

**International Bank
for Economic Co-operation**

IFRS financial statements

for the year ended 31 December 2017

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of International Bank for Economic Co-operation (the "Bank"), which comprise the statement of financial position as at 31 December 2017, 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 2017, 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 organisation 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, Russian Federation

23 March 2018

Statement of Financial Position as at 31 December 2017

(EUR thousand)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Assets			
Cash and cash equivalents	8	7 082	10 124
Available-for-sale investment securities:	9		
- held by the Bank		190 734	152 099
- pledged under sale and repurchase agreements		5 127	30 140
Amounts due from credit institutions	11	46 003	61 813
Loans to customers	12	13 145	14 812
Held-to-maturity investment securities	10	5 188	-
Property, plant and equipment	13	73 192	74 045
Other assets	14	1 921	1 279
Total assets		342 392	344 312
Liabilities			
Balances from credit institutions	15	22 719	36 875
Customer accounts	16	8 662	6 681
Other liabilities	14	1 384	1 945
Total liabilities		32 765	45 501
Equity			
Share capital	17	200 000	200 000
Unrealised gains on available-for-sale investment securities		7 970	4 937
Revaluation reserve for property, plant and equipment		32 388	32 388
Retained earnings less net profit for the year		61 486	59 817
Net profit for the year		7 783	1 669
Total equity		309 627	298 811
Total liabilities and equity		342 392	344 312

I.V. Golovchenko

O.V. Demina

«23» March 2018



Chairman of the Board

Chief Accountant

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

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

(EUR thousand)

	Note	2017	2016
Interest income:			
Loans to customers		923	1 076
Amounts due from credit institutions		1 399	3 126
Available-for-sale investment securities		5 879	5 876
Held-to-maturity investment securities		51	-
Total interest income		8 252	10 078
Interest expense		(690)	(374)
Net interest income		7 562	9 704
Reversal of allowance (allowance) for loan impairment and for amounts due from credit institutions	11,12	6 613	(5 020)
Net interest income after allowance for loan impairment and for amounts due from credit institutions		14 175	4 684
Fee and commission income	19	317	593
Fee and commission expense	19	(45)	(41)
Net gains from available-for-sale investment securities	20	5 609	4 495
Net foreign exchange gains (losses):			
- realised		1 619	(169)
- unrealised		(3 491)	1 027
Net gains (losses) from disposal of a property, plant and equipment		1	(1)
Rental income		1 729	1 433
Other banking income		44	120
Administrative and management expenses	21	(12 043)	(11 100)
Other reserves	22	(55)	655
Other banking expenses		(77)	(27)
Profit for the reporting year		7 783	1 669
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Unrealised gains on available-for-sale investment securities		8 268	8 887
Realised gains from available-for-sale investment securities transferred to profit or loss		(5 235)	(3 854)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		<i>3 033</i>	<i>5 033</i>
Total other comprehensive income		3 033	5 033
Total comprehensive profit for the year		10 816	6 702

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

Statement of Changes in Equity for the year ended 31 December 2017

(EUR thousand)

	<i>Share capital</i>	<i>Unrealised gains on available- for-sale investment securities</i>	<i>Revaluation reserve for property, plant and equipment</i>	<i>Retained earnings</i>	<i>Total equity</i>
Balance as at 31 December 2015	186 981	(96)	32 388	72 836	292 109
Net profit for the year	-	-	-	1 669	1 669
Increase in share capital due to retained earnings (Note 17)	13 019	-	-	(13 019)	-
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Unrealised gains on available-for-sale investment securities	-	8 887	-	-	8 887
Realised gains from available-for-sale investment securities transferred to profit or loss	-	(3 854)	-	-	(3 854)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	5 033	-	-	5 033
Total other comprehensive income	-	5 033	-	-	5 033
Total comprehensive income for the year	13 019	5 033	-	(11 350)	6 702
Balance as at 31 December 2016	200 000	4 937	32 388	61 486	298 811
Net profit for the year	-	-	-	7 783	7 783
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Unrealised gains on available-for-sale investment securities	-	8 268	-	-	8 268
Realised gains from available-for-sale investment securities transferred to profit or loss	-	(5 235)	-	-	(5 235)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	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 accompanying notes 1-27 form part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2017

(EUR thousand)

	Note	2017	2016
Cash flows from operating activities			
Profit for the year		7 783	1 669
Adjustments for:			
Accrued interest receivable		112	571
Accrued interest payable		9	(24)
Other accrued income receivable		133	(80)
Other accrued expense payable		107	218
Depreciation		1 401	1 361
(Recovery) charge of allowance for loan impairment and for amounts due from credit institutions		(6 613)	5 020
Other reserves		55	(655)
Unrealised foreign exchange gains		3 491	(1 027)
Net gains from available-for-sale investment securities		(5 609)	(4 495)
Other differences		-	1
Cash flows from operating activities before changes in operating assets and liabilities		869	2 559
<i>(Increase) decrease in operating assets</i>			
Amounts due from credit institutions		19 205	29 787
Loans to customers		2 044	2 743
Other assets		220	364
<i>Increase (decrease) in operating liabilities</i>			
Balances from credit institutions		(12 865)	(10 926)
Customer accounts		2 341	1 159
Other liabilities		(545)	(996)
Net cash provided from operating activities		11 269	24 690
Cash flows from investing activities			
Purchases of available-for-sale investment securities		(144 522)	(112 794)
Sales of available-for-sale investment securities		136 842	91 771
Purchases of held-to-maturity investment securities		(5 179)	-
Purchase of property, plant and equipment	13	(551)	(397)
Proceeds from sale of property, plant and equipment		4	1
Net cash used in investments activities		(13 406)	(21 419)
Net (decrease) increase in cash and cash equivalents before translation differences		(2 137)	3 271
Effect of exchange rate changes on cash and cash equivalents		(905)	(846)
Net (decrease) increase in cash and cash equivalents		(3 042)	2 425
Cash and cash equivalents as at 31 December of the previous year	8	10 124	7 699
Cash and cash equivalents as at 31 December of the reporting year	8	7 082	10 124

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

(EUR thousand)

1. Bank's principal activities

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

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

The main objectives of the Bank are to:

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

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

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

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

	2017	%	2016	%
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 22 March 2017 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

In 2017 the global economy was growing after the slow-down in 2016 due to the cyclical nature of its development. This growth reflected positive dynamics in the area of investments, industrial production and global trade. In 2017 global economy demonstrated growth by 3.0%, which exceeded June forecast of 2.7%. The most significant contribution to the growth of global GDP was made by developed economies, key emerging market countries and developing countries.

