

FINANCIAL REPORT 2013



European Bank
for Reconstruction and Development



WWW.EBRD.COM/FINANCIALREPORT



The *Financial Report 2013* includes the approved and audited financial statements required to be submitted under Article 27 of the Agreement Establishing the European Bank for Reconstruction and Development and Section 13 of its By-Laws.

The EBRD is investing in changing people's lives and environments from central Europe to central Asia and the southern and eastern Mediterranean. Working together with the private sector, we invest in projects, engage in policy dialogue and provide technical advice that fosters innovation and builds sustainable and open market economies.

2 Highlights

4 Financial results

7 Key financial indicators: 2009-13

8 Additional reporting and disclosures

14 Financial statements

- 14 Income statement
- 15 Statement of comprehensive income
- 16 Balance sheet
- 17 Statement of changes in equity
- 18 Statement of cash flows
- 19 Accounting policies
- 27 Risk management
- 50 Notes to the financial statements

73 Responsibility for external financial reporting

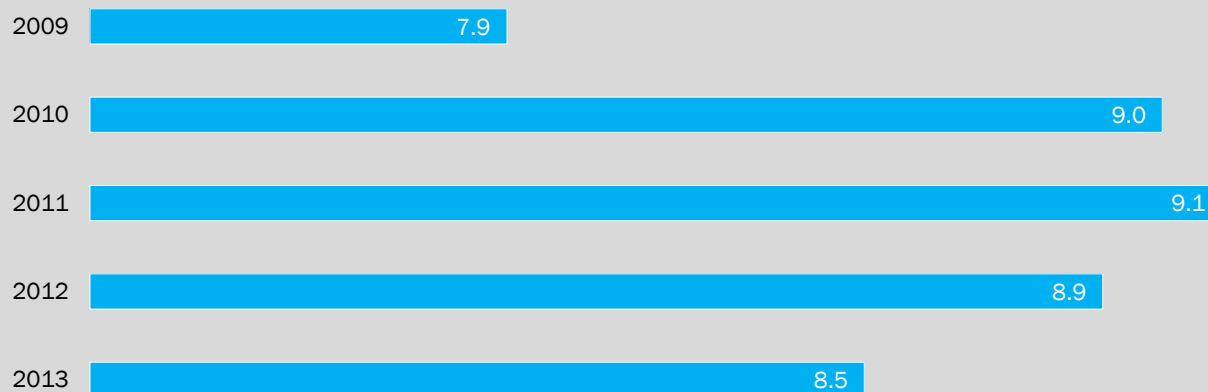
- 73 Management's responsibility
- 74 Report of the independent auditor

75 Independent auditor's report to the Governors

Highlights

EBRD commitments 2009-13*

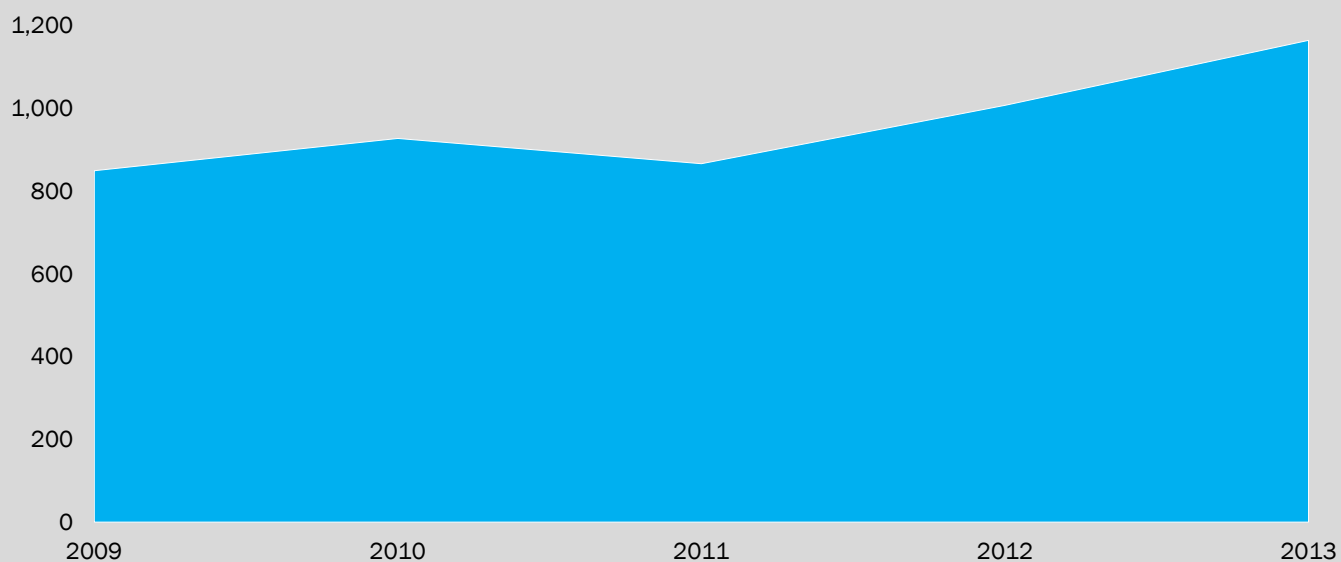
€ billion



* The amount of finance committed under signed agreements during the calendar year.

Realised profit for the year before impairment 2009-13

€ million



Financial results 2009-13

€ million	2013	Restated ¹ 2012	2011	2010	2009
Realised profit before impairment ²	1,169	1,007	866	927	849
Net profit/(loss) before transfers of net income approved by the Board of Governors	1,012	1,021	173	1,377	(746)
Transfers of net income approved by the Board of Governors	(90)	(190)	-	(150)	(165)
Net profit/(loss) after transfers of net income approved by the Board of Governors	922	831	173	1,227	(911)
Paid-in capital	6,202	6,202	6,199	6,197	5,198
Reserves and retained earnings ³	8,674	7,748	6,974	6,780	6,317
Total members' equity	14,876	13,950	13,173	12,977	11,515

Operational results 2009-13

	2013	2012	2011	2010	2009	Cumulative 1991-2013
Number of projects	392	393	380	386	311	3,944
Annual Bank investment (€ million)	8,498	8,920	9,051	9,009	7,861	84,757
Non-EBRD finance (€ million)	13,488	17,372	20,802	13,174	10,353	168,283
Total project value ⁴ (€ million)	20,527	24,871	29,479	22,039	18,087	253,349

¹ Restatement due to adoption of mandatory changes introduced by IAS 19: Employee Benefits; for further details refer to 'Staff retirement plans' within the 'Significant accounting policies' section of the report.

² Realised profit is before unrealised fair value adjustments to share investments, provisions, other unrealised amounts and transfers of net income.

³ The movement in reserves and retained earnings reflects the net profit after transfers of net income, the movement in other comprehensive income and the retention of internal tax.

⁴ Total project value is the total amount of finance provided to a project, including both EBRD and non-EBRD finance, and is reported in the year in which the project first signs. EBRD financing may be committed over more than one year with "annual Bank investment" reflecting EBRD finance by year of commitment. The amount of finance to be provided by non-EBRD parties is reported in the year the project first signs.

Financial results

The European Bank for Reconstruction and Development (the Bank) recorded a net realised profit of €1.2 billion before provisions, unrealised losses on share investments, other unrealised amounts and transfers of net income (2012: €1.0 billion). Including provisions and unrealised amounts, net profit before transfers approved by the Board of Governors was €1.0 billion for 2013, unchanged from 2012. The net realised profit of €1.2 billion is primarily attributable to net interest income of €0.8 billion (€0.9 billion in 2012) and net realised gains, including dividends, of €0.5 billion on the equity portfolio (2012: €0.3 billion). This portfolio, inclusive of associated derivatives, is valued at €0.3 billion above cost. The contribution from share investments to the Bank's income statement is expected to continue to show significant variability from year to year, given the volatility of equity markets and the timing of exits.

The Bank's reserves increased to €8.7 billion at the end of 2013 (2012: €7.7 billion), attributable to the net profit for the year after transfers approved by the Board of Governors.

The Bank continues to be rated AAA or equivalent, with a stable outlook, by all three major rating agencies. It maintains a robust capital position, high levels of liquidity and enjoys the strong support of its members.

2013 was the EBRD's first full year of activity in the southern and eastern Mediterranean (SEMED) region. The Bank opened permanