International Investment Bank

Separate financial statements

Year ended 31 December 2014
Together with Independent auditors' report

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Independent auditors' report

To the Council of the International Investment Bank

We have audited the accompanying separate financial statements of the International Investment Bank (hereinafter the "Bank"), which comprise the separate statement of financial position as at 31 December 2014, and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Consolidated financial statements presented separately

Without qualifying our opinion, we draw attention to Note 2 to the separate financial statements which states that the International Investment Bank is the parent entity of the Group of the International Investment Bank and that consolidated financial statements of the Group of the International Investment Bank prepared in accordance with International Financial Reporting Standards have been issued separately. We have audited the consolidated financial statements of the Group of the International Investment Bank as at and for the year ended 31 December 2014 and expressed an unqualified opinion thereon in our auditors' report dated 16 March 2015.

Ernst & Young Vneshaudit

16 March 2015

Moscow, Russia

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

(Thousands of Euros)

	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	5	65,675	19,272
Deposits with banks and other financial institutions	6	34,335	39,127
Financial assets at fair value through profit or loss	7	311	151
Available-for-sale investment securities	8	24,973	129,876
Available-for-sale investment securities pledged under repurchase agreements	8	13,903	–
Held-to-maturity investment securities	9	81,000	5,910
Held-to-maturity investment securities pledged under repurchase agreements	9	42,634	–
Long-term loans to banks	10	132,032	58,795
Loans to customers	11	108,276	37,625
Investment in subsidiary	2	4,705	11,161
Investment property	13	52,879	53,480
Property and equipment	14	53,206	49,997
Other assets	15	972	8,384
Total assets		**614,901**	**413,778**
Liabilities			
Due to banks and other financial institutions	16	61,103	49,586
Current customer accounts		4,788	3,313
Financial liabilities at fair value through profit or loss	7	21,705	–
Long-term loans of banks	17	20,540	–
Debt securities issued	18	112,759	–
Other liabilities	15	4,367	5,144
Total liabilities		**225,262**	**58,043**
Equity	19		
Subscribed capital		1,300,000	1,300,000
Callable capital		(1,027,382)	(1,058,685)
Paid-in capital		**272,618**	**241,315**
Revaluation reserve for available-for-sale investment securities		(999)	214
Revaluation reserve for property and equipment		35,095	33,375
Retained earnings less net income for the year		80,831	76,067
Net income for the year		2,094	4,764
Total equity		**389,639**	**355,735**
Total equity and liabilities		**614,901**	**413,778**

Signed and authorized for release on behalf of the Board of the Bank

Demchigjav Molomjamts Acting Chairman of the Board

Eugeny Atanassov Managing Director of the Financial Department

16 March 2015

The accompanying notes 1 to 31 are an integral part of these separate financial statements.

SEPARATE INCOME STATEMENT

Year ended 31 December 2014

(Thousands of Euros)

	Note	*2014*	*2013*
Interest income	22	16,721	13,318
Interest expenses	22	(4,857)	(432)
Net interest income		**11,864**	**12,886**
Allowance for impairment of loans to customers	11	(3,572)	(8,778)
Net interest income after allowance for loan impairment		**8,292**	**4,108**
Fee and commission income		42	114
Fee and commission expense		(264)	(72)
Net fee and commission expense/income		**(222)**	**42**
Net gains/(losses) from foreign currencies	23	5,241	(2,682)
Net gains from available-for-sale investment securities	19	5,165	5,659
Income from lease of investment property	13	8,116	7,983
Net losses from impairment of investment in subsidiary	2	(6,456)	–
Net (losses)/gains from impairment of assets held for sale	12	–	(3,588)
Income from revaluation of investment property	13	257	–
Dividend income		–	362
Other income	24	–	10,750
Other expenses	24	(235)	–
Net non-interest income		**12,088**	**18,484**
Operating income		**20,158**	**22,634**
Allowance for impairment of other assets	15	(1,716)	(152)
General and administrative expenses	25	(15,922)	(15,537)
Other operating expenses on banking operations		(426)	(2,181)
Operating expenses		**(18,064)**	**(17,870)**
Net income for the year		**2,094**	**4,764**

The accompanying notes 1 to 31 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

(Thousands of Euros)

	Note	*2014*	*2013*
Net income for the year		**2,094**	**4,764**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Net unrealized (losses)/gains on available-for-sale investment securities		(1,213)	(4,126)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(1,213)**	**(4,126)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment	14	1,720	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**1,720**	**–**
Other comprehensive income/(loss)		**507**	**(4,126)**
Total comprehensive income for the year		**2,601**	**638**

The accompanying notes 1 to 31 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Retained earnings*	*Total equity*
At 31 December 2012	**1,300,000**	**(1,134,752)**	**4,340**	**33,375**	**152,134**	**355,097**
Profit for the year	–	–	–	–	4,764	**4,764**
Other comprehensive income for the year	–	–	(4,126)	–	–	**(4,126)**
Total comprehensive income	**–**	**–**	**(4,126)**	**–**	**4,764**	**638**
Contributions to capital (Note 19)	–	76,067	–	–	(76,067)	**–**
At 31 December 2013	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**80,831**	**355,735**
Profit for the year	–	–	–	–	2,094	**2,094**
Other comprehensive income/(loss) for the year	–	–	(1,213)	1,720	–	**507**
Total comprehensive income	**–**	**–**	**(1,213)**	**1,720**	**2,094**	**2,601**
Contributions to capital (Note 19)	–	31,303	–	–	–	**31,303**
At 31 December 2014	**1,300,000**	**(1,027,382)**	**(999)**	**35,095**	**82,925**	**389,639**

The accompanying notes 1 to 31 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

Year ended 31 December 2014

(Thousands of Euros)

	Note	2014	2013
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		8,408	7,122
Interest, fees and commissions paid		(1,553)	(443)
Net receipts/(payments) from trading with foreign currencies		3,426	56
Cash flows from lease of investment property		8,116	7,983
General and administrative expenses		(15,501)	(12,776)
Other operating expenses on banking operations		(426)	(585)
Cash flows from operating activities before changes in operating assets and liabilities		**2,470**	**1,357**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		8,821	52,481
Long-term loans to banks		(70,127)	(58,787)
Loans to customers		(72,944)	7,377
Assets held for sale		–	5,985
Other assets		5,846	(110)
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		9,722	46,208
Current customer accounts		1,452	921
Other liabilities		(541)	(674)
Net cash flows from operating activities		**115,301**	**54,758**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(295,580)	(187,058)
Proceeds from sale and redemption of investment securities		284,823	161,660
Purchase of held-to-maturity investment securities		(7,139)	(5,958)
Proceeds from redemption of held-to-maturity investment securities		5,626	–
Investments in subsidiaries		–	(11,161)
Investment in investment property		(154)	(43)
Acquisition of property and equipment		(1,816)	(786)
Net cash flows from investing activities		**(14,240)**	**(43,346)**
Cash flows from financing activities			
Long-term interbank financing raised		17,852	–
Long-term interbank financing repaid		(262)	–
Placement of bonds		131,070	–
Redemption of bonds		(1,846)	–
Contributions to capital		31,303	–
Net cash flows from financing activities		**178,117**	**–**
Effect of exchange rate changes on cash and cash equivalents		(2,173)	(532)
Net increase/(decrease) in cash and cash equivalents		**46,403**	**10,880**
Cash and cash equivalents, beginning		**19,272**	**8,392**
Cash and cash equivalents, ending	5	**65,675**	**19,272**

The accompanying notes 1 to 31 are an integral part of these separate financial statements.

(Thousands of Euros)

1. Principal activities

The International Investment Bank (the "Bank") was founded in 1970 and has operated since 1 January 1971.

The Bank is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

The Bank had an average of 124 staff employees during 2014 (2013: 159).

On 31 July 2014, the EU Council imposed sectoral sanctions against Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover Russia-based institutions with international status established by intergovernmental agreements in which Russia is one of the parties. Therefore, International Investment Bank is not subject to the restrictive measures.

Despite the difficult international environment and the risk of unpredictable deterioration in 2014 of the financial climate in the country where the Bank's head office is located, the Bank continues to expand its operations.

- Rating agencies have highly recognized the new risk management system applied by the IIB.
- The country structure of the loan portfolio has been diversified.
- Loan tools continue to undergo modification. For example, the Bank has focused on providing syndicated lending together with leading financial institutions.
- IIB placed its debt securities on Russian and Slovak domestic markets and borrowed funds from the Societe Generale Group.
- On 29 August 2014, the Moody's rating agency assigned a credit rating of A3 with "stable" outlook to the Bank.
- Hungary re-enters the Bank. At the 102th meeting of the IIB's Council (Sofia, 20-21 November 2014), member countries unanimously approved the Hungary's re-entering the Bank.
- At the suggestion of the Slovak delegation and the Board of the Bank, the Council made a decision to open a regional branch of the Bank in Bratislava (the Slovak Republic).

Member countries of the Bank

The member countries of the Bank include (share in the paid-in capital of the Bank, %):

Member countries	*2014* *%*	*2013* *%*
Russian Federation	55.031	58.026
Republic of Bulgaria	15.481	12.365
Czech Republic	11.142	12.587
Slovak Republic	7.880	6.294
Romania	6.769	7.647
Republic of Cuba	1.966	2.222
Socialist Republic of Vietnam	1.346	0.424
Mongolia	0.385	0.435
	100.000	**100.000**

The decision of the 99th meeting of the Bank's Council on the additional capitalization in the amount of EUR 100 million is being implemented. During 2014, member countries made additional contributions to the share capital of the Bank as follows: In February 2014, the Slovak Republic made a contribution of EUR 6.3 million; in May 2014, the Russian Federation made a contribution of EUR 10 million; in July 2014, the Republic of Bulgaria fulfilled its obligations to ensure additional capitalization of the Bank in the amount of EUR 12.4 million; in October 2014, the Socialist Republic of Vietnam made a contribution of EUR 2.6 million.

(Thousands of Euros)

1. Principal activities (continued)

Member countries of the Bank (continued)

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case the Bank must settle all obligations to the relevant member country.

The member countries of the Bank may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank‘s capital.

The decisions of the 101st meeting of the Bank's Council (May 2014) establish a basis for the further development of the International Investment Bank as a multilateral bank for development. The member countries have launched the process of signing the Protocol on introducing changes to the Agreement on the Establishment of IIB and the Statutes.

Conditions of the Bank‘s financial and business operations in the member countries

In the member countries, the Bank is not subject to taxation and enjoys all privileges available to diplomatic representations.

The Bank is not subject to regulation by the Central Banks of the member countries, including the country of residence.

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

The accompanying separate financial statements reflect the management's assessment of the impact of the member countries' business environment on the results of operations and financial position of the Bank. Future evolution of the conditions in which the Bank operates may differ from the assessment made by the management for the purposes of these separate financial statements.

2. Basis of preparation

General

The Bank, as a parent company, prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board. The consolidated financial statements of the IIB Group for the year ended 31 December 2014 was signed and authorized for release on behalf of the Board of the Bank on 16 March 2015.

These financial statements have been prepared on a separate basis in accordance with International Financial Reporting Standards ("IFRS"). The separate financial statements have been prepared to be included in the report on activities of the International Investment Bank for 2014, which is to be submitted for consideration of the Revision Commission and the Bank‘s Board.

Subsidiary

On 2 July 2012, the Bank adopted the decision to establish CJSC IIB Capital (a 100% subsidiary). The share capital of the subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Bank made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand.

Basis of measurement

These separate financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

(Thousands of Euros)

2. Basis of preparation (continued)

Preparation and presentation of financial statements

In accordance with the Statutes of the Bank, the financial year begins on 1 January and ends on 31 December.

Functional and presentation currency

Euro ("EUR") is the Bank's functional and presentation currency as it reflects the economic substance of the underlying operations conducted by the Bank and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Bank are denominated in EUR.

These separate financial statements are presented in thousands of Euros ("Thousands of Euros"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Bank, since the none of the entities in the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Bank's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Bank's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Bank, since the Bank has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Foreign currency transactions

The separate financial statements are presented in Euro, which is the Bank's functional and presentation currency. Every currency except Euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the separate income statement as "Net gains/(losses) from foreign currencies". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Bank's exchange rate on the date of the transaction are included in "Net gains/(losses) from dealing in foreign currencies".

Subsidiaries and associates

Subsidiaries are those entities, in which the Bank has an interest of more than one half of the voting rights or equity interest, or otherwise has power to exercise control over their operations. Associates are entities in which the Bank generally has between 20% and 50% of the voting rights or equity interest, or is otherwise able to exercise significant influence, but which it does not control or jointly control. These financial statements of the Bank contain no consolidated interests of the Bank and no investments recognized under the equity method.

Investments in subsidiaries and associates are carried in the separate financial statements at actual acquisition cost. Management regularly measures the recoverable value of such investments and, when necessary, provides for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 27.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the 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 the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified 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, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the separate income statement. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

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

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

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

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

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the separate statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the separate statement of financial position. Securities borrowed are not recorded in the separate statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the separate income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the separate income statement as net (losses)/gains from foreign currencies dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in profit or loss.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

Operating − Bank as lessor

The Bank presents assets subject to operating leases in the separate statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the separate income statement over the lease term within net non-interest income on “Income from lease of investment property”. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the separate statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the separate statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that may be related to defaults.

Short-term and long-term amounts due from banks and other credit institutions and loans to customers

For amounts due from banks and other credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the assets' value in the separate statement of financial position and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The value of the asset in the separate statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the separate income statement. Interest income continues to be accrued on the reduced carrying amount of asset based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If amounts previously written off are later recovered, the recovery is credited to the separate income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset is provided at a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the separate income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial instruments, the Bank determines at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the separate income statement – is reclassified from other comprehensive income to the separate income statement. Impairment losses on equity investments are not reversed through the separate income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the separate income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the separate income statement, the impairment loss is reversed through the separate income statement.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the separate statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the separate statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the separate income statement.

Property and equipment

Property and equipment are carried in the separate financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the separate income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the separate income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the separate income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset's residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Investment property

Investment property is a part of building held to earn rental income or for capital appreciation and which is not used by the Bank or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Bank and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

Intangible assets include computer software.

Intangible assets acquired by the Bank are recognized in the separate financial statements at their acquisition cost.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Assets classified as held for sale (continued)

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

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

Equity

In accordance with amendments to IAS 32 *Financial Instruments: Presentation*, and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

Contingencies

Contingent liabilities are not recognized in the separate statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the separate statement of financial position but disclosed in the separate financial statements, when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the separate financial statements:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

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

► *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

► *Other fee and commission income*

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the separate income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

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

Segment reporting

The reportable segments of the Bank comprise the following operating segments: Credit and investment activity, Treasury, Other operations.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments,* if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank, since none of the entities within the Bank has defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank as the Bank does not have any bearer plants.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Annual improvements 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that “An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods”. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase ’and interim periods within those annual periods’, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(Thousands of Euros)

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Bank's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the separate financial statements, which have the most significant effect on the amounts recognized in the separate financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant uses of judgments and estimates are as follows:

Allowance for impairment of loans and other financial assets carried at amortized cost

Financial assets are recorded in the Bank's separate statement of financial position less allowances for impairment. The Bank regularly reviews its financial assets to assess impairment. When assessing impairment losses, the Bank uses its professional judgment in relation to objective evidences that future contractual cash flows on financial asset shall decrease. These evidences may include information on financial difficulties of the borrower or other observable data on adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The Bank uses its professional judgment to adjust observable data for financial assets to reflect current circumstances. Impairment loss may be reversed only if a subsequent increase of estimated contractual cash flows can be objectively related to an event occurring after the impairment loss was recognized.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 27.

Impairment of available-for-sale equity securities

The Bank determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

Fair values of buildings and investment property

As disclosed in Note 3, the Bank applies the fair value model with regard to investment property. Buildings included in fixed assets are stated at revalued amount.

As for buildings within property and equipment, the Bank monitors the compliance of the present value of buildings with their fair value and performs revaluation to ensure that there are no significant differences. Changes in the fair value are recognized in other comprehensive income. The most recent revaluation of the Bank's building was carried out as at 21 November 2014 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market. Starting from 21 November 2014, the revalued building is depreciated in accordance with the remaining useful life.

As for investment property, the Bank monitors changes in its fair value at each reporting date to ensure that the present value of investment property does not differ materially from its fair value. Changes in the fair value of investment property are recognized in the separate income statement. The most recent revaluation of the Bank's investment property was carried out as at 21 November 2014 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market. The Bank believes that as at 31 December 2014, the fair value of investment property did not change significantly.

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is presented in the following notes:

- Note 7 – Financial liabilities at fair value through profit or loss.
- Note 8 – Available-for-sale investment securities.
- Note 10 – Long-term loans to banks.
- Note 11 – Loans to customers.
- Note 13 – Investment property.
- Note 14 – Property and equipment.
- Note 20 – Contingencies and lending commitments.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Cash on hand	**149**	**197**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	11	2,148
Credit rating from A− to A+	13,377	838
Credit rating from BBB− to BBB+	25	198
Total Nostro accounts with banks and other financial institutions	**13,413**	**3,184**
Short-term deposits with banks		
Term deposits with banks		
Credit rating from AA- to AA+	16,464	–
Credit rating from A- to A+	8,232	6,500
Credit rating from BBB- to BBB+	255	4,272
Credit rating from BB- to BB+	10,005	–
Credit rating from B- to B+	17,157	–
Total short-term deposits with banks	**52,113**	**10,772**
Collateral on credit transactions with banks		
No credit rating	–	5,119
Cash and cash equivalents	**65,675**	**19,272**

Cash and cash equivalents are neither impaired, nor past due.

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	2014	*2013*
Term deposits with banks up to 1 year		
Credit rating from BBB- to BBB+	3,479	–
Credit rating from BB- to BB+	396	–
Credit rating from B- to B+	30,460	39,127
Deposits with banks and other financial institutions	**34,335**	**39,127**

(Thousands of Euros)

6. Deposits with banks and other financial institutions (continued)

Amounts due from the National Bank of the Republic of Cuba

	2014	*2013*
Term deposits with the National Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the National Bank of the Republic of Cuba	–	–

Information on change in the allowance for impairment of deposits with the National Bank of the Republic of Cuba is presented below:

	2014	*2013*
At 1 January	**34,967**	**35,119**
(Reversal)/charge of allowance for impairment due to changes in exchange rates	–	(152)
At 31 December	**34,967**	**34,967**

Concentration of deposits with banks and other financial institutions

As at 31 December 2014, the Bank had one counterparty (2013: one) accounting for over 20% of the Bank's total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

7. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

Foreign currency transactions

The table below shows the fair value of derivative financial instruments as of 31 December 2014 and 31 December 2013 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates.

	31 December 2014				
	Notional amount		*Exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Swaps	3,700,000 RUB'000	67,565 EUR'000	–	–	16,494
Term foreign currency transactions	1,930,050 RUB'000	30,000 EUR'000	64,34	–	4,155
	2,800 EUR'000	195,020 RUB'000	69,65	311	–
	33,000 EUR'000	41,345 USD'000	1,25	–	1,056
Financial assets at fair value through profit or loss				**311**	**21,705**

	Notional amount		*Exchange rate*	*Fair value*
	Purchase	*Sale*		*Assets*
Term foreign currency transactions	14,400 EUR'000	19,646 USD'000	1.36	151

(Thousands of Euros)

7. Financial instruments at fair value through profit or loss (continued)

Foreign currency transactions (continued)

On 30 April 2014, due to issuing RUB-denominate bond loans (Note 18), the Bank concluded cross currency interest rate swaps and a currency forward on an arm‘s length basis with three Russian credit institutions. These swaps are used to regulate long-term currency risks of the Bank. Payment netting is not applied to the parties‘ obligations in respect of interest and principal payments.