GDP growth in the group of developed countries strengthened in 2017 to 2.3% in comparison with 1.6% in 2016. The growth factors were recovery of investment activity and stable domestic demand.

At the same time, increase in the level of investments in 2017 reflects growth of industry, gradual increase in the return on investments and strengthening of investors' confidence against the reduced uncertainties as to the countries' economic policies.

Stability of the volumes of domestic consumption in developed countries in 2017 is associated with positive trends in the labour market.

As at the end of 2017 in the group of emerging market and developing economies, including IBEC member countries, the actual GDP growth met June forecast and amounted to 4.3%. For comparison, in 2016 this indicator was 3.7%. The main contribution in increase of economic growth in these countries was made by a positive trend of domestic demand and investments against the level of inflation, which was below the forecasts.

(EUR thousand)

Domestic demand increased due to increase in consumer confidence and strengthening of macroeconomic, currency and price stability, which had an impact on decrease in inflation and key rates.

Increase in investment activity in the emerging market and developing economies is associated with increase in prices for exchange commodities as a result of the decision of oil-exporting countries to prolong the term of agreement on oil extraction limitation until 2018. Another factor of investment growth in the specified group of countries in 2017 was the interest of foreign investors amid still soft monetary policy and, therefore, low rates in developed countries.

3. Basis for presentation of financial statements

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

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

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

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

The financial statements are prepared on the historical cost basis except that available-for-sale investment securities are stated at fair value, building is stated at revalued amount.

4. Accounting policy

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

Main approaches to valuation

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

Fair value is the price for which an asset could be sold, or a liability transferred, between parties in an arm's length transaction at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a liability takes place either:

- in the principal market for the asset or liability;
- or, in the absence of a principal market, in the most advantageous market for such an asset or liability. The initial value is a sum of all paid cash or its equivalents or a fair value of other resources transferred to acquire the asset at the date of its acquisition including transaction costs.

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

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

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

Cash and cash equivalents

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

Financial assets

Initial recognition of financial instruments

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

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

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

(EUR thousand)

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

Reclassification of financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Trading securities are recorded at fair value. Interest income on trading securities is calculated using effective interest rate and recognised in the statement of profit or loss and other comprehensive income as part of interest income.

Loans and receivables

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

Held-to-maturity financial assets

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

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

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

Available-for-sale financial assets

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

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

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

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

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

Impairment of financial assets carried at amortised cost

Losses from impairment of financial assets carried at amortised cost are recognised in the statement of profit or loss and other comprehensive income when incurred as a result of one or more events occurred after the initial recognition of the financial asset and affecting the amounts or timing of the estimated future cash flows associated with the financial asset. The Bank estimates whether there is objective evidence that financial assets are impaired, which can include default or delinquency by a borrower, breach of a loan contract, restructuring of a financial asset or group of financial assets that the

(EUR thousand)

Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

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

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

Derecognition of financial assets

The Bank derecognises financial assets when:

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

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

Amounts due from credit institutions

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

(EUR thousand)

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.

Financial liabilities

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

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

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

Balances from credit institutions

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

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

Customer accounts

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

Derivative financial instruments

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

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

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

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

Provisions for liabilities and charges

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

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

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

Trade and other payables

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

Foreign currency translation

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

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

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

Offsetting

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

(EUR thousand)

Income and expense recognition

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

Commissions that form the effective interest rate include the commissions received or paid in connection with the creation or acquisition of a financial asset or with the issue of a financial liability.

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

Fee and commission income and expenses are recognised using the accrual method for the period during which services are being provided if the contractual terms and conditions enable to specify the amounts of commission receivable/payable at the reporting date. Such amounts are recognised in the statement of profit or loss and other comprehensive income with a simultaneous recognition of debt in the statement of financial position to be recorded as part of other claims/liabilities.

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

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

Financial guarantees and similar commitments

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

- ▶ the amount at initial recognition; and
- ▶ the best estimate of the expenditures required to settle the commitment as at the reporting date (provision for losses).

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

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

Taxation

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

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

5. New accounting standards not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

IFRS 9 Financial instruments. In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Bank will apply IFRS 9 after 1 January 2018 and does not plan early adoption the standard.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at the Bank's discretion as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated at the Bank's discretion as at FVTPL:

(EUR thousand)

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of abovementioned categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Bank will make an assessment of the objective of the business model in which a financial 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 that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether Bank'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 at 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, 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 will consider:

- 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; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Bank's retail loans and fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

(EUR thousand)

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39, will be measured at fair value through other comprehensive income.

The Bank has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of these changes will not lead to a reduction in the equity.

Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ELC) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to 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.

The Bank will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. 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';
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition; and
- breach of credit and collateral documentation, breach of loan covenants, if the breaches are settled during the period set by the Bank.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECLs.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be 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 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 commitment is drawn down and the cash flows that the Bank expects to receive.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (Note 4).

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when:

(EUR thousand)

- 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.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to 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

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- 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.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Credit risk grades

The Bank will allocate 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 will use 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 on 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.

Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Bank will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Bank will employ 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 will include 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 GDP change, consumer price index.

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

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

Determining whether credit risk has increased significantly

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than 5% since initial recognition. In measuring increases in credit risk, remaining lifetime ECLs are adjusted for changes in maturity.

