The Bank is also exposed to operational risks.

Risk management structure

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

Council of the Bank

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

Board of Management of the Bank

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

Credit Committee (the "CC")

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

Assets and Liabilities Management Committee (the "ALCO")

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

Risk Management Department (the "RMD")

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

Internal Audit Division (the "IAD")

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

Risk assessment and reporting systems

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

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

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

Risk mitigation

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

Excessive concentration of credit risks

Risk concentrations arise when changes in economical, political or other conditions produce similar effect on counterparties' ability to perform contractual obligations in a situation when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic characteristics.

Concentrations of risks reflect relative sensitivity of the Bank's performance to changes in the conditions that affect a particular industry or geographical region.

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

Credit risk

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

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

The Bank uses ratings of international rating agencies S&P, Moody's and Fitch to manage the credit quality of financial assets. For loans to legal entities the Bank performs the analysis and simulation of cash flows (presented below) in addition to a financial analysis of the counterparty.

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

Information on the maximum exposure to credit risk is disclosed in Notes 7–12, 14.

Credit related commitments risks

Credit related commitments risk is defined as a probability of incurring a loss due to inability of another party to the operation to fulfil the obligations under the contract. Under these contracts the Bank bears risks that are similar to credit risks and that are mitigated using the same assessment, monitoring and control procedures.

Definition of default

The Bank considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
– the borrower is more than 90 days past due on any material credit obligation to the Bank (for loans to legal entities).

In assessing whether a borrower is in default, the Bank will consider indicators that are:
– qualitative: e.g. breaches of covenants;
– quantitative – e.g. overdue status and non-payment on another obligation of the same counterparty of the Bank; and
– based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

When determining whether the credit risk (i.e. the risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

It is identified whether a significant increase in credit risk has occurred for an exposure by comparing, among other things, the following:

– the remaining lifetime probability of default (PD) as at the reporting date; with
– the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure (adjusted, where relevant, for changes in prepayment expectations).

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if internal or external rating decreased by 2 notches since initial recognition. In measuring increases in credit risk, remaining lifetime ECLs are adjusted for changes in maturity.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is overdue for more than 30 days (loans to legal entities). Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
– the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
– the criteria do not align with the point in time when an asset becomes 30 days past due;
– the average time between the identification of a significant increase in credit risk and default appears reasonable;
– exposures are not generally transferred directly from 12-month ECLs (Stage 1) measurement to credit-impaired (Stage 3);
– there is no unwarranted volatility in allowance for ECLs from transfers between 12-month ECLs (Stage 1) and lifetime ECLs measurements (Stage 2).

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring usually includes the analysis of the following data.

– information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections;
– data from credit reference agencies, press articles, changes in external credit ratings;
– quoted bond and credit default swap (CDS) prices for the borrower where available;
– actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
– payment record – this includes overdue status;
– requests for and granting of forbearance;
– existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit rating agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be the change of GDP, consumer price index.

For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices, exchange rates etc.

The Bank's approach to incorporating forward-looking information into this assessment is described below.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

– probability of default (PD);
– loss given default (LGD);
– exposure at default (EAD);
– cash flows used to service debt under different scenarios (loans to legal entities);
– credit ratings of banks-counterparties, debt securities assigned by leading international rating agencies;
– volatility of shares price/index (for operations with banks-counterparties that do not have a credit rating assigned by international rating agencies).

These measures (except for cash flows) are derived from external statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

ECLs for loans to legal entities are determined in accordance with the valuation models approved by the Bank. One of the models for estimating the level of ECLs is based on determining the difference between the contractual and expected cash flows to the Bank discounted at the original effective interest rate and adjusted for collateral level and recovery rate. Other models are based on the international credit ratings of the borrower/parent company and the sovereign rating of the country of location of the borrower. According to the results of their evaluation, the Bank chooses the most conservative option of estimation.

LGD is the magnitude of the likely loss if there is a default and depends on the recovery rate. For corporate investment and speculative securities the recovery rate taken is consistent with average historical figures as per Moody's. For default level securities the recovery rate is 0%. For loans and deposits to banks the recovery rate taken is consistent with historical data of Moody's on average historical recovery rates for unsecured bank loans.

EAD represents the expected credit risk exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment.

Forward-looking information

Under IFRS 9, the Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, and certain individual and scientific forecasts, information provided by Bloomberg, Thomson Reuters, etc.