On 4 December 2014, due to issuing RUB-denominate bond loans (Note 18), the Bank concluded cross currency interest rate swaps and a currency forward on an arm‘s length basis with three Russian credit institutions. These swaps are used to regulate long-term currency risks of the Bank. Payment netting is not applied to the parties‘ obligations in respect of interest and principal payments.

The notional amount, recorded gross, is the amount of a derivative’s underlying asset and liability and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

As at 31 December 2014, the Bank has positions in the following types of derivatives:

Forwards: Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps: Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Fair value measurement is based on the corresponding forward curves that depend on exchange rates, interest rates and swap contract maturity. For the fair value of swaps, the discount rate was calculated on the basis of zero coupon yield curve and credit risk. Changes in the fair value of swaps were mainly due to the increase in the forward EUR to RUB exchange rate.

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2014	*2013*
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	11,202	32,126
Bonds of regional governments	3,395	3,252
Government bonds of member countries and bonds of regional governments	**14,597**	**35,378**
Corporate bonds		
Credit rating from A- to A+	–	46,488
Credit rating from BBB- to BBB+	10,373	45,193
Corporate bonds	**10,373**	**91,681**
Total quoted debt securities	**24,970**	**127,059**
Quoted equity instruments		
Credit rating BB	–	2,817
No credit rating	3	–
Total quoted equity instruments	**3**	**2,817**
Available-for-sale investment securities	**24,973**	**129,876**
Available-for-sale securities pledged under repurchase agreements		
Quoted debt securities		
Government bonds of member countries	13,903	–
Total Government bonds of member countries	**13,903**	**–**
Available-for-sale securities pledged under repurchase agreements	**13,903**	**–**

(Thousands of Euros)

8. Available-for-sale investment securities (continued)

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2017-2024 (2013: maturing in 2017-2020). The annual coupon rate for these bonds varies from 2.9% to 5.0% (2013: from 3.6% to 6.5%).

Bonds of regional governments represent EUR-denominated bonds issued by the city of Bucharest, Romania and Moscow, RF, maturing in 2015-2016 (2013: maturing in 2016). The annual coupon rate for these bonds varies from 4.1% to 5.1% (2013: 5.1%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2015-2020 (2013: maturing in 2016-2023). The annual coupon rate for these bonds varies from 5.0% to 8.1% (2013: from 2.9% to 7.9%).

Reclassifications

In 2014 the Group reclassified certain actively quoted securities out of available for sale category to held-to-maturity securities in connection with the intention to hold these securities to maturity. Information about the reclassified financial assets is presented in the table below:

	2014	***2013***
Carrying amount as at 31 December	123,634	–
Fair value as at 31 December	99,868	–
Fair value as at the date of reclassification	120,471	–
Fair value gain/(loss) that would have been recognized in the comprehensive income for the year if the reclassification had not been made	(20,603)	–
Fair value gain/(loss) that have been recognized in the comprehensive income for the year	198	–
Gain/(loss), income/(expense) recognized in profit or loss for the year	3,793	–

The effective interest rate of the reclassified financial assets designated as at the date of reclassification varies from 2.7% to 4.4% for securities in EUR, from 4.3% to 6.1% for securities in USD and from 8.3% to 12.4% for securities in RUB. Current value of estimated cash flows, which the Bank expects to recover, equals the fair value of the reclassified financial assets as of the reclassification date. The value of undiscounted future cash flows from reclassified securities totals EUR 152,080 thousand.

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(Thousands of Euros)

9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	2014	*2013*
Owned by the Bank		
Quoted debt securities		
Government bonds of member countries	11,951	–
Total government bonds of member countries	**11,951**	**–**
Corporate bonds		
Credit rating from A- to A+	17,536	–
Credit rating from BBB- to BBB+	45,683	–
Credit rating from BB- to BB+	5,830	–
Credit rating B+	–	5,910
Total corporate bonds	**69,049**	**5,910**
Total held-to-maturity investment securities	**81,000**	**5,910**
Held-to-maturity investment securities pledged under repurchase agreements		
Quoted debt securities		
Corporate bonds with credit rating BBB-	42,634	–
Total corporate bonds	**42,634**	**–**
Held-to-maturity investment securities pledged under repurchase agreements	**42,634**	**–**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2020 (2013: no). The annual coupon rate for these bonds varies from 3.6% to 7.9% (2013: no).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2016-2025 (2013: maturing in 2014). The annual coupon rate for these bonds varies from 5.0% to 8.1% (2013: 8.3%).

10. Long-term loans to banks

During the 2014 the Bank continued its lending activities, guiding by the key priorities of the development Strategy of the IIB The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Bank considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2014 and 2013, the Group provided long-term loans to banks operating in the following countries:

	2014	*2013*
Russian Federation	89,874	20,058
Mongolia	26,986	23,522
Socialist Republic of Vietnam	15,172	15,215
Total long-term loans to banks	**132,032**	**58,795**

As at 31 December 2014, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

(Thousands of Euros)

10. Long-term loans to banks (continued)

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 31 December 2014 and 31 December 2013:

	2014		*2013*	
	Long-term loans to banks	*Share in the total loans, %*	*Long-term loans to banks*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	5,964	4.5	6,012	10.2
Uncollateralized part of the loans	126,068	95.5	52,783	89.8
	132,032	**100.0**	**58,795**	**100.0**

The amounts shown in the table above represent the carrying amount of the portfolio of long-term loans to banks, and do not necessarily represent the fair value of the collateral.

Concentration of long-term loans to banks

As at 31 December 2014, long-term loans to five banks (2013: five banks) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Bank's statement of financial position. As at 31 December 2014, the total amount of such major loans was EUR 85,049 thousand (2013: EUR 48,647 thousand) and no impairment allowances (2013: no allowances) has been made for them.

11. Loans to customers

The Bank issued loans to customers operating in the following countries:

	2014	*2013*
Slovak Republic	48,345	7,915
Republic of Bulgaria	31,094	5,775
Mongolia	23,822	23,935
Romania	5,958	–
Russian Federation	2,646	–
Total loans to customers	**111,865**	**37,625**
Less: allowance for loan impairment	(3,589)	–
Loans to customers	**108,276**	**37,625**

The information on the overdue loans as at 31 December 2014 and 31 December 2013 is stated below:

	2014	*2013*
Loans with overdue principal and/or interest	8,107	–
Less: allowance for loan impairment	(3,589)	–
Overdue loans to customers	**4,518**	**–**

As at 31 December 2014 and 31 December 2013, there were no overdue but not impaired loans.

(Thousands of Euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Russian Federation	*Republic of Bulgaria*	*Slovak Republic*	*Total*
At 1 January 2014	–	–	–	–
Net charge/(reversal) for the year	(2)	(15)	3,589	**3,572**
Recoveries	2	15	–	**17**
At 31 December 2014	–	–	**3,589**	**3,589**
Individual impairment	–	–	**3,589**	**3,589**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	**8,107**	**8,107**

As at 31 December 2013 there were no impaired loans, the allowance for impairment was not created.

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2013	**70,356**	**5,808**	**2,927**	**79,091**
Net charge/(reversal) for the year	8,650	131	(3)	**8,778**
Write off against previously charged allowance upon sale of the debt	(39,629)	(5,010)	–	**(44,639)**
Write off against previously charged allowance based on the Council‘s decision	(39,377)	(891)	(2,924)	**(43,192)**
Change in allowance resulting from changes in exchange rates	–	(38)	–	**(38)**
At 31 December 2013	–	–	–	–

Analysis of collateral for loans to customers

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2014 and 31 December 2013:

	2014		*2013*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	29,508	27.2	28,006	74.4
Pledge of equipment and goods in turnover	1,706	1.6	–	–
Pledge of shares	25,947	24	–	–
Pledge of right of claim	12,517	11.6	–	–
Uncollateralized part of the loans	38,598	35.6	9,619	25.6
Total loans to customers	**108,276**	**100.0**	**37,625**	**100.0**

The amounts shown in the table above represent the carrying amount of the customer loan portfolio, and do not necessarily represent the fair value of the collateral.

Concentration of loans to customers

As at 31 December 2014, loans to four borrowers (2013: four) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded in the Bank‘s statement of financial position. As at 31 December 2014, these loans total comprised EUR 65,405 thousand (2013: EUR 37,625 thousand) and no impairment allowances (2013: no allowances) has been made for them.

(Thousands of Euros)

11. Loans to customers (continued)

Analysis of loans to customers by industry

The Bank issued loans to borrowers operating in the following industries:

	2014	*2013*
Pipeline transportation	25,080	–
Construction of buildings	20,948	20,188
Leasing	19,427	–
Production of vehicles	14,892	–
Communication service	11,056	–
Food and beverage	9,443	9,522
Specialized construction	8,107	7,915
Trading	2,646	–
Other	266	–
	111,865	**37,625**
Less: allowance for loan impairment	(3,589)	–
Total loans to customers	**108,276**	**37,625**

12. Assets held for sale

In 2012, as a result of repayment of a portion of an impaired loan, the Group received power equipment. The loan was issued to a borrower operating in the electric power industry. In 2013, the Group recognized the asset impairment in the amount of EUR 3,588 thousand within "Net (losses)/gains from impairment/disposal of assets held for sale" in the consolidated income statement. In December 2013, the asset was sold to an independent customer at its carrying amount.

13. Investment property

In 2014 and 2013, the following changes occurred in the cost of property under operating lease:

	2014	*2013*
At 1 January	**53,480**	**52,409**
Inseparable improvements	154	43
Transfers	(1,012)	1,028
Effect of revaluation	257	–
Carrying amount at 31 December	**52,879**	**53,480**

The Bank rents part of the building under operating lease agreements. In 2014, the Bank's income from lease of investment property amounted to EUR 8,116 thousand (2013: EUR 7,959 thousand).

As at 31 December 2014, the fair value of investment property is determined based on the results of valuation performed on 21 November 2014. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of investment property as at 31 December 2014 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 27.

(Thousands of Euros)

13. Investment property (continued)

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2014 and 31 December 2013 would be as follows:

	2014	*2013*
Cost	29,486	29,331
Accumulated depreciation	(11,360)	(10,903)
Net book value	**18,126**	**18,428**

The Bank has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

14. Property and equipment

The movements in property and equipment for the year ended 31 December 2014 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Improve-ments*	*Total*
Cost							
At 1 January 2014	**49,398**	**7,324**	**2,858**	**497**	**749**	–	**60,831**
Inseparable improvements	149	–	–	–	–	–	**149**
Additions	–	180	475	51	215	766	**1,687**
Transfers	1,012	–	–	–	–	–	**1,012**
Disposals	–	(440)	(78)	(62)	(41)	–	**(621)**
Recovery of accumulated depreciation upon revaluation	(1,473)	–	–	–	–	–	**(1,473)**
Effect of revaluation	1,720	–	–	–	–	–	**1,720**
At 31 December 2014	**50,806**	**7,064**	**3,255**	**486**	**923**	**766**	**63,300**
Accumulated depreciation							
At 1 January 2014	**(757)**	**(6,766)**	**(2,381)**	**(357)**	**(568)**	–	**(10,829)**
Charge for the year	(783)	(193)	(288)	(20)	(71)	–	**(1,355)**
Disposals	–	440	78	58	41	–	**617**
Recovery of accumulated depreciation upon revaluation	1,473	–	–	–	–	–	**1,473**
At 31 December 2014	**(67)**	**(6,519)**	**(2,591)**	**(319)**	**(598)**	**–**	**(10,094)**
Net book value							
At 31 December 2013	**48,641**	**558**	**477**	**140**	**181**	**–**	**49,997**
At 31 December 2014	**50,739**	**545**	**664**	**167**	**325**	**766**	**53,206**

(Thousands of Euros)

14. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2013 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Total*
Cost						
At 1 January 2013	**50,354**	**8,233**	**3,478**	**493**	**583**	**63,141**
Inseparable improvements	72	–	–	–	–	**72**
Additions	–	113	396	24	181	**714**
Transfers	(1,028)	–	–	–	–	**(1,028)**
Disposals	–	(1,022)	(1,016)	(20)	(15)	**(2,073)**
At 31 December 2013	**49,398**	**7,324**	**2,858**	**497**	**749**	**60,826**
Accumulated depreciation						
At 1 January 2013	**–**	**(7,598)**	**(3,179)**	**(357)**	**(558)**	**(11,692)**
Charge for the year	(757)	(183)	(196)	(19)	(25)	**(1,180)**
Disposals	–	1,015	994	19	15	**2,043**
At 31 December 2013	**(757)**	**(6,766)**	**(2,381)**	**(357)**	**(568)**	**(10,829)**
Net book value						
At 31 December 2012	**50,354**	**635**	**299**	**136**	**25**	**51,449**
At 31 December 2013	**48,641**	**558**	**477**	**140**	**181**	**49,997**

As at 31 December 2014, the cost of fully depreciated property and equipment still used by the Bank was EUR 8,834 thousand (2013: EUR 9,057 thousand).

As at 31 December 2014, the fair value of a group of buildings owned by the Bank is determined based on the results of valuation performed on 21 November 2014. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of a group of buildings as at 31 December 2014 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 27.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2014 and 31 December 2013 would be as follows:

	2014	*2013*
Cost	28,327	28,179
Accumulated depreciation	(10,880)	(10,459)
Net book value	**17,447**	**17,720**

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(Thousands of Euros)

15. Other assets and liabilities

Other assets comprise:

	2014	*2013*
Other accounts receivable	1,883	7,890
Advance payments and future period expenses	838	905
	2,721	**8,795**
Less: allowance for impairment of accounts receivable	(1,749)	(411)
Other assets	**972**	**8,384**

The movements in other impairment allowance are as follows:

	2014	*2013*
Allowance at 1 January	**411**	**280**
Net charge for the year	1,716	152
Change in allowance resulting from changes in exchange rates	(378)	(21)
Allowance at 31 December	**1,749**	**411**

Other liabilities comprise:

	2014	*2013*
Other accounts payable	3,436	3,911
Settlements with employees	931	682
Other	–	551
Other liabilities	**4,367**	**5,144**

16. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	2014	*2013*
Correspondent accounts of banks without rating	**–**	**1**
Term deposits of banks		
Credit rating from BBB- to BBB+	–	35,021
No credit rating	19,783	9,445
Due to banks and other financial institutions	**19,783**	**44,466**
Repurchase agreements	**41,320**	**–**
Collateral deposit		
No credit rating	–	5,119
Due to banks and other financial institutions	**61,103**	**49,586**

The Bank performs daily monitoring of the repurchase agreements, of the collateral's value placing/returning additional collateral if it's necessary.

Concentration of deposits from banks and other financial institutions

As at 31 December 2014, the Bank has four counterparties (2013: one counterparty) accounting for over 20% of the Bank's total deposits from banks and other financial institutions in the amount of EUR 53,669 thousand (2013: EUR 10,001 thousand).

(Thousands of Euros)

17. Long-term loans of banks

As at 31 December 2014, the Bank received a long-term loan in the amount of EUR 20,540 thousand granted by the Bank maturing in April 2016 (2013: no loans).

18. Debt securities issued

On 29 April 2014, the Group placed RUB-denominated bonds, series 01, in the amount of RUB 2 billion (EUR 40,441 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 9.9% p.a. and is payable twice a year, with the first coupon payment to be paid on 28 October 2014. As at 31 December 2014, issued RUB-denominated bonds, series 01, recorded at amortized cost amounted to EUR 27,708 thousand.

On 21 October 2014, the Group placed on the Slovak organized securities market EUR-denominated bonds in the amount of EUR 30,000 thousand maturing on 21 October 2019. The coupon rate on bonds was set at 3.5% p.a. and is payable once a year, with the first coupon payment to be paid on 21 October 2015. As at 31 December 2014, issued Eurobonds recorded at amortized cost amounted to EUR 30,079 thousand.

On 2 December 2014, the Group placed RUB-denominated bonds, series 03, in the amount of RUB 4 billion (EUR 60,921 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 12.25% p.a. and is payable twice a year, with the first coupon payment to be paid on 2 June 2015. As at 31 December 2014, issued RUB-denominated bonds, series 03, recorded at amortized cost amounted to EUR 54,972 thousand. Among other things, the Bank used the proceeds from the offerings for expanding its loan portfolio.

At the dates of placement of RUB-denominated bonds, the Bank entered into cross-currency interest rate swaps for the purpose of regulating currency risks (Note 7).

19. Equity

Subscribed and paid-in capital

The Bank‘s subscribed capital amounts to EUR 1,300,000 thousand which represents the Bank‘s equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank‘s member countries make contributions to the Bank‘s equity pursuant to their shares stipulated in the Agreement.

As at 31 December 2014, unpaid portion of the Bank‘s subscribed capital in the amount of EUR 1,027,382 thousand (2013: EUR 1,058,685 thousand) is the amount of contributions by the Bank‘s member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 296,900 thousand (2013: EUR 296,900 thousand).

On 6 June 2013, the 99th regular meeting of the Bank‘s Council adopted a decision on including a portion of the IIB‘s retained earnings for the previous years in the amount of EUR 76,067 thousand into the paid-in portion of the Bank‘s share capital proportionally to the shares of member countries in the paid-in share capital at the date of such decision.

Additionally, during the 99th meeting of the Council member countries supported the need for additional capitalization of the Bank by making additional contributions of at least EUR 100 million to the share capital. In 2014, a number of countries contributed to the share capital. Mongolia has officially announced that the payment of EUR 438.5 thousand will be made during 2015.

On 27 February 2014, the Government of the Slovak Republic fulfilled its obligations to ensure additional capitalization of the Bank assumed at the 99th meeting of the Bank‘s Council. Slovakia‘s additional contribution to the Bank‘s share capital in the amount of EUR 6,293.6 thousand was credited to the Bank‘s account.

On 8 May 2014, the Government of the Russian Federation partially fulfilled its obligations to ensure additional capitalization of the Bank. Russia‘s additional contribution to the Bank‘s share capital in the amount of EUR 10,000.0 thousand was credited to the Bank‘s account.

(Thousands of Euros)

19. Equity (continued)

Subscribed and paid-in capital (continued)

On 11 July 2014, the Government of the Republic of Bulgaria fulfilled its obligations to ensure additional capitalization of the Bank. Bulgaria‘s additional contribution to the Bank‘s share capital in the amount of EUR 12,364.9 thousand was credited to the Bank‘s account.

On 10 October 2014, the Government of the Socialist Republic of Vietnam fulfilled its obligations to ensure additional capitalization of the Bank. Vietnam‘s additional contribution to the Bank‘s share capital in the amount of EUR 2,645.0 thousand was credited to the Bank‘s account. As a result, the paid-in capital of International Investment Bank totaled EUR 272,618 thousand.

Revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment

The movements in the revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2013	**4,340**	**33,375**
Net unrealized gains on available-for-sale investment securities	1,533	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,659)	–
At 31 December 2013	**214**	**33,375**
Net unrealized gains on available-for-sale investment securities	3,952	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,165)	–
Revaluation of buildings	–	1,720
At 31 December 2014	**(999)**	**35,095**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

20. Contingencies and loan commitments

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Bank. In accordance with the Agreement on the establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

The Bank takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights. When the estimated amount of costs resulting from the Bank‘s further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Bank holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

(Thousands of Euros)

20. Contingencies and loan commitments (continued)

Insurance

The Bank obtained insurance coverage for a group of buildings, equipment and car park as well as liability insurance against damages caused by operating assets of a hazardous nature. However, the Bank did not obtain insurance coverage related to temporarily discontinued operations or the Bank‘s obligations to third parties.

Commitments and contingencies

At any time the Bank has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 31 December 2014, commitments and contingencies of the Bank comprised undrawn loan facilities in the amount of EUR 69,296 thousand (2013: EUR 53,466 thousand). The amounts of commitments assume that amounts will be fully withdrawn.

21. Leases

Bank as lessor

The Bank provides its real estate for operating leases. As at 31 December 2014, the Bank‘s non-cancellable operating lease rentals amount to EUR 4,742 thousand (2013: EUR 8,281 thousand) and will be settled within 1 year.

22. Interest income and interest expense

Net interest income comprises:

	2014	*2013*
Available-for-sale investment securities and held-to-maturity investment securities	5,813	4,362
Long-term loans to banks	4,793	1,013
Loans to customers	3,932	5,494
Deposits with banks and other financial institutions, including cash and cash equivalents	2,183	2,449
Interest income	**16,721**	**13,318**
Debt securities issued	(3,405)	–
Due to banks and other financial institutions	(681)	(349)
Long-term loans of banks	(417)	–
Current customer accounts	(146)	(71)
Other borrowed funds	(208)	(12)
Interest expenses	**(4,857)**	**(432)**
Net interest income	**11,864**	**12,886**

In 2014, interest income accrued on impaired loans to customers amounted to EUR 192 thousand (2013: EUR 105 thousand).

23. Net gain/(loss) from foreign currencies

Net gains less losses from foreign currencies comprise:

	2014	*2013*
Net (loss)/gain from revaluation of assets and liabilities in foreign currencies	23,234	(2,738)
Net gain/(loss) from trading in foreign currencies	(17,993)	56
Net (loss)/gain from foreign currencies	**5,241**	**(2,682)**

(Thousands of Euros)

24. Other income

The Bank‘s other income comprised:

	2014	*2013*
Income from sale of loans	–	4,837
Income from sale of property rights to participatory construction objects	–	2,835
Income from recovery of provision for potential payments	–	1,764
Other	(235)	1,314
Total other income	**(235)**	**10,750**

25. General and administrative expenses

General and administrative expenses comprise:

	2014	*2013*
Employee compensations and employment taxes	10,402	9,521
IT-expenses, inventory and occupancy expenses	1,432	1,756
Depreciation of property and equipment (Note 14)	1,355	1,180
Expenses related to business travel, representative and accommodation expenses	1,303	1,281
Professional services	875	909
Other	555	890
General and administrative expenses	**15,922**	**15,537**

26. Risk management

Risk management framework

The Bank’s risk management policy is based on the conservative assessments and is mainly aimed at mitigation of adverse impact of risks on the Bank’s results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The prudent assessment assumes that the Bank does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

The Bank‘s risk management activities are intended to:

- identify, analyze and manage risks faced by the Bank;
- establish ratios and limits that restrict level of the appropriate types of risks;
- monitor the level of the risk and its compliance with established limits;
- develop and implement regulative and methodological documents as well as software applications that ensure the professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets.

Integrated into the whole vertical organizational structure of the Bank and all areas of the Bank’s activities, the risk management system makes it possible to identify in a timely manner and effectively manage different types of risks.

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(Thousands of Euros)

26. Risk management (continued)

Risk management framework (continued)

Risk management involves all of the Bank's divisions in the evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st line of defense): the Bank's divisions directly preparing and conducting transactions, involved in the identification, assessment, and monitoring of risks and comply with internal regulations on risk management, as well as give due consideration to the risk level in the preparation of transactions.
- Risk management (2nd line of defense): the division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements.
- Internal audit (3rd line of defense): independent quality evaluation for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

The Bank's operations are managed taking into account the level of the risk appetite which approved by the Council of the Bank and integrated into a system of limits and restrictions insuring the acceptable level of risk for aggregated positions transparent distribution of total risk limit between the activities of the Bank.

Risk management system

The Bank‘s Council, the Board, the Asset, Liability and Risk Committee (ALRCO), the Credit Committee and the Risk Management Department are responsible for managing the Bank‘s risks.

The Bank‘s Council is responsible for the general control over the risk management system, determines its development strategy and sets strategic limits and risk appetite.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Council. The Board ensures co-operation among all business units and committees of the Bank with regard to risk management.

Risk Committee performs management and control of credit, market, operational, reputational, legal and liquidity risk, also considers proposal for establishment of risk limits.

ALRCO is the Bank‘s collegial body responsible for development and implementation of the risk management policy in the course of transactions. ALRCO is engaged in ongoing monitoring of liquidity, market and credit risks.

The Credit Committee is the Board‘s collegial body responsible for lending and assessment of risks arising from all types of credit-related transactions.

Committees meet on a regular basis and provide to the Board their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Bank's performance.

During 2014 further development of the risk management system, started in 2013, was aimed at implementation of Basel standards and best practices of development banks within the Bank:

- new methodological and regulatory documents relating to risk management have been elaborated. The 100th meeting of the IIB Council approved the new Risk management strategy, strategic limits of the Bank and risk appetite indicators for 2014;
- target model of the risk management system, based on requirements of the leading rating agencies regarding risk management

(Thousands of Euros)

26. Risk management (continued)

Risk management system (continued)

In strict compliance with the existing procedures, twice a year the Bank set limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, classes of loan assets risk were continuously monitored and the fair value of pledged items was regularly determined. During the reporting period, the Bank's specialists visited certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of loans' impairment.

To control and monitor the compliance with limits, the Bank performs daily monitoring of compliance with restrictions set in the list of the Bank's limits applied to transactions on money, currency and equity markets, as well as structural limits included in key risk ratios and stop-loss and take-profit limits. In addition, the Bank's management receives regular reports on the status of risks within the Bank.

Risk appetite

The risk appetite is the aggregate amount of risk taken by the Bank to achieve its strategic goals and objectives. By approving the level of risk appetite, the Bank's Council determines the willingness to take a risk (i.e. the risk appetite) or the amount of equity and liquidity that the Bank is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

- the allocation of capital and liquidity (if necessary);
- targets allocation of capital across the main types of risk;
- the level of risk and target risk appetite in the context of the main performance indicators of the Group and significant risks for the Bank;
- determining levels of tolerance.

The procedure for determining the Bank's risk appetite shall be defined by the credit risk management division and submitted for review by the Board and approval by the Council of the Bank.

The risk appetite shall be approved by the Council of the Bank on an annual basis for the next year and shall be a major factor of the Bank's strategic limits determining the thresholds for the Group's key performance indicators and the Bank's significant risks.

In determining the risk appetite, the Bank assesses how the specified risk appetite is acceptable in the current time period and how it will be acceptable in the future, taking into account:

- Expectations of the founders concerning the level of profitability.
- International regulatory standards.
- Current and expected future volume of transactions.
- Current and expected future structure of significant risks.
- Current and expected future level of aggregate capital.

Based on the risk appetite determined by the Council, the Board shall annually approve the Bank's limits, sublimits, and risk indicators, which shall not exceed the target values of the risk appetite.

Risk identification

The Bank identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Bank's exposure to different types of risks performed by the Risk Management Department, the Bank identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of ALRCO and also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

(Thousands of Euros)

26. Risk management (continued)

Risk assessment, management and control

The Bank's risk exposure is primarily reduced by means of collective decision making. Strict allocation of responsibilities between business units and officers of the Bank, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and updated by the Bank in order to reflect changed market conditions and improve risk management methods.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment.
- Exercising control over the Bank's exposure by means of compliance with the established limits, regular assessment of the Bank's risk exposure and internal audit of risk management systems.

The Bank identifies the following major risks inherent in its various activities:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Bank, or discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Bank considers and consolidates all elements of credit risk exposures such as individual borrower or counterparty default risk.

System of credit risk management

The Bank's regulatory documents establish the following:

- procedures to review and approve loan/credit applications;
- methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies;
- requirements to the credit documentation;
- procedures for the ongoing monitoring of loans and other credit exposures.

Risk Committee establishes the limits per borrower/group of related borrowers. The Credit Committee structures the transaction to minimize credit risk. The Credit Department is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit it is approved by the Credit Committee, and then – the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the Bank's share capital and for the period of up to 7 years. Direct credit risks exposures exceeding the specified amount or the period of 7 years should be approved by the Bank's Council.

The corporate loan/credit application and appropriate project documents are reviewed by the Credit Department. In case of a positive decision, the set of documents from the Credit Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Planning and Analysis Department, Internal Audit Department and Compliance Control Department. For the purpose of comprehensive analysis of the loan/credit application received from the Credit Department, the Legal Department and Risk Management Department jointly prepare Description of the Investment Transaction. The loan/credit application is subject to review by the Credit Committee based on the Description of the Investment Transaction, report of the Security Department and Strategic Planning and Analysis Department, report on risks of the Risk Management Department and compulsory judgment of the Legal Department in respect of the legal compliance of the proposed transaction. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application by the RCO; Step 2 includes making decision on the Credit Committee; Step 3 includes making decision by the Board of the Bank (if such issue falls within its competence); Step 4 includes sending a set of respective documents approved by the Board of the Bank to the member countries in order to obtain the final approval from the country of origin of the borrower; Step 5 includes making decision by the Council of the Bank (if such issue falls within its competence).

(Thousands of Euros)

26. Risk management (continued)

Credit risk (continued)

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration by industry.