(EUR thousand)

In certain instances, 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 if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank will monitor 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 day 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 ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

Inputs into measurement of ECLs

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

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. 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. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. 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.

LGD is the magnitude of the likely loss if there is a default. The Bank will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties and taking into account statistics on recovery after default. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD. LGD estimates will be calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. For some financial assets, the Bank will determine EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

(EUR thousand)

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.

For certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Bank will measure ECLs over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period will be estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Forward-looking information

Under IFRS 9, the Bank will incorporate 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 aggregators (Bloomberg, Thomson Reuters, etc.).

The Bank will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other 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 variable 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.

Impact assessment

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Bank has estimated that, on the adoption of IFRS 9 at 1 January 2018, the possible impact of the increase in loss allowances will be approximately EUR 1.8 mln.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- the Bank is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

Classification – Financial liabilities

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

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Bank expects an immaterial impact from adopting these new requirements.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

Impact on capital planning

Currently the Bank assesses that the adoption of IFRS 9 will not have impact on statutory capital.

(EUR thousand)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- the determination of the business model within which a financial asset is held;
- the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- for a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt investment security has low credit risk at 1 January 2018, then the Bank will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 16 Leases 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*.

Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers*. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact of using IFRS 16 on the Bank's financial statements.

IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact of using IFRS 15 on the Bank's financial statements.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank financial statements.

— Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.

6. Significant accounting estimates and judgements in applying accounting policies*Allowance for loan impairment*

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

Sensitivity of fair value of the building

As at 31 December 2017, the fair value of the building beneficially owned by the Bank is EUR 72,749 thousand (2016: EUR 73,597 thousand). Fair value per one square meter is EUR 2,227 (2016: EUR 2,253 thousand). If the value of one square meter increases by 10%, the fair value of the building will be EUR 80,024 thousand (2016: EUR 80,957 thousand), if the value of one square meter decreases by 10%, the fair value of the building will be EUR 65,474 thousand (2016: EUR 66,237 thousand).

7. Adoption of new and revised standards and interpretations

In 2017 there were no changes and amendments to standards adopted to the financial statements for 2017.

	2017	2016
8. Cash and cash equivalents		
Cash on hand	572	613
Current accounts with banks in IBEC member countries	3 171	550
Current accounts with other credit institutions	3 339	8 961
Cash and cash equivalents	7 082	10 124

As at 31 December 2017, the balances of three major counterparties amount to EUR 4,541 thousand or 64.12% of total cash and cash equivalents (31 December 2016: the balances of three major customers amounted to EUR 7,743 thousand

(EUR thousand)

or 76.48% of total cash and cash equivalents).

No cash and cash equivalents are impaired or past due.

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

9. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2017	2016
<i>Held by the Bank</i>		
Eurobonds of IBEC member countries	97 105	60 170
Bonds of IBEC member countries	2 220	2 119
Corporate eurobonds	57 539	43 116
Eurobonds of banks	33 870	46 326
Bonds of banks	—	368
	190 734	152 099
<i>Pledged under sale and repurchase agreements</i>		
Eurobonds of IBEC member countries	5 127	27 946
Bonds of IBEC member countries	—	2 194
	5 127	30 140
Available-for-sale investment securities	195 861	182 239

Available-for-sale investment securities comprise securities provided as collateral under sale and repurchase agreements, fair value of which as at 31 December 2017 amounted to EUR 5,127 thousand (31 December 2016: EUR 30,140 thousand). Under the contractual provisions the counterparty has an obligation to return the investment securities transferred under sale and repurchase agreements at the maturity of the transaction (Note 15).

Eurobonds of IBEC member countries are issued in euros and US dollars for circulation and trading in markets that are external to the country of issue, and the over-the-counter market. The maturity period for Eurobonds is from April 2021 to October 2028 (31 December 2016: from January 2018 to October 2028), coupon income is from 1% to 10.88% p.a. (31 December 2016: from 1% to 5.13% p.a.), yield to maturity is from 1.37% to 7.34% (31 December 2016: from 1.36% to 8.25%). The following issuers comprise significant part in this category: eurobonds of Romania amounting to EUR 44,045 thousand or 43.08%, eurobonds of Bulgaria amounting to EUR 28,795 thousand or 28.17%, eurobonds of Poland amounting to EUR 21,531 thousand or 21.06%, eurobonds of Mongolia amounting to EUR 6,967 thousand or 6.82%, eurobonds of Vietnam amounting to EUR 894 thousand or 0.87% of the total amount of eurobonds of IBEC member countries as at 31 December 2017 (31 December 2016: eurobonds of Poland amounting to EUR 26,446 thousand or 30.01%, eurobonds of Bulgaria amounting to EUR 25,714 thousand or 29.18%, eurobonds of Romania amounting to EUR 23,714 thousand or 26.91%, eurobonds of Mongolia amounting to EUR 9,445 thousand or 10.72%, eurobonds of Vietnam amounting to EUR 2,797 thousand or 3.17% of the total amount of eurobonds of IBEC member countries).

Corporate eurobonds are the debt securities denominated in euros, US dollars and Swiss franc issued by financial and industrial entities of the IBEC member countries for circulation and trading in the markets that are external to the issuer, and the over-the-counter market. The maturity period for these eurobonds is from February 2018 to November 2024 (31 December 2016: from March 2017 to November 2023), coupon income is from 2.10% to 8.25% p.a. (31 December 2016: from 2.18% to 5.14% p.a.), yield to maturity is from 0.96% to 4.51% (31 December 2016: from 1.24% to 5.86%). The following issuers comprise significant part in this category: eurobonds of Gazprom amounting to EUR 17,199 thousand or 29.89%, eurobonds of Rossiyskie Zheleznye Dorogi amounting to EUR 16,819 thousand or 29.23%, eurobonds of Bulgarian Energy HLD amounting to EUR 9,870 thousand or 17.15%, eurobonds of VimpelCom amounting to EUR 4,754 thousand or 8.26%, eurobonds of ABH Financial amounting to EUR 4,270 thousand or 7.42% of the total amount of corporate eurobonds as at 31 December 2017 (31 December 2016: eurobonds of Gazprom amounting to EUR 18,773 thousand or 43.54%, eurobonds of Rossiyskie Zheleznye Dorogi amounting to EUR 14,219 thousand or 32.98%, eurobonds of Bulgarian Energy HLD amounting to EUR 7,357 thousand or 17.06% of the total amount of corporate Eurobonds).