The Bank also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers are GDP forecasts and consumer price index.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 7 years.

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

Credit quality by classes of financial assets

The Bank applies external and internal credit ratings to manage credit quality of financial assets.

The table below shows the credit quality of assets exposed to credit risk (by three stages of impairment) with a breakdown by external ratings assigned by international rating agencies and internal credit ratings (if no external ratings are available) as at 31 December 2018:

	Stage 1	***Stage 2***	***Stage 3***	
	12-months ECLs	***Lifetime ECLs***	***Lifetime ECLs***	***Total***
Cash and cash equivalents (other than cash on hand)				
Amounts due from Central Banks	14 984	–	–	14 984
Correspondent accounts in other banks				
Internationally rated				
from AAA to A-	566	–	–	566
from BBB+ to BB-	1 577	–	–	1 577
from B+ to B-	8	–	–	8
from CCC+ to C	7	–	–	
Internally rated only				7
from BBB+ to BB-	11	–	–	11
Total	**17 153**	–	–	17 153
Allowance for expected credit losses	**–**	–	–	-
Carrying amount	**17 153**	–	–	**17 153**
Securities at fair value through other comprehensive income:				
– held by the Bank				
Internationally rated				
from AAA to A-	10 849	–	–	10 849
from BBB+ to BB-	54 545	–	–	54 545
from B+ to B-	18 591	–	–	18 591
Carrying amount	**83 985**	–	–	**83 985**
Allowance for expected credit losses	**(487)**	–	–	**(487)**
– pledged under sale and repurchase agreements				
Internationally rated				
from AAA to A-	8 685	–	–	8 685
from BBB+ to BB-	38 077	–	–	38 077
Carrying amount	**46 762**	–	–	**46 762**
Allowance for expected credit losses	**(115)**	–	–	**(115)**
Loans and deposits to banks				
Internationally rated				
from BBB+ to BB-	1 206	–	–	1 206
from B+ to B-	25 334	–	–	25 334
from CCC+ to C	24 787	–	–	24 787
no rating	–	–	11	11
Total	**51 327**	–	**11**	**51 338**
Allowance for expected credit losses	**(227)**	–	**(11)**	**(238)**
Carrying amount	**51 100**	–	–	**51 100**

(EUR thousand)

	Stage 1	*Stage 1*	*Stage 3*	
	12-months ECLs	*Lifetime ECLs*	*Lifetime ECLs*	*Total*
Loans to customers:				
Loans to legal entities				
Internationally rated				
from BBB+ to BB-	44 982	–	–	44 982
Internally rated only				
from BBB+ to BB-	30 007	–	–	30 007
from B+ to B-	–	8 814	–	8 814
Total	**74 989**	**8 814**		**83 803**
Allowance for expected credit losses	**(311)**	**(155)**	–	**(466)**
Carrying amount	**74 678**	**8 659**	–	**83 337**
Securities at amortized cost				
– held by Bank				
Internationally rated				
from BBB+ to BB-	26 447	–	–	26 447
Total	**26 447**	**–**	**–**	**26 447**
Allowance for expected credit losses	**(59)**	**–**	**–**	**(59)**
Carrying amount	**26 388**	**–**	**–**	**26 388**
– pledged under sale and repurchase agreements				
Internationally rated				
from BBB+ to BB-	14 587	–	–	14 587
Total	**14 587**	**–**	**–**	**14 587**
Allowance for expected credit losses	**(59)**	**–**	**–**	**(59)**
Carrying amount	**14 528**	**–**	**–**	**14 528**

For valuation of financial assets without external ratings the Bank applies internal credit ratings scale, which is consistent with ratings assigned by international rating agencies.

Internal credit ratings “B” are consistent with international ratings “from BB and B-“, internal credit ratings “BB” are usually consistent with international ratings “from BB+ and BB“, except for cases when international rating is limited by sovereign rating. Internal credit ratings “BBB” are consistent with international ratings “from BBB+ and BBB-“.

Loans and deposits to banks and debt investment securities as at 31 December 2017 are presented in the table below as per S&P, Moody's, Fitch international ratings. High ratings are ratings from AAA and A-, standard ratings include ratings from BBB+ and B-. Consumer lending (loans to the Bank's employees) is limited and was categorised into the "high rating" category.

	Not overdue or impaired			
	High rating	*Standard rating*	*Individually impaired*	*Total*
Cash and cash equivalents (other than cash on hand)	82	6 428	–	6 510
Loans and deposits to banks	–	46 003	–	46 003
Loans to customers:				
Corporate lending	–	*13 061*	–	*13 061*
Consumer lending	*84*	–	–	*84*
	166	**65 492**	**–**	**65 658**
Available-for-sale investment securities:				
– held by the Bank	*18 490*	*172 244*	–	*190 734*
– pledged under sale and repurchase agreements	*5 127*	–	–	*5 127*
Held-to-maturity investment securities	–	5 188	–	5 188
	23 617	**177 432**	**–**	**201 049**
Total	**23 783**	**242 924**	**–**	**266 707**

Below is information on the gross carrying amount of financial assets which changed stage in 2018:

				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers issued to legal entities				
Balance as at 1 January 2018	**13 061**	**–**	**39 212**	**52 273**
New financial assets originated or purchased	75 976	–	–	75 976
Transfer to Stage 2	(9 886)	9 886	–	–
Financial assets that have been derecognized, repayment	(4 042)	(1 457)	(116)	(5 615)
Write-offs	–	–	(39 096)	(39 096)
Foreign exchange differences	(120)	385	–	265
Balance as at 31 December 2018	**74 989**	**8 814**	**–**	**83 803**

There was no movement between stages for other financial assets in 2018.

(EUR thousand)

Geographical risk

Information on risk concentration by geographical regions is based on geographical location of the Bank's counterparties. The table below shows risk concentration by geographical locations as at 31 December 2018:

Country	*Cash and cash equivalents (other than cash on hand)*	*Securities at FVTPL held by the Bank*	*Securities at FVTPL pledged under sale and repurchase agreements*	*Securities at FVOCI held by the Bank*	*Securities at FVOCI pledged under sale and repurchase agreements*	*Securities at amortized cost held by the Bank*	*Securities at amortized cost pledged under sale and repurchase agreements*	*Loans and deposits to banks*	*Loans to customers*	*Total*	*Share, %*
Russia	757	1 197	693	35 244	2 520	26 287	4 403	1 205	49 787	**122 094**	**37,11**
Romania	6	2 924	–	5 784	25 533	–	–	–	15 350	**49 596**	**15,07**
Bulgaria	9	–	–	6 712	10 024	101	10 125	–	10 007	**36 978**	**11,24**
Mongolia	7	868	–	3 934	–	–	–	34 470	–	**39 279**	**11,94**
Czech Republic	12	–	–	18 809	–	–	–	–	–	**18 821**	**5,72**
Germany	14 602	–	–	–	–	–	–	–	–	**14 602**	**4,44**
Poland	1	–	–	3 158	8 685	–	–	–	–	**11 844**	**3,60**
Vietnam	8	–	–	2 653	–	–	–	8 436	–	**11 097**	**3,37**
Panama	–	–	–	–	–	–	–	–	8 257	**8 257**	**2,51**
IFI[1]	–	–	–	7 691	–	–	–	–	–	**7 691**	**2,34**
Belarus	–	–	–	–	–	–	–	6 989	–	**6 989**	**2,12**
Austria	1 201	–	–	–	–	–	–	–	–	**1 201**	**0,37**
Luxembourg	545	–	–	–	–	–	–	–	–	**545**	**0,17**
Switzerland	5	–	–	–	–	–	–	–	–	**5**	**0,00**
Total	**17 153**	**4 989**	**693**	**83 985**	**46 762**	**26 388**	**14 528**	**51 100**	**83 401**	**328 999**	**100**

[1] IFI – international financial institutions. As at 31.12.2018, IFI are represented by European Financial Stability Fund that is a fund financed by 27 countries who are members of Eurozone. The Fund's special purpose is to fight with the European debt crisis. The Fund is a European stability mechanism that provides financial aid to Eurozone members and participates in credit operations.

(EUR thousand)

The table below shows risk concentration by geographical locations as at 31 December 2017:

Country	*Cash and cash equivalents (other than cash on hand)*	*Available-for-sale investment securities held by the Bank*	*Available-for-sale investment securities pledged under sale and repurchase agreements*	*Investment securities held to maturity*	*Loans and deposits to banks*	*Loans to customers*	*Total*	*Share,%*
Russia	3 032	66 873	–	5 188	9 333	84	**84 510**	**31,69**
Romania	119	44 045	–	–	–	1 000	**45 164**	**16,93**
Mongolia	7	6 967	–	–	34 157	–	**41 131**	**15,42**
Bulgaria	2	39 813	–	–	–	–	**39 815**	**14,93**
Poland	–	17 419	5 127	–	–	–	**22 546**	**8,45**
Panama	–	–	–	–	–	8 694	**8 694**	**3,26**
Netherlands	–	4 754	–	–	–	–	**4 754**	**1,78**
Slovakia	–	1 072	–	–	–	3 367	**4 439**	**1,67**
Cyprus	–	4 270	–	–	–	–	**4 270**	**1,60**
Vietnam	–	894	–	–	2 513	–	**3 407**	**1,28**
Czech Republic	11	2 695	–	–	–	–	**2 706**	**1,02**
Germany	2 269	–	–	–	–	–	**2 269**	**0,85**
Luxembourg	68	1 932	–	–	–	–	**2 000**	**0,75**
Austria	996	–	–	–	–	–	**996**	**0,37**
Switzerland	6	–	–	–	–	–	**6**	**0,00**
Total	**6 510**	**190 734**	**5 127**	**5 188**	**46 003**	**13 145**	**266 707**	**100**

Liquidity risk and funding management

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

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

The tables below show the remaining maturities of the financial liabilities of the Bank as at 31 December 2018 and 31 December 2017 based on contractual undiscounted cash flows. Liabilities which are to be paid on the first notice are considered as if collection notice were given at the earliest possible date:

31.12.2018	*On demand and less than 30 days*	*31 to 180 days*	*181 to 365 days*	*Over 365 days*	*Total gross amount of cash (inflow) outflow*	*Carrying value*
Due to credit institutions	27 742	56 913	7 639	5 192	97 486	96 082
Due to customers	7 092	–	–	–	7 092	7 092
Other liabilities	1 371	–	–	–	1 371	1 371
Derivatives settled on a gross basis:						
– inflow	–	(5 563)	(9 093)	(12 664)	(27 320)	(27 320)
– outflow	–	5 664	9 109	13 270	28 043	28 043
Total	**36 205**	**57 014**	**7 655**	**5 798**	**106 672**	**105 268**

31.12.2017	*On demand and less than 30 days*	*31 to 180 days*	*181 to 365 days*	*Over 365 days*	*Total gross amount of cash (inflow) outflow*	*Carrying value*
Due to credit institutions	7 795	15 029	–	–	22 824	22 719
Due to customers	8 662	–	–	–	8 662	8 662
Other liabilities	1 373	–	–	–	1 373	1 373
Derivatives settled on a gross basis:						
– inflow	(1 571)	–	–	–	(1 571)	(1 571)
– outflow	1 582	–	–	–	1 582	1 582
Total	**17 841**	**15 029**	**–**	**–**	**32 870**	**32 765**

The table below shows the contractual maturities of credit related commitments. All outstanding credit related commitments are included in that period, which contains the earliest date when the client may withdraw them:

	On demand and less than 1 month	*6 to 12 months*	*12 months to 5 years*	*Total*
31.12.2018	26 536	10 056	2 011	38 603
31.12.2017	16 921	–	–	16 921

Classification of assets and liabilities by maturity

The table below shows breakdown of financial assets and liabilities as at 31 December 2018 and as at 31 December 2017 by their remaining contractual maturities. Listed debt securities measured at FVOCI and at FVTPL and not pledged under sale and repurchase agreements are classified as "on demand or less than 1 month", as they are liquid securities that can be realized by the Bank on market conditions in short term. Securities measured at FVOCI and at FVTPL pledged under sale and repurchase agreements are represented based on periods remaining from reporting date till the bank's contractual maturities.