To mitigate credit risk, the Bank limits concentrations of exposure to individual customers, counterparties and issuers, groups of related customers, counterparties and issuers as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

System of credit risk management

The Bank continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer’s most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Bank. Based on this information, the borrower’s internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Bank when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Bank applies the following types of collateral for recovery of loans and fulfillment of obligations:

- pledge of equipment and goods in turnover;
- pledge of real property (mortgage) and title;
- pledge of rights of demand and construction right.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

The Bank assumes that the fair value of the collateral is its value estimate recognized by the Bank to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower‘s default considering the time needed for such sale, litigation and other costs. Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Bank‘s internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). The Bank‘s internal expert opinion on the fair value of the collateral and feasibility of the adjustment coefficient (discount), which adjusts the market value, shall be approved/ reconciled with the Risk Management Department. The adjustment coefficient (discount) is established based on the table of recommended discounts "Regulations on lending operations" as at initial measurement of the collateral value. Where the market value of the collateral is assessed as impaired, the clients are usually required to provide additional collateral.

Portfolio of long-term loans to banks and other financial institutions and customers (less allowance for impairment) by type of the Bank‘s collateral is analyzed in Notes 10 and 11.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the separate statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(Thousands of Euros)

26. Risk management (continued)

Credit risk (continued)

Analysis of credit risk concentration by customers‘ industry is presented in Note 11.

Maximum credit risk exposure by credit related commitment represents all the amount of these commitments (Note 20).

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the separate statement of financial position.

Credit quality per class of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor’s, Fitch and Moody’s.

Assessment of credit quality of loans is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the client‘s financial position, payment discipline, credit history, compliance with business plan and production discipline, additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, industry specifics and country rating.

As at 31 December 2014 and 31 December 2013, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard. The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 31 December 2014 and 31 December 2013:

2014	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- Russian Federation	89,874	–	89,874	–
- Mongolia	26,986	–	26,986	–
- Socialist Republic of Vietnam	15,172	–	15,172	–
	132,032	**–**	**132,032**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- Slovak Republic	40,238	–	40,238	–
- Republic of Bulgaria	31,094	–	31,094	–
- Mongolia	23,822	–	23,822	–
- Romania	5,958	–	5,958	–
- Russian Federation				
Non-performing loans	**2,646**	**–**	**2,646**	**–**
- Slovak Republic	8,107	(3,589)	4,518	44
	111,865	**(3,589)**	**108,276**	**3**
Total loans	**243,897**	**(3,589)**	**240,308**	**–**

(Thousands of Euros)

26. Risk management (continued)

Credit risk (continued)

2013	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,522	–	23,522	–
- *Russian Federation*	20,058	–	20,058	–
- *Socialist Republic of Vietnam*	15,215	–	15,215	–
	58,795	**–**	**58,795**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,955	–	23,955	–
- *Slovak Republic*	7,915	–	7,915	–
- *Republic of Bulgaria*	5,775	–	5,775	–
	37,625	**–**	**37,625**	**–**
Total loans	**96,420**	**–**	**96,420**	**–**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

Impairment assessment

The Bank creates allowance for loan impairment that represents its estimate of losses incurred in its loan portfolio. The Bank writes off a loan balance against related allowances for loan losses only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the client's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Due to a limited number of borrowers, the Bank considers each loan as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

The total amount of impairment allowance is approved by the Credit Committee on a monthly basis.

Liquidity risk

Liquidity risk is the risk of loss resulting from the Bank's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from improper balance between the Bank's financial assets and financial liabilities by period and amount (including due to untimely discharge of its financial obligations by one or several counterparties of the Bank) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

(Thousands of Euros)

26. Risk management (continued)

Liquidity risk (continued)

The Bank's approach to management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or taking risk of damage to the Bank's reputation.

In the course of liquidity management the Bank‘s management relies on the following principles:

- liquidity has priority over return;
- continuous liquidity management;
- distribution of authorities between management bodies and divisions;
- planning and limitation of liquidity consistent with the size, nature of business and financial position of the Bank;
- forecasting of cash flows.

Liquidity risk is managed to ensure the Bank‘s ability to meet its financial obligations in full and on a timely basis. For this purpose the Bank:

- determines an acceptable liquidity level;
- continuously monitors liquidity;
- takes measures to maintain liquidity at the acceptable level;
- in case of liquidity crisis performs a set of procedures for its recovery.

The Bank manages its liquidity in two areas: the Treasury Department manages the liquidity, and Risk Management Department performs control over liquidity risk.

The Treasury Department receives on a weekly basis information from business units regarding the liquidity profile of their financial assets and liabilities and forecasts of projected cash flows arising from projected future business. Further, the Treasury Department manages the Bank‘s liquidity in accordance with the existing regulatory documents of the Bank and ALRCO‘s decisions.

The Risk Management Department performs control on a weekly basis over actual values of the current and overall liquidity and compares these values with standards. In case of non-compliance of these standards, the Risk Management Department immediately notifies ALRCO about it in order to develop and perform activities for recovering liquidity.

Due to the fact that all the Bank‘s significant liabilities are short-term with maturity of up to 1 year, the Bank does not estimate contractual undiscounted liabilities' cash flows since the expected cash outflow will not be significantly different from the carrying amount of the Bank‘s financial liabilities as at 31 December 2014 and 31 December 2013.

The table below shows the contractual expiry by maturity of the Bank's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

(Thousands of Euros)

26. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date:

	2014								*2013*						
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets															
Cash and cash equivalents	65,675	–	–	–	–	–	–	**65,675**	19,272	–	–	–	–	–	**19,272**
Deposits with banks and other financial institutions	8,327	20,347	5,661	–	–	–	–	**34,335**	–	23,112	16,015	–	–	–	**39,127**
Financial assets at fair value through profit or loss	311	–	–	–	–	–	–	**311**	–	97	54	–	–	–	**151**
Available-for-sale investment securities	42	7,669	750	13,599	16,813	3	–	**38,876**	150	674	1,754	44,061	80,420	2,817	**129,876**
Held-to-maturity investment securities	70	942	1,146	39,791	81,685	–	–	**123,634**	117	–	5,793	–	–	–	**5,910**
Long-term loans to banks	–	1,531	13,139	117,362	–	–	–	**132,032**	–	374	2,014	56,407		–	**58,795**
Loans to customers	–	901	24,168	53,763	24,926	–	4,518	**108,276**	–	430	7,832	27,463	1,900	–	**37,625**
Other assets	58	75	34	10	–	–	–	**134**	180	4,508	2,791	–	–	–	**7,479**
Total assets	**74,483**	**31,422**	**44,898**	**224,525**	**123,424**	**3**	**4,518**	**503,273**	**19,719**	**29,195**	**36,253**	**127,931**	**82,320**	**2,817**	**298,235**
Liabilities															
Due to banks and other financial institutions	(46,120)	(14,983)	–	–	–	–	–	**(61,103)**	(24,566)	(25,020)	–	–	–	–	**(49,586)**
Current customer accounts	(4,788)	–	–	–	–	–	–	**(4,788)**	(3,313)	–	–	–	–	–	**(3,313)**
Financial liability at fair value through profit or loss	–	–	(21,705)	–	–	–	–	**(21,705)**	–	–	–	–	–	–	**–**
Long-term loans of banks	(97)	–	–	(20,443)	–	–	–	**(20,540)**	–	–	–	–	–	–	**–**
Debt securities issued	–	–	(82,884)	(29,875)	–	–	–	**(112,759)**	–	–	–	–	–	–	**–**
Other liabilities	(1,356)	(518)	(2,493)	–	–	–	–	**(3,656)**	(434)	(2,540)	(1,619)	–	–	–	**(4,593)**
Total liabilities	**(52,361)**	**(15,501)**	**(107,082)**	**(50,318)**	**–**	**–**	**–**	**(225,262)**	**(28,313)**	**(27,560)**	**(1,619)**	**–**	**–**	**–**	**(57,492)**
Net position	**22,122**	**15,921**	**(62,184)**	**174,207**	**123,424**	**3**	**4,518**	**278,011**	**(8,594)**	**1,635**	**34,634**	**127,931**	**82,320**	**2,817**	**240,743**
Accumulated net position	**22,122**	**38,043**	**(24,141)**	**150,066**	**273,490**	**273,493**	**278,011**	**–**	**(8,594)**	**(6,959)**	**27,675**	**155,606**	**237,926**	**240,743**	
Off-balance credit-related commitments	**(69,296)**	**–**	**–**	**–**	**–**	**–**	**–**	**(69,296)**	**–**	**(48,466)**	**(5,000)**	**–**	**–**	**–**	**(53,466)**

The accumulated negative liquidity gap in the periods of "3 months to 1 year" is formed on the basis of offers on issued ruble-denominated bonds identified at the time of issuance. Management believes that in the foreseeable future payments on these debentures will not be fully implemented. The accumulated negative liquidity gap can be offset with high liquid available for sale investment securities, that can be realized at any moment on market terms. If it is necessary the gained liquid assets can be used to meet the short term liabilities of the Bank.

(Thousands of Euros)

26. Risk management (continued)

Market risk

Market risk is the risk that the Bank shall incur losses due to adverse fluctuations in market rate of financial instruments, interest rates, foreign exchanges, and securities' prices. Market risk includes equity risk on securities, interest rate risk and currency risk.

The Bank is exposed to market risk due to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

The Board of the Bank performs overall management of market risk.

Risk Committee, led by the Deputy Chairman of the Bank‘s Management Board, coordinates the Bank‘s market risk management policy, considers and provides to the Management Board recommendations on management of market risks.

The Treasury Department performs operative management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits in order to increase the Bank‘s income on a daily basis.

Currency risk and price risk

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Bank‘s open positions in foreign currencies. Price risk is the risk that the fair values of securities decrease as the result of changes in the levels of indices and the value of individual securities.