Bonds of IBEC member countries are denominated in euros and Bulgarian leva and issued for circulation and trading in the internal and stock markets of the countries of issue and the over-the-counter market. The maturity period for these bonds is from April 2025 to January 2027 (31 December 2016: from January 2019 to January 2027), coupon income is from 1.38% to 2.3% p.a. (31 December 2016: from 1.38% to 3.40% p.a.), yield to maturity is from 1.14% to 2.28% (31 December 2016: from 1.14% to 2.90%). The following issuers comprise significant part in this category: government bonds of Bulgaria amounting to EUR 1,148 thousand or 51.72%, government bonds of Slovakia amounting to EUR 1,072 thousand or 48.28% of the total amount of bonds of IBEC member countries as at 31 December 2017 (31 December 2016: government bonds of Romania amounting to EUR 2,194 thousand or 50.87%, government bonds of Bulgaria amounting to EUR 1,065 thousand or 24.69%, government bonds of Slovakia amounting to EUR 1,054 thousand or 24.44% of the total amount of bonds of IBEC member countries).

Bonds and eurobonds of banks are debt securities denominated in euros and US dollars for circulation and trading in the internal markets and markets that are external to the country of issue. As at 31 December 2017, the Bank does not have

(EUR thousand)

bonds of banks in its portfolio (as at 31 December 2016, the maturity period for the bonds of banks was February 2018, coupon income was 12.25% p.a., yield to maturity was 11.76%). The maturity period for the eurobonds of banks is from February 2018 to February 2023 (31 December 2016: from February 2017 to May 2024), coupon income is from 0.75% p.a. to 6.55% p.a. (31 December 2016: from 2.07% p.a. to 8.00% p.a.), yield to maturity is from 0.63% to 3.61% (31 December 2016: from 2.10% to 6.53%). The following issuers comprise significant part in this category: eurobonds of Vnesheconombank amounting to EUR 17,199 thousand or 50.77%, eurobonds of Sberbank amounting to EUR 6,729 thousand or 19.86%, eurobonds of Gazprombank amounting to EUR 6,185 thousand or 18.26% of the total amount of bonds and eurobonds of banks as at 31 December 2017 (31 December 2016: eurobonds of Raiffeisen Bank International amounting to EUR 14,554 thousand or 31.17%, eurobonds of Vnesheconombank amounting to EUR 12,323 thousand or 26.39%, eurobonds of Sberbank amounting to EUR 8,151 thousand or 17.46%, bonds of Gazprombank amounting to EUR 5,508 thousand or 11.80% of the total amount of bonds and eurobonds of banks).

As at 31 December 2017, the Bank held available-for-sale securities in the amount of EUR 66,873 thousand, which were issued by the state-owned organisations of the Russian Federation or 34.14% of the total amount of available-for-sale investment securities (31 December 2016: EUR 63,798 thousand or 35.00% of the total amount of available-for-sale investment securities). Information on the credit quality and interest rate risk for available-for-sale investment securities is disclosed in Note 23.

10. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	2017	2016
Eurobonds of banks	5 188	-
Held-to-maturity investment securities	5 188	-

Eurobonds of banks are euro-denominated debt securities of Sberbank with maturity in March 2019, coupon income amounting to 3.08% and yield to maturity amounting to 0.71%.

Information on the credit quality and interest rate risk for held-to-maturity investment securities is disclosed in Note 23.

11. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2017	2016
Term loans and deposits with banks in the IBEC member countries	46 014	61 833
Term loans and deposits with other banks	-	5 000
Amounts due from credit institutions	46 014	66 833
Allowance for impairment	(11)	(5 020)
Amounts due from credit institutions	46 003	61 813

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

	2017	2016
As at 1 January	5 020	-
Net (reversal) charge	(5 009)	5 020
As at 31 December	11	5 020

As at 31 December 2017, the balances of three major counterparties amount to EUR 22,968 thousand or 49.93% of the total amounts due from credit institutions (31 December 2016: EUR 27,157 thousand or 43.93% of the total amounts due from credit institutions).

As at 31 December 2017, amounts due from credit institutions with participation of the Russian Federation amounted to EUR 7,472 thousand or 16.24% of the total amounts due from credit institutions (31 December 2016: EUR 12,834 thousand or 20.76% of the total amounts due from credit institutions).

In April 2017 the Bank issued a syndicated loan to XacBank in the amount of EUR 5,837 thousand with maturity in December 2018 and bearing a floating interest rate of 6-month LIBOR and 5.5% p.a. In December 2017 the Bank concluded the General Agreement on Trade Financing with TRADE AND DEVELOPMENT BANK OF MONGOLIA in the amount of EUR 2,835 thousand with maturity in December 2018 and bearing an interest rate of 5.5% p.a.