31.12.2018	*On demand and less than 1 month*	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*More than 5 years*	*Total*
Cash and cash equivalents	18 288	–	–	–	–	18 288
Securities at FVTPL:						
– held by the Bank	4 989	–	–	–	–	4 989
– pledged under sale and repurchase agreements	–	–	693	–	–	693
Securities at FVOCI:						
– held by the Bank	83 985	–	–	–	–	83 8 5
– pledged under sale and repurchase agreements	17 394	21 360	8 008	–	–	46 762
Loans and deposits to banks	2 110	39 449	9 541	–	–	51 100
Loans to customers	150	115	410	74 620	8 106	83 401
Securities at amortized cost:						
– held by the Bank	–	8 089	–	15 188	3 111	26 8 8
– pledged under sale and repurchase agreements	–	–	–	4 403	10 125	14 528
Other financial assets	774	10	–	4	–	788
Total financial assets	**127 690**	**69 023**	**18 652**	**94 215**	**21 342**	**330 922**
Due to credit institutions	27 701	56 684	7 287	4 410	–	96 082
Due to customers	7 092	–	–	–	–	7 092
Other financial liabilities	1 205	101	16	606	–	1 928
Total financial liabilities	**35 998**	**56 785**	**7 303**	**5 016**	**–**	**105 102**
Net position	**91 692**	**12 238**	**11 349**	**89 199**	**21 342**	**225 820**
Cumulative liquidity gap for financial instruments	**91 692**	**103 930**	**115 279**	**204 478**	**225 820**	**–**

31.12.2017	*On demand and less than 1 month*	*1 to 6 months*	*6 to 12 months*	*12 months to 5 years*	*More than 5 years*	*Total*
Cash and cash equivalents	7 082	–	–	–	–	7 082
Investment securities available-for-sale:						
– held by the Bank	190 734	–	–	–	–	190 4
– pledged under sale and repurchase agreements	3 353	1 774	–	–	–	5 127
Loans and deposits to banks	22 386	14 941	8 676	–	–	46 003
Loans to customers	–	164	18	4 426	8 537	13 145
Investment securities held to maturity	–	–	–	5 188	–	5 188
Other financial assets	701	515	249	–	–	1 465
Total financial assets	**224 256**	**17 394**	**8 943**	**9 614**	**8 537**	**268 744**
Due to credit institutions	7 789	14 930	–	–	–	22 719
Due to customers	8 647	15	–	–	–	8 662
Other financial liabilities	1 244	–	–	–	–	1 244
Total financial liabilities	**17 680**	**14 945**	**–**	**–**	**–**	**32 625**
Net position	**206 576**	**2 449**	**8 943**	**9 614**	**8 537**	**236 119**
Cumulative liquidity gap for financial instruments	**206 576**	**209 025**	**217 968**	**227 582**	**236 119**	**–**

Market risk

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

Interest rate risk

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

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

Interest rate sensitivity analysis:

	31.12.2018		*31.12.2017*	
	Profit or loss	*Equity*	*Profit or loss*	*Equity*
100 bp paralle rise	16	16	271	271
100 bp parallel fall	(16)	(16)	(271)	(271)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and 31 December 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018				***2017***			
	Average effective interest rate,%				***Average effective interest rate,%***			
	Euro	***USD***	***RUB***	***Other currencies***	***Euro***	***USD***	***RUB***	***Other currencies***
Interest bearing assets								
Correspondent accounts with banks in the IBEC member countries and other banks	(0,40)	0,01	0,00	(0,48)	(0,27)	(0,19)	–	(0,09)
Securities at FVTPL:								
– held by the Bank	2,88	7,25	9,10	–	–	–	–	–
– pledged under sale and repurchase agreements	–	–	9,10	–	–	–	–	–
Securities at FVOCI / Investment securities available-for-sale:								
– held by the Bank	2,64	8,03	–	2,65	2,86	6,98	–	2,31
– pledged under sale and repurchase agreements	3,04	3,00	9,10	–	–	3,00	–	–
Securities at amortized cost / Investment securities held-to-maturity:								
– held by the Bank	3,46	–	–	–	3,08	–	–	–
– pledged under sale and repurchase agreements	3,50	–	9,10	–	–	–	–	–
Loans and deposits to banks	2,49	5,28	8,93	–	2,18	4,28	7,68	–
Loans to legal entities	2,16	5,94	–	–	6,27	7,00	–	–
Consumer lending	3,00	–	–	–	3,00	–	–	–
Interest bearing liabilities								
Due to credit institutions	0,01	3,20	8,67	–	–	1,83	8,00	–
Correspondent accounts with banks in the IBEC member countries and other credit institutions	(0,01)	–	2,65	–	(0,50)	–	2,82	–
Due to customers	–	–	–	–	–	–	6,50	–

Currency risk

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

The table below shows a general analysis of currency risk of the Bank for financial assets and liabilities as at 31 December 2018:

	Note	*USD*	*RUB*	*EUR*	*Other*	*Total*
Cash and cash equivalents		2 394	616	15 223	55	18 288
Securities at FVTPL:						
– held by the Bank		868	1 198	2 923	–	4 989
– pledged under sale and repurchase agreements		–	693	–	–	693
Securities at FVOCI:						
– held by the Bank		18 251	–	59 448	6 286	83 985
– pledged under sale and repurchase agreements		8 685	2 520	35 557	–	46 762
Loans and deposits to banks		31 606	2 272	17 222	–	51 100
Loans to customers		28 018	–	55 383	–	83 401
Securities at amortized cost:						
– held by the Bank		–	–	26 388	–	26 388
– pledged under sale and repurchase agreements		–	4 403	10 125	–	14 528
Other financial assets (excluding derivatives)	14,25	–	394	379	–	773
Total financial assets		**89 822**	**12 096**	**222 648**	**6 341**	**330 907**
Due to credit institutions		56 277	12 882	26 918	5	96 082
Due to customers		1 164	1 180	4 741	7	7 092
Other liabilities (excluding derivatives)	14,25	12	185	1 174	–	1 371
Total financial liabilities		**57 453**	**14 247**	**32 833**	**12**	**104 545**
Net balance sheet position		**32 369**	**(2 151)**	**189 815**	**6 329**	**226 362**
Net off-balance sheet position		**(28 777)**	**–**	**33 041**	**(4 972)**	**(708)**
Net balance sheet and off-balance sheet position		**3 592**	**(2 151)**	**222 856**	**1 357**	**225 654**

The table below shows a general analysis of currency risk of the Bank for financial assets and liabilities as at 31 December 2017:

	Note	USD	RUB	EUR	Other	Total
Cash and cash equivalents		1 710	753	4 425	194	7 082
Investment securities available-for-sale:						
– held by the Bank		17 289	–	153 290	20 155	190 734
– pledged under sale and repurchase agreements		5 127	–	–	–	5 127
Loans and deposits to banks		22 812	3 344	19 847	–	46 003
Loans to customers		8 694	–	4 451	–	13 145
Investment securities held-to-maturity		–	–	5 188	–	5 188
Other financial assets (excluding derivatives)	14,25	42	310	601	5	958
Total financial assets		**55 674**	**4 407**	**187 802**	**20 354**	**268 237**
Due to credit institutions		21 825	805	84	5	22 719
Due to customers		858	2 944	4 752	108	8 662
Other liabilities (excluding derivatives)	14,25	–	168	1 205	–	1 373
Total financial liabilities		**22 683**	**3 917**	**6 041**	**113**	**32 754**
Net balance sheet position		**32 991**	**490**	**181 761**	**20 241**	**235 483**
Net off-balance sheet position		**(29 407)**	**–**	**49 048**	**(18 689)**	**952**
Net balance sheet and off-balance sheet position		**3 584**	**490**	**230 809**	**1 552**	**236 435**

A weakening of the EUR, as indicated below, against the USD and RUB as at 31 December 2018 and 31 December 2017, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The impact on equity does not differ from that on the statement of profit and loss.

	31.12.2018	31.12.2017
20% appreciation of USD against EUR	718	717
20% appreciation of RUB against EUR	(430)	98

A strengthening of the EUR against the above currencies at 31 December 2018 and 31 December 2017 would have had the opposite effect subject to the condition that all other variables had remained constant.

Operational risk

Operational risk is a risk occurring due to a systemic failure, personnel's errors, fraud or external events. Operational risks can injure the reputation, have legal consequences, or lead to financial losses. The Bank cannot make an assumption that all operational risks have been eliminated, but using the control system and monitoring relevant responses to potential risks the Bank is able to manage and minimize such risks.

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

25. Derivative financial instruments

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

	Note	2018		2017	
		Contracts with positive fair value	***Contracts with negative fair value***	***Contracts with positive fair value***	***Contracts with negative fair value***
Currency forwards contracts and swap contracts: fair value as at the end of reporting period					
– Payables in USD (–)		5 705	23 071	27 824	1 582
– Receivables in Euro (+)		5 720	27 320	47 476	1 571
– Payables in other currencies (–)		–	4 972	18 689	–
Net fair value of currency forward contracts and swap contracts	14	**15**	**(723)**	**963**	**(11)**

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

26. Fair value of financial instruments

Fair value hierarchy

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

– Level 1: quoted market price (unadjusted) in an active market for an identical asset or liability;
– Level 2: valuation models where all significant inputs are directly or indirectly observable from market data;
– Level 3: valuation models that are not based on observable market data and use inputs that have a significant impact on fair value amounts recorded in the financial statements and are not based on observable market data. If observable inputs that require significant adjustments are used for the valuation of fair value, such valuation is designated into Level 3. The significance of the inputs used is evaluated for the entire fair value estimate in aggregate.

The table below analyses financial instruments represented in the financial statements at fair value by the level in the fair value hierarchy:

	Level 1	***Level 2***	***Total***
2018			
Financial assets			
Securities at FVTPL held by the Bank:			
• Eurobonds of the IBEC member countries	2 924	–	2 924
• Corporate bonds	1 197	–	1 197
• Eurobonds of banks	868	–	868
Securities at FVTPL pledged under sale and repurchase agreements:			
• Corporate bonds	693	–	693
Securities at FVOCI held by the Bank:			
• Corporate eurobonds	50 515	–	50 515
• Eurobonds of the IBEC member countries	21 107	–	21 107
• Bonds of IBEC member countries	1 134	–	1 134
• Eurobonds of funds	7 691	–	7 691
• Eurobonds of banks	3 538	–	3 538
Securities at FVOCI pledged under sale and repurchase agreements:			
• Eurobonds of the IBEC member countries	34 218		34 218
• Corporate eurobonds	10 024		10 024
• Corporate bonds	2 520	–	2 520
Derivative financial assets	–	15	15
	136 429	**15**	**136 444**
Financial liabilities			
Derivative financial liabilities	–	(723)	**(723)**

	Level 1	*Level 2*	*Total*
2017			
Financial assets			
Investment securities available-for-sale held by the Bank:			
• Eurobonds of the IBEC member countries	97 105	–	97 105
• Bonds of the IBEC member countries	2 220	–	2 220
• Eurobonds of banks	33 870	–	33 870
• Corporate eurobonds	57 539	–	57 539
Investment securities available-for-sale pledged under sale and repurchase agreements:			
• Eurobonds of the IBEC member countries	5 127	–	5 127
Derivative financial assets	–	963	963
	195 861	**963**	**196 824**
Financial liabilities			
Derivative financial liabilities	–	(11)	**(11)**

Derivatives

All derivatives are recognized at fair value as assets if the fair value of these instruments is positive and as liabilities if the fair value is negative. According to IFRS 9, the fair value of an instrument at its commencement is usually equal to the transaction price. If the transaction price differs from the amount determined at the commencement of a financial instrument using valuation methods, the difference is depreciated over the life of the financial instrument.

Fair value measurement procedures

External appraisers are involved for valuation of significant assets, such as the Bank's building. The Board of Management of the Bank decides on the involvement of third party appraisers on an annual basis. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The fair value of the building is categorized into Level 3 of the fair value hierarchy. The main assertions of fair value measurement are disclosed in Note 13.

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

As at 31 December 2018 and 31 December 2017, the fair values of the financial assets and liabilities not recorded in the statement of financial position at fair value do not differ significantly from their carrying values. The financial assets and liabilities not recorded in the statement of financial position at fair value include loans and deposits to banks, loans to customers, amounts due to credit institutions, due to customers and securities at amortized cost.

27. Related party transactions

For the purposes of these financial statements and according to IAS 24 *Related Party Disclosures,* parties are considered to be related if one of the parties has control or significant influence over another party when making strategic, financial and operational decisions. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely to the legal form.

In the ordinary course of business, the Bank engages into contractual relationships with state-owned organizations. In the ordinary course of business, the Bank mainly carries out transactions with entities from the IBEC member countries (Notes 8-11).

For 2018, remuneration to the management of the Bank amounted to EUR 2 088 thousand (2017: EUR 1 615 thousand). The remuneration to the management of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 55 thousand (2017: EUR 28 thousand), and Pension Funds of IBEC member countries – EUR 24 thousand (2017: EUR 18 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 26 thousand (2017: EUR 14 thousand).

As at 31 December 2018 and 31 December 2017, balances of the Bank's management comprised:

	2018	*2017*
Current accounts	1 836	2 224

There were no other transactions with related parties carried out by the Bank in 2018 and 2017.

28. Capital adequacy

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

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

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

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

The capital adequacy ratio of the Bank calculated on the basis of the results of 2018 and 2017 equals to 89.6% and 142% respectively and shows that the Bank's capital adequacy is maintained at the appropriate level in terms of significant prevalence of equity over liabilities.