The Bank applies a VaR methodology to assess currency and equity risks. VaR is a method used in measuring maximum risk of the Bank, i.e. the level of losses on a certain position in relation to a financial instrument/currency/precious metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Bank uses an assumption that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days. The assessment of value at risk in relation to currency position of the Bank is carried out in major currencies and financial instruments of the Bank attributable to a securities portfolio.

At estimating value at risk, the Bank uses a parameter method, which allows assessing the volatility of yield on the basis of the most current market data.

The choice of a respective approach to value at risk estimation is made on the basis of data on statistical analysis of changes in fair values of financial instruments and exchange rates.

Selection period used by the Bank for modeling purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of above mentioned risks, the Bank carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 31 December 2014 and 31 December 2013, final data on value at risk assessment in relation to currency and price risks assumed by the Bank are represented as follows:

	2014	*2013*
Fixed income securities price risk	364	2,174
Equity securities price risk	–	335
Currency risk	945	1,211

Despite measurement of value at risk is a standard industry method for risk assessment, this method has a number of limitations:

- Analysis based on value at risk assessment is correct in case current market conditions remain unchanged. Using historical data for assessment of future events are not taken into account.
- Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data.
- If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account.
- 10-day time horizon implies the entire Bank‘s position over this period could have been closed or hedged. Results of value at risk assessment may be incorrect in case of market liquidity deterioration.

Fluctuations that may occur in the course of the day are not taken into account at calculating value at risk on the basis of the results of a business day.

(Thousands of Euros)

26. Risk management (continued)

Market risk (continued)

The Bank's exposure to currency risk as at 31 December 2014 and 31 December 2013 is presented below:

	2014					2013				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Assets										
Cash and cash equivalents	33,558	31,655	360	102	**65,675**	9,222	331	4,397	5,322	**19,272**
Deposits with banks and other financial institutions	32,895	1,044	396	–	**34,335**	23,112	16,015	–	–	**39,127**
Available-for-sale investment securities	32,355	6,521	–	–	**38,876**	102,911	22,940	4,025	–	**129,876**
Held-to-maturity investment securities	55,566	63,561	4,507	–	**123,634**	–	5,910	–	–	**5,910**
Long-term loans to banks and other financial institutions	110,815	21,217	–	–	**132,032**	41,285	17,510	–	–	**58,795**
Loans to customers	108,276	–	–	–	**108,276**	37,625	–	–	–	**37,625**
Other assets	111	2	20	–	**133**	12	–	7,467	–	**7,479**
	373,819	**124,000**	**5,283**	**102**	**502,961**	**214,167**	**62,706**	**15,889**	**5,322**	**298,084**
Liabilities										
Due to banks and other financial institutions	(19,238)	(41,181)	(684)	–	**(61,103)**	(19,035)	(25,432)	–	(5,119)	**(49,586)**
Current customer accounts	(4,605)	(183)	–	–	**(4,788)**	(3,162)	(151)	–	–	**(3,313)**
Long-term loans of banks	–	(20,540)	–	–	**(20,540)**	–	–	–	–	–
Debt securities issued	(30,079)	–	(82,680)	–	**(112,759)**	–	–	–	–	–
Other liabilities	(2,890)	(74)	(1,403)	–	**(4,367)**	(2,513)	(187)	(1 853)	(40)	**(4,593)**
	(56,812)	**(61,978)**	**(84,767)**	**–**	**(203,557)**	**(24,710)**	**(25,770)**	**(1,853)**	**(5,159)**	**(57,492)**
Net balance sheet position	**316,764**	**62,022**	**(79,484)**	**102**	**299,404**	**189,457**	**36,936**	**14,036**	**163**	**240,592**
Derivative financial instruments										
Claims	33,310	–	76,915	–	**110,225**	14,400	–	–	–	**14,400**
Liabilities	(97,564)	(34,056)	–	–	**(131,620)**	–	(14,249)	–	–	**(14,249)**
Net balance sheet position including derivative financial instruments	**255,510**	**27,966**	**(2,569)**	**102**	**278,009**	**203,857**	**22,687**	**14,036**	**163**	**240,743**

(Thousands of Euros)

26. Risk management (continued)

Market risk (continued)

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates in 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 arise.

Sensitivity analysis of the Bank's equity to changes in interest rate (based on simplified scenario of a 100 basis point (bp) and positions of available-for-sale debt securities parallel fall or rise in all yield curves as at 31 December 2014 and 31 December 2013) is as follows:

	31 December 2014	*31 December 2013*
	The Bank's equity	*The Bank's equity*
100 bp parallel rise	(1,387)	(6,342)
100 bp parallel fall	1,387	6,342

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Bank's property.

Generally, the Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Bank continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

27. Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Fair value hierarchy

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

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

(Thousands of Euros)

27. Fair value hierarchy (continued)

Fair value hierarchy (continued)

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

	Valuation date	*Level 1 2014*	*Level 2 2014*	*Level 3 2014*	*Total 2014*
Assets measured at fair value					
Derivative financial assets	31 December 2014	–	311	–	**311**
Government bonds of member countries and bonds of regional governments	31 December 2014	28,500	–	–	**28,500**
Corporate bonds	31 December 2014	10,373	–	–	**10,373**
Quoted equity instruments	31 December 2014	–	3	–	**3**
Investment property	31 December 2014	–	–	52,879	**52,879**
Property and equipment	31 December 2014	–	–	53,206	**53,206**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2014	–	21,705	–	**21,705**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	–	–	65,675	**65,675**
Deposits with banks and other financial institutions	31 December 2014	–	–	34,335	**34,335**
Held-to-maturity investment securities	31 December 2014	99,872	–	–	**99,872**
Long-term loans to banks	31 December 2014	–	–	126,485	**126,485**
Loans to customers	31 December 2014	–	–	108,276	**108,276**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2014	–	–	61,103	**61,103**
Current customer accounts	31 December 2014	–	–	4,788	**4,788**
Long-term loans of banks	31 December 2014	–	–	20,540	**20,540**
Debt securities issued	31 December 2014	–	106,351	–	**106,351**

(Thousands of Euros)

27. Fair value hierarchy (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2013:

	Valuation date	*Level 1 2013*	*Level 2 2013*	*Level 3 2013*	*Total 2013*
Assets measured at fair value					
Derivative financial assets	31 December 2013	–	151	–	**151**
Government bonds of member countries and bonds of regional governments	31 December 2013	35,378	–	–	**35,378**
Corporate bonds	31 December 2013	91,681	–	–	**91,681**
Quoted equity instruments	31 December 2013	2,817	–	–	**2,817**
Investment property	31 December 2013	–	–	53,480	**53,480**
Property and equipment	31 December 2013	–	–	49,997	**49,997**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	–	–	19,272	**19,272**
Deposits with banks and other financial institutions	31 December 2013	–	–	39,127	**39,127**
Held-to-maturity investment securities	31 December 2013	5,928	–	–	**5,928**
Long-term loans to banks	31 December 2013	–	–	58,795	**58,795**
Loans to customers	31 December 2013	–	–	37,625	**37,625**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2013	–	–	49,586	**49,586**
Current customer accounts	31 December 2013	–	–	3,313	**3,313**

(Thousands of Euros)

27. Fair value hierarchy (continued)

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

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that are carried in the separate financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2014	*Fair value 2014*	*Unrecognized gain/(loss) 2014*	*Carrying amount 2013*	*Fair value 2013*	*Unrecognized gain/(loss) 2013*
Financial assets						
Cash and cash equivalents	65,675	65,675	–	19,272	19,272	–
Deposits with banks and other financial institutions	34,335	34,335	–	39,127	39,127	–
Held-to-maturity investment securities	123,634	99,872	(23,762)	5,910	5,928	18
Long-term loans to banks	132,032	126,485	(5,547)	58,795	58,795	–
Loans to customers	108,276	108,276	–	37,625	37,625	–
Financial liabilities						
Due to banks and other financial institutions	61,103	61,103	–	49,586	49,586	–
Current customer accounts	4,788	4,788	–	3,313	3,313	–
Long-term loans of banks	20,540	20,540	–			
Debt securities issued	112,759	106,351	6,408			–
Total unrecognized change in fair value			**(22,901)**			**18**

Fair value measurements

The Bank determines the policies and procedures for both recurring fair value measurement, such as unquoted derivatives, investment property, land and buildings, and for non-recurring measurement, such as inventories.

External valuers are involved for valuation of significant assets, such as buildings and property. Involvement of external valuers is decided upon by the Group‘s Finance Department. Unquoted derivatives are measured made by the Bank‘s Finance Department.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

In the course of audit procedures, the Bank‘s Finance Department presents the valuation results to the Bank's independent auditors upon requests. This includes a discussion of the major assumptions used in the valuations.

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not recorded at fair value in these financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that at 31 December 2014 and 31 December 2013 the fair value of deposits with banks and other financial institutions and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

(Thousands of Euros)

27. Fair value hierarchy (continued)

Methodologies and assumptions (continued)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates at their initial recognition with current market rates offered for similar financial instruments.

The estimated fair value of fixed interest bearing long-term loans to banks, loans to customers, and deposits in banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. Management has estimated that at 31 December 2014 the fair value of long-term loans to banks and loans to customers was not significantly different from their respective carrying amount.

Investment property

The Bank engages an independent appraiser for the investment property fair value measurement. As at the valuation date (31 December 2014), the fair values of investment property were based on the results of valuation performed by the accredited independent appraiser, according to the prices of market transactions using the market, cost and income approaches to fair value measurement.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Property and equipment − buildings

Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the date of revaluation, 31 December 2014, the properties’ fair values are based on valuations performed by an accredited independent valuer, according to the prices of market transactions using the market, cost and income approaches to fair value measurement.