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

(EUR thousand)

12. Loans to customers

Loans to customers comprise:

	2017	2016
Corporate lending	52 273	55 583
Consumer lending	84	45
Total loans to customers	52 357	55 628
Allowance for impairment	(39 212)	(40 816)
Loans to customers	13 145	14 812

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

	2017	2016
As at 1 January	40 816	40 816
Net reversal	(1 604)	-
As at 31 December	39 212	40 816

Collateral and other instruments to reduce credit risk

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

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

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

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

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

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

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

	2017	2016
Loans guaranteed by other parties, including loan insurance	8 694	10 556
Loans secured by real estate	4 367	4 211
Unsecured loans	84	45
Total loans to customers	13 145	14 812

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

(EUR thousand)

An analysis of credit quality is presented below:

	<u>2017</u>	<u>2016</u>
<i>Neither overdue nor impaired</i>		
- Borrowers:		
• with credit history less than 1 year	1 000	-
• with credit history over 2 years	8 694	10 556
- Loans to medium-size corporate customers	3 367	4 211
- Loans to individuals	84	45
Total loans neither overdue nor impaired	<u>13 145</u>	<u>14 812</u>
<i>Individually impaired loans (overall amount)</i>		
– overdue over 360 days	39 212	40 816
Total individually impaired loans (overall amount)	<u>39 212</u>	<u>40 816</u>
Allowance for impairment	<u>(39 212)</u>	<u>(40 816)</u>
Total loans to customers net of impairment allowance	<u>13 145</u>	<u>14 812</u>

Concentration of loans to customers

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

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Investment: leasing	8 694	66,14	10 556	71,27
Pharmaceutical industry	3 367	25,61	4 211	28,43
Trading with agricultural products	1 000	7,61	-	-
Individuals	84	0,64	45	0,30
Total loans to customers	<u>13 145</u>	<u>100,00</u>	<u>14 812</u>	<u>100,00</u>

As at 31 December 2017, the balances of three major counterparties amount to EUR 13,061 thousand (31 December 2016: two major counterparties amount to EUR 14,767 thousand) or 99.36% (31 December 2016: 99.70%) of the total net loan portfolio of the Bank.

(EUR thousand)

13. Property, plant and equipment

Below is the movement of property, plant and equipment:

2017	Note	Building	Office equipment and computer hardware	Furniture	Transport	Total
Original 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

2016	Note	Building	Office equipment and computer hardware	Furniture	Transport	Total
Original cost						
Balance as at 31 December 2015		100 063	1 445	622	358	102 488
Additions		290	107	-	-	397
Disposals		-	(27)	(12)	-	(39)
Balance as at 31 December 2016		100 353	1 525	610	358	102 846
Accumulated depreciation						
Balance as at 31 December 2015		25 529	1 296	420	232	27 477
Depreciation for the year	21	1 227	70	17	47	1 361
Disposals		-	(25)	(12)	-	(37)
Balance as at 31 December 2016		26 756	1 341	425	279	28 801
Carrying value						
As at 31 December 2015		74 534	149	202	126	75 011
As at 31 December 2016		73 597	184	185	79	74 045

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

	2017	2016
Original cost	61 874	61 459
Accumulated depreciation	(17 130)	(16 342)
Carrying value	44 744	45 117

Revalued assets

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

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

(EUR thousand)

Key assumptions were used in applying the comparative approach:

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

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

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

In 2017 and 2016 the Bank did not attract an independent appraiser. Management of the Bank carried out the analysis and came to a conclusion that in 2017 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 2017 the fair value of the building has not significantly changed in comparison with 31 December 2015.

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

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

The Bank leases out part of the building to third parties; however, the building is primarily intended to be used by the Bank for its own purposes. Moreover, the leased area was insignificant in 2017 against the total area of the building. Rental income is also insignificant. The Bank plans to reduce areas that it leases in the future, gradually filling the whole area of the building with its own employees. It is impossible for the Bank to physically separate the leased areas; in addition, taking into account the insignificance of the leased areas and their gradual reduction and the primary purpose of the building, the Bank classifies the whole building as an item of property, plant and equipment.

14. Other assets and liabilities

Other assets comprise:

	Note	2017	2016
Derivative financial assets		963	1
Receivables under financial and business operations		391	801
Reposessed collateral		403	403
Guarantee deposit		110	-
Inventory		53	73
Fees and commissions receivable from customers		18	19
Allowance for overdue receivables	22	(17)	(18)
		1 921	1 279

During the reporting period, fees and commissions receivable from customers in the amount of EUR 5 thousand were written off against the allowance (Note 22).

Other liabilities comprise:

	Note	2017	2016
Social obligations		1 060	953
Payables under financial and business operations		134	125
Provision for unused vacations	22	129	148
Derivative financial liabilities		11	706
Deferred income		2	1
Other accrued liabilities		37	1
Provision for litigation charges	22	11	11
		1 384	1 945

(EUR thousand)

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

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

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

15. Balances from credit institutions

	2017	2016
Term loans and deposits from banks of the IBEC member countries	17 426	7 850
Repurchase agreements	5 020	27 543
Current accounts of banks of the IBEC member countries	273	1 309
Current accounts of other credit institutions	-	173
Balances from credit institutions	22 719	36 875

As at 31 December 2017, balances of the major counterparty amount to EUR 15,264 thousand or 67.19% of total balances from credit institutions (31 December 2016: EUR 16,336 thousand or 44.30% of total balances from credit institutions).

The Bank entered into direct repurchase agreements with resident banks of the IBEC member countries. These are the agreements for selling the eurobonds of IBEC member countries with an obligation to buy back ('direct repurchase'). As at 31 December 2017, the fair value of the pledged securities amounts to EUR 5,127 thousand (31 December 2016: EUR 30,140 thousand) (Note 9).

Transferred financial assets that are not derecognised in their entirety

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

	Note	Repurchase agreements 2017
Carrying value of transferred assets – Available-for-sale investment securities	9	5 127
Carrying value of associated liabilities – Balances from credit institutions	15	(5 020)

	Note	Repurchase agreements 2016
Carrying value of transferred assets – Available-for-sale investment securities	9	30 140
Carrying value of associated liabilities – Balances from credit institutions	15	(27 543)

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

(EUR thousand)

16. Customer accounts

	2017	2016
Current accounts and deposits of entities in the IBEC member countries	3 524	1 599
Current accounts of other entities	110	82
Other current accounts	5 028	5 000
Customer accounts	8 662	6 681

Current accounts of entities include accounts of private companies. As at 31 December 2017, the balances of the Bank's three major clients amount to EUR 3,132 thousand or 36.16% of total customer accounts (31 December 2016: EUR 2,123 thousand or 31.78% of total customer accounts).

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

	2017		2016	
	Amount	%	Amount	%
Trade	2 752	75,7	1 046	62,2
Construction	328	9,0	-	-
Transport	253	7,0	291	17,3
Manufacturing	100	2,8	209	12,5
Financial sector	18	0,5	29	1,7
Other	183	5,0	106	6,3
Total customer accounts	3 634	100%	1 681	100%

17. Share capital

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

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

As at 31 December 2017, the paid-in authorised capital of IBEC amounts to EUR 200,000 thousand (31 December 2016: EUR 200,000 thousand).

18. Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans.

The Bank applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers.

The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The contractual amounts of credit related commitments are set out in the following table.

Credit-related commitments comprise:

	2017	2016
Credit-related commitments		
Loan commitments	16 921	-
Total contractual and contingent liabilities	16 921	-

The majority of loan commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan commitments do not represent an unconditional credit related commitment by the Bank.

(EUR thousand)

19. Net fee and commission income

	2017	2016
Currency control	197	107
Cash and settlement operations	76	150
Account maintenance	43	48
Documentary operations	1	-
Conversion operations	-	288
Fee and commission income	317	593
Fee and commission expense	(45)	(41)
Net fee and commission income	272	552

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

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

	2017	2016
Result from disposal of debt securities	5 609	4 495
Total net gains from investment securities available-for-sale	5 609	4 495

Gain from revaluation of available-for-sale investment securities due to their disposal in 2017 is transferred from other comprehensive income to net gains from sales of available-for-sale investment securities in the amount of EUR 5,235 thousand (2016: EUR 3,854 thousand).

21. Administrative and management expenses

	2017	2016
Staff costs	7 031	6 677
Building, equipment and apartment repair and maintenance	1 834	1 561
Depreciation	1 401	1 361
Building security expenses	343	318
Telecommunication expenses	291	286
Expenses for vehicles	259	240
Meetings of the Council of the Bank, Audit Committee, Working Group of Authorised		
Representatives and representation expenses	205	227
Information and advisory expenses	272	87
Travel expenses	130	110
Office expenses	118	123
Trainings	53	38
Audit services	49	40
Other administrative and management expenses	57	32
Total administrative and management expenses	12 043	11 100

Staff costs include contributions to:

	2017	2016
Pension Fund of the Russian Federation	548	473
Compulsory Medical Insurance Fund of the Russian Federation	201	184
Pension funds of other IBEC member countries	31	30
Social Insurance Fund of the Russian Federation	24	19
Total	804	706

(EUR thousand)

22. Other provisions

	<i>Allowance for other assets</i>	<i>Provision for litigation</i>	<i>Provision for unused vacations</i>	<i>Total</i>
As at 31 December 2015	42	830	-	872
Charge (reversal)	14	(817)	148	(655)
Write-offs	(38)	(2)	-	(40)
As at 31 December 2016	18	11	148	177
Charge	4	-	51	55
Write-offs	(5)	-	(70)	(75)
As at 31 December 2017	17	11	129	157

Allowance for impairment of assets is deducted from the carrying value of the related assets. Allowances on carry-over vacations and under legal claims are reflected as a part of other liabilities. As at 31 December 2017, provisions for litigation include the amount of expected legal expenses and possible payments in connection with the proceedings in which the Bank acts a plaintiff and/or defendant.

23. Risk management**Risk management***Introduction*

The Bank manages risks in the course of the ongoing process of identification, assessment and monitoring subject to risk limits and other internal controls. The risk management process is crucial to maintain stable profitability of the Bank. The Bank is exposed to financial risks: credit, liquidity and market risks. The Bank is also exposed to operational risks.

Risk management structure

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

Council of the Bank

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

Board of Management 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 in accordance with the Bank's objectives and goals. The CC reports to the Board of Management of the Bank.

Asset and Liability Management Committee (the "ALCO")

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

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 transactions with high or undeterminable risk level, irrespective of their profitability.

(EUR thousand)

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

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

Risk mitigation

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

Excessive risk concentration

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

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

Credit risk

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

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

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

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

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

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

Credit related commitments risks

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

Credit quality by classes of financial asset

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

(EUR thousand)

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

	<i>Neither overdue nor impaired</i>			<i>Individually impaired</i>	<i>Total</i>
	<i>High rating</i>	<i>Standard rating</i>			
2017					
Cash and cash equivalents (other than cash on hand)	82	6 428	-	-	6 510
Amounts due from credit institutions	-	46 003	-	-	46 003
Loans to customers:					
<i>Corporate lending</i>	-	13 061	-	-	13 061
<i>Consumer lending</i>	84	-	-	-	84
	166	65 492	-	-	65 658
Available-for-sale investment securities:					
- <i>held by the Bank</i>	18 490	172 244	-	-	190 734
- <i>pledged under sale and repurchase agreements</i>	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
	<i>Neither overdue nor impaired</i>			<i>Individually impaired</i>	<i>Total</i>
	<i>High rating</i>	<i>Standard rating</i>			
2016					
Cash and cash equivalents (other than cash on hand)	4 043	5 468	-	-	9 511
Amounts due from credit institutions	-	61 813	-	-	61 813
Loans to customers:					
<i>Corporate lending</i>	-	14 767	-	-	14 767
<i>Consumer lending</i>	45	-	-	-	45
	4 088	82 048	-	-	86 136
Available-for-sale investment securities:					
- <i>held by the Bank</i>	20 644	131 455	-	-	152 099
- <i>pledged under sale and repurchase agreements</i>	6 856	23 284	-	-	30 140
	27 500	154 739	-	-	182 239
Total	31 588	236 787	-	-	268 375

As at 31 December 2017, included in the loan portfolio are renegotiated loans to corporate customers that would otherwise be past due or impaired of EUR 3,367 thousand (31 December 2016: there were no such loans). The purpose of these amendments was to manage customer relations and maximise the return of debt. Renegotiated loans are included in the tables presented above, in the category of assets without individual signs of impairment except for the cases when the borrower does not comply with the renegotiated terms.

Impairment assessment

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

- business risk;
- condition of the industry in which the borrower operates;
- financial position of the borrower;
- credit history of the borrower;
- assessment of turnover on the borrower's accounts.

(EUR thousand)

Geographical risk

Information on risk concentration by geographical regions is based on geographical location of the Bank's counterparties. The table below shows risk concentration by geographical location as at 31 December 2017.

Country	Cash and cash equiva- lents (other than cash on hand)	Available-for- sale investment securities held by the Bank	Investment securities pledged under sale and repurchase agreements	Held-to- maturity invest- ment securities	Amounts due from credit institutions	Loans to custo- mers	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
Slovak Republic	-	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
Luxemburg	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

(EUR thousand)

The table below shows risk concentration by geographical location as at 31 December 2016.

Country	Cash and cash equivalents (other than cash on hand)	Available-for-sale investment securities held by the Bank	Investment securities pledged under sale and repurchase agreements	Amounts due from credit institutions	Loans to custo- mers	Total	Share, %
Russia	495	64 166	-	30 084	45	94 790	35,32
Bulgaria	26	16 780	17 356	-	-	34 162	12,73
Mongolia	8	9 445	-	22 942	-	32 395	12,07
Poland	1	19 590	6 856	-	-	26 447	9,86
Romania	10	19 980	5 928	-	-	25 918	9,66
Austria	1 303	14 554	-	5 000	-	20 857	7,77
Panama	-	-	-	-	10 556	10 556	3,93
Vietnam	-	3 763	-	2 840	-	6 603	2,46
Slovak Republic	-	1 054	-	-	4 211	5 265	1,96
Luxembourg	4 032	-	-	-	-	4 032	1,50
Czech Republic	10	2 767	-	947	-	3 724	1,39
Germany	3 621	-	-	-	-	3 621	1,35
Switzerland	5	-	-	-	-	5	0,00
TOTAL	9 511	152 099	30 140	61 813	14 812	268 375	100

(EUR thousand)

Liquidity risk and funding management

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

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

The tables below show the remaining maturities of the liabilities of the Bank as at 31 December 2017 and as at 31 December 2016, based on contractual undiscounted cash flows. Liabilities which are to be paid on the first notice are considered as if collection notice was given at the earliest possible date:

	<i>Demand and less than 30 days</i>	<i>31 to 180 days</i>	<i>181 to 365 days</i>	<i>Total gross amount (inflow) outflow</i>	<i>Carrying value</i>
2017					
Balances from credit institutions	7 795	15 029	-	22 824	22 719
Customer accounts	8 662	-	-	8 662	8 662
Derivatives settled on a gross basis:					
- Inflow	(1 571)	-	-	(1 571)	(1 571)
- Outflow	1 582	-	-	1 582	1 582
Other liabilities	1 373	-	-	1 373	1 373
Total	17 841	15 029	-	32 870	32 765
				<i>Total gross amount (inflow) outflow</i>	<i>Carrying value</i>
2016					
Balances from credit institutions	13 854	23 059	-	36 913	36 875
Customer accounts	6 681	-	-	6 681	6 681
Derivatives settled on a gross basis:					
- Inflow	(11 100)	(22 566)	(2 315)	(35 981)	(35 981)
- Outflow	11 452	22 881	2 354	36 687	36 687
Other liabilities	1 239	-	-	1 239	1 239
Total	22 126	23 374	39	45 539	45 501

(EUR thousand)

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:

	<i>On demand and less than 1 month</i>	<i>Total</i>
2017	16 921	16 921
2016	-	-

Classification of assets and liabilities by maturity

The table below shows breakdown of financial assets and liabilities as at 31 December 2017 by their remaining contractual maturities:

	<i>Demand and less than 1 month</i>	<i>1 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Cash and cash equivalents	7 082	-	-	-	-	7 082
Available-for-sale investment securities:						
- held by the Bank	-	12 072	8 252	39 738	130 672	190 734
- pledged under sale and repurchase agreements	-	-	-	-	5 127	5 127
Amounts due from credit institutions	22 386	14 941	8 676	-	-	46 003
Loans to customers	-	164	18	4 426	8 537	13 145
Held-to-maturity investment securities	-	-	-	5 188	-	5 188
Other financial assets	700	515	249	-	-	1 464
Total financial assets	30 168	27 692	17 195	49 352	144 336	268 743
Balances from credit institutions	7 789	14 930	-	-	-	22 719
Customer accounts	8 647	15	-	-	-	8 662
Other financial liabilities	1 244	-	-	-	-	1 244
Total financial liabilities	17 680	14 945	-	-	-	32 625
Net position	12 488	12 747	17 195	49 352	144 336	236 118
Cumulative liquidity gap for financial instruments	12 488	25 235	42 430	91 782	236 118	-

(EUR thousand)

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

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

Market risk

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

Interest rate risk

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

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

Interest rate sensitivity analysis

	2017		2016	
	<i>Profit or loss</i>	<i>Equity</i>	<i>Profit or loss</i>	<i>Equity</i>
100 bp parallel rise	271	271	397	397
100 bp parallel fall	(271)	(271)	(431)	(431)

(EUR thousand)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2017				2016			
	Average effective interest rate, %				Average effective interest rate, %			
	Euro	US dollar	Russian rouble	Other currencies	Euro	US dollar	Russian rouble	Other currencies
Interest bearing assets								
Current accounts with banks in IBEC member countries	(0,27%)	(0,19%)	-	(0,09%)	(0,49%)	(1,50%)	-	(0,75%)
Available-for-sale investment securities:								
- held by the Bank	2,86%	6,98%	-	2,31%	3,31%	5,19%	12,25%	3,22%
- pledged under sale and repurchase agreements	-	3,00%	-	-	2,62%	3,00%	-	-
Held-to-maturity investment securities	3,08%	-	-	-	-	-	-	-
Amounts due from credit institutions	2,18%	4,28%	7,68%	-	2,50%	1,67%	10,28%	-
Corporate lending	6,27%	7,00%	-	-	6,50%	7,00%	-	-
Consumer lending	3,00%	-	-	-	3,00%	-	-	-
Interest bearing liabilities								
Balances from credit institutions								
Term loans and deposits from banks of the IBEC member countries	-	1,83%	8,00%	-	0,35%	1,07%	-	-
Correspondent accounts with banks in IBEC member countries and other credit institutions	(0,50%)	-	2,82%	-	-	-	-	-
Customer accounts	-	-	6,50%	-	-	-	-	-

(EUR thousand)

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 transactions aimed to minimise open currency positions in order to reduce the currency risk to an acceptable level. The currency positions are monitored by the Bank on a daily basis.

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

	<i>Note</i>	<i>US dollar</i>	<i>Russian rouble</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Cash and cash equivalents		1 710	753	4 425	194	7 082
Available-for-sale investment securities:						
- held by the Bank		17 289	-	153 290	20 155	190 734
- pledged under sale and repurchase agreements		5 127	-	-	-	5 127
Amounts due from credit institutions		22 812	3 344	19 847	-	46 003
Loans to customers		8 694	-	4 451	-	13 145
Held-to-maturity investment securities		-	-	5 188	-	5 188
Other assets (excluding derivatives)	14,24	42	310	601	5	958
Total financial assets		55 674	4 407	187 802	20 354	268 237
Balances from credit institutions		21 825	805	84	5	22 719
Customer accounts		858	2 944	4 752	108	8 662
Other liabilities (excluding derivatives)	14,24	-	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

(EUR thousand)

The table below shows a general analysis of currency risk of the Bank as at 31 December 2016:

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

A weakening of the EUR, as indicated below, against the following currencies as at 31 December 2017 and 2016, would have increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The impact on equity does not differ from that on the statement of profit and loss.

	2017	2016
20% appreciation of US dollar against EUR	717	2 077
20% appreciation of RUB against EUR	98	267

A strengthening of the EUR against the above currencies at 31 December 2017 and 31 December 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

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

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

(EUR thousand)

24. Derivative financial instruments

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

	Note	2017		2016	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Currency forward contracts and swap contracts: fair value as at the end of reporting period					
- Payables in US dollars (-)		27 824	1 582	-	29 568
- Receivables in euros (+)		47 476	1 571	794	35 981
- Payables in other currencies (-)		18 689	-	793	7 119
Net fair value of currency forward contracts and swap contracts	14	963	(11)	1	(706)

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

25. Fair value of financial instruments

Fair value hierarchy

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

- Level 1: quoted market price (unadjusted) in an active market for an identical asset or liability ;
- Level 2: valuation models where all significant inputs are directly or indirectly observable from market data;
- Level 3: valuation techniques includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. If an instrument is valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments, such valuation shall be referred to Level 3. The significance of the original data used shall be evaluated for the entire fair value estimate in aggregate.

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

	Level 1	Level 2	Total
31 December 2017			
Financial assets			
Available-for-sale investment securities held by the Bank:			
• eurobonds of IBEC member countries	97 105	-	97 105
• bonds of IBEC member countries	2 220	-	2 220
• eurobonds of banks	33 870	-	33 870
• corporate eurobonds	57 539	-	57 539
Available-for-sale investment securities pledged under sale and repurchase agreements:			
• eurobonds of IBEC member countries	5 127	-	5 127
Derivative financial assets	-	963	963
	195 861	963	196 824
Financial liabilities			
Derivative financial liabilities	-	(11)	(11)

(EUR thousand)

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

Derivative financial instruments

All derivative financial instruments are recognised at fair value as assets if the fair value of these instruments is positive, and as liabilities if the fair value is negative. According to IAS 39, the fair value of an instrument at its commencement is usually equal to the transaction price. If the transaction price differs from the amount determined at the commencement of a financial instrument using valuation methods, the difference shall be straight-line depreciated during the period of the financial instrument.

Fair value measurement procedures

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

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

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

As at 31 December 2017 and 31 December 2016, the fair values of financial assets and liabilities not measured in the statement of financial position at fair values do not differ significantly from their carrying values. Financial assets and liabilities not measured in the statement of financial position at fair values comprise amounts due from credit institutions, loans to customers, balances from credit institutions and customer accounts. Methods and assumptions used to determine fair values are described below.

Assets and liabilities whose fair value is approximately equal to their carrying amounts

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

26. Related party transactions

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

In the ordinary course of business the Bank carries out transactions with state-owned organisations. Balances with such companies are disclosed in Notes 9 and 10. In the ordinary course of business the Bank mainly carries out transactions with organisations from IBEC member countries.

In 2017 remuneration to management of the Bank amounts to EUR 1,615 thousand (2016: EUR 1,597 thousand). The remuneration to management of the Bank includes contributions to the Pension Fund of the Russian Federation in the amount of EUR 28 thousand (2016: EUR 26 thousand), Pension funds of IBEC member countries – EUR 18 thousand (2016: EUR 11 thousand) and the Compulsory Medical Insurance Fund of the Russian Federation in the amount of EUR 14 thousand (2016: EUR 13 thousand).

(EUR thousand)

As at 31 December 2017 and 2016, balances on accounts of the Bank's management comprised:

	2017	2016
Current accounts	<u>2 224</u>	<u>1 955</u>

There were no other transactions with related parties carried out by the Bank in 2017 and 2016.

27. Capital adequacy

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

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

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

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

The capital adequacy ratio of the Bank calculated at year-end 2017 and 2016 makes up 142% and 140% accordingly and shows that the Bank's capital adequacy is maintained at the appropriate level in terms of significant prevalence of equity over liabilities.