Significant unobservable inputs used in determining the fair value of real estate objects

As at 31 December 2014 (the valuation date), the significant unobservable inputs in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 3,555 per. sq. m (range minimum) to EUR 4,976 per sq. m (range maximum), and lease rates ranging from EUR 512 per sq. m. a year (minimum) to EUR 584 per sq. m. a year (maximum).

28. Segment information

For management purposes, the Bank identifies the following three operating segments based on its lines of services:

Credit investment activity	Credit investment banking services include long-term corporate and interbank financing
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments, foreign currency and liquidity management
Other operations	Operational leasing services, Legal Department activities on credit portfolio rehabilitation (in 2013), other operations

(Thousands of Euros)

28. Segment information (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the separate financial statements. The following table presents revenue, profit, assets and liabilities of the Bank's operating segments:

2014	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	8,725	7,966	108	**16,799**
Net gains from trading in foreign currencies	–	3,426	–	**3,426**
Net gains from available-for-sale investment securities	–	5,165	–	**5,165**
Income from lease of investment property	–	–	8,116	**8,116**
Recovery of provision	–	–	17	**17**
Net gains from revaluation of investment property	–	–	257	**257**
Other segment income	42	–	280	**322**
Total income	**8,767**	**16,557**	**8,690**	**34,014**
Interest expenses	(1,622)	(3,235)	–	**(4,857)**
Allowance for loans impairment	(3,589)	–	–	**(3,589)**
Cost of inventories sold	–	–	(6,456)	**(6,456)**
Other segment expenses	(47)	(640)	(2,385)	**(3,072)**
Segment performance results	**3,509**	**12,682**	**(151)**	**16,040**
Other unallocated income				**1,976**
Other unallocated expense				**(15,922)**
Profit for the year				**2,094**
Segment assets	240,308	262,399	112,194	**614,901**
Segment liabilities	56,569	164,326	4,367	**225,262**
Other segment information				
Capital expenditures	–	–	303	**303**

(Thousands of Euros)

28. Segment information (continued)

2013	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	6,507	6,811	–	**13,318**
Net gains from trading in foreign currencies	–	56	–	**56**
Net gains from available-for-sale investment securities	–	5,659	–	**5,659**
Income from lease of investment property	–	–	7,983	**7,983**
Net (losses)/gains from impairment/disposal of assets held for sale	–	–	(3,588)	**(3,588)**
Other segment income	–	362	7,672	**8,034**
Total income	**6,507**	**12,888**	**12,067**	**31,462**
Interest expenses	–	(432)	–	**(432)**
Allowance for loans impairment	(8,778)	–	–	**(8,778)**
Segment performance results	**(2,271)**	**12,456**	**12,067**	**22,252**
Other unallocated income				**3,192**
Other unallocated expense				**(20,680)**
Profit for the year				**4,764**
Segment assets	101,539	189,217	123,022	**413,778**
Segment liabilities	5,119	44,467	8,457	**58,043**
Other segment information				
Capital expenditures	–	–	115	**115**

In 2014 and 2013 the Bank had one counterparty with lease operations revenue exceeding 10% of total Bank's revenue (2014: EUR 5,718 thousand; 2013: EUR 5,473 thousand).

Geographical information

Allocation of the Bank's revenue from transactions with external customers and non-current assets based on the location of these customers and assets as at 31 December 2014 and 31 December 2013 and for the years then ended is presented in the tables below:

	2014				*2013*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income	7,909	8,096	716	**16,721**	5,378	7,098	842	**13,318**
Income from lease of investment property	8,116	–	–	**8,116**	7,983	–	–	**7,983**
Non-current assets	106,085	–	–	**106,085**	103,477	–	–	**103,477**

Non-current assets include property and equipment and investment property.

(Thousands of Euros)

28. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Bank's financial assets and liabilities based on the location of the Bank's counterparties as at 31 December 2014 and 31 December 2013 is presented below:

	2014									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	23,455	–	–	8,241	–	–	–	16,464	17,515	**65,675**
Deposits with banks and other financial institutions	396	–	–	–	–	30,460	–	–	3,479	**34,335**
Financial instruments at fair value through profit or loss	311	–	–	–	–	–	–	–	–	**311**
Investment securities										
- available-for-sale	10,381	14,642	2,584	1,177	–	1,948	1,702	3,567	2,875	**38,876**
- held-to-maturity	106,097	–	–	–	–	–	–	–	17,537	**123,634**
Long-term loans to banks less allowances for impairment.	89,874	–	–	–	–	26,986	15,172	–	–	**132,032**
Loans to customers less allowances for impairment	2,646	31,094	5,958	44,756	–	23,822	–	–	–	**108,276**
Assets	**233,160**	**45,736**	**8,542**	**54,174**	**–**	**83,216**	**16,874**	**20,031**	**41,406**	**503,139**
Liabilities										
Due to banks and other financial institutions	2,434	29,837	–	–	–	–	–	–	28,832	**61,103**
Financial instruments at fair value through profit or loss	21,143	–	–	–	–	–	–	–	562	**21,705**
Long-term loans of banks	20,540	–	–	–	–	–	–	–	–	**20,540**
Debt securities issued	82,679	–	–	30,080	–	–	–	–	–	**112,759**
Liabilities	**126,796**	**29,837**	**–**	**30,080**	**–**	**–**	**–**	**–**	**29,394**	**216,107**

(Thousands of Euros)

28. Segment information (continued)

Geographical information (continued)

	2013									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	4,667	–	–	6,500	–	5,119	–	–	2,986	**19,272**
Deposits with banks and other financial institutions	23,112	–	–	–	–	16,015	–	–	–	**39,127**
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	–	–	151	**151**
Investment securities:										
- available-for-sale	61,673	7,712	12,324	–	–	1,679	–	–	46,488	**129,876**
- held-to-maturity	–	5,910	–	–	–	–	–	–	–	**5,910**
Long-term loans to banks less allowances for impairment	20,058	–	–	–	–	23,522	15,215	–	–	**58,795**
Loans to customers less allowances for impairment	–	5,775	–	7,915	–	23,935	–	–	–	**37,625**
Assets	**109,510**	**19,397**	**12,324**	**14,415**	**–**	**70,270**	**15,215**	**–**	**49,625**	**290,756**
Liabilities										
Due to banks and other financial institutions	35,021	9,446	–	–	–	5,119	–	–	–	**49,586**
Liabilities	**35,021**	**9,446**	**–**	**–**	**–**	**5,119**	**–**	**–**	**–**	**49,586**

Other countries include members of the Organization for Economic Development (OECD).

(Thousands of Euros)

29. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the separate statement of financial position, as at 31 December 2014 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the separate statement of financial position:

2014	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Financial liability*	
Financial assets						
Financial assets pledged under repurchase agreements	56,537	–	56,537	–	(41,320)	**15,217**
Total	**56,537**	–	**56,537**	–	**(41,320)**	**15,217**
Financial liabilities						
Repurchase agreements with banks	41,320	–	41,320	–	(41,320)	–
Total	**41,320**	–	**41,320**	–	**(41,320)**	–

The table below shows financial assets offset against financial liabilities in the separate statement of financial position, as at 31 December 2013 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the separate statement of financial position:

2013	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*	*Net amount*
				Cash collateral received	
Financial assets					
Cash and cash equivalents	19,272	–	19,272	(5,119)	**14,153**
Total	**19,272**	–	**19,272**	**(5,119)**	**14,153**
Financial liabilities					
Due to banks and other financial institutions	49,586	–	49,586	(5,119)	**44,467**
Total	**49,586**	–	**49,586**	**(5,119)**	**44,467**

30. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and settlements with related parties were carried out on conditions similar to those, which prevail in transactions between independent parties.

(Thousands of Euros)

30. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for 2014 and 2013 are as follows:

		31 December 2014		*31 December 2013*	
	Related party	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Separate statement of financial position					
Due to banks and other financial institutions	Subsidiary	2,434	–	–	–
Other liabilities	Key management personnel	369	–	120	–
Other liabilities	Subsidiary	635	–	–	–

		2014	*2013*
	Related party	***Income/ (expense)***	***Income/ (expense)***
Separate income statement			
Interest income on loans to customers	Subsidiary	(80)	4
Interest expense on current customer accounts	Key management personnel	(42)	(14)
Net interest (expense)/income after allowance for loans impairment		**(122)**	**(10)**
Income from lease of investment property	Subsidiary	–	7
Net non-interest income		**–**	**7**
Operating gains/(losses)		**(122)**	**(3)**
Employee benefits	Key management personnel	(1,451)	(1,134)
Compensation for travel expenses and medical insurance	Key management personnel	(71)	(84)
Consulting and audit expenses	Subsidiary	(477)	–
Operating expenses		**(1,999)**	**(1,218)**
Net losses for the year		**(2,121)**	**(1,221)**

31. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of the credit institutions and is estimated as ratio of capital base to risk weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank‘s Council.

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 31 December 2014, this minimum level was 8% (2013: 8%).

Besides, taking into account the Bank‘s status as the multilateral development institution and the structure of the Bank‘s member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as of 31 December 2014 (2013: 25%).

From 2013 the Bank monitors the capital adequacy ratio, computed in accordance with the Basel Capital Accord (commonly known as Basel II) as defined in the International Convergence of Capital Measurement and Capital Standards and Amendment to the Capital Accord to incorporate market risks.

(Thousands of Euros)

31. Capital adequacy (continued)

The following table shows the composition of the Bank's capital position computed in accordance with the Basel Accord (Basel II), as of 31 December 2014 and 31 December 2013.

	31 December 2014	*31 December 2013*
Capital		
Tier 1 capital	348,744	306,221
Tier 2 capital	34,095	33,589
Total regulatory capital	**382,839**	**339,810**
Risk-weighted assets		
Credit risk	383,661	156,151
Market risk	57,395	114,548
Operational risk	46,227	59,016
Total risk-weighted assets	**487,283**	**329,715**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	78.57%	103.06%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")	71.57%	92.87%

(The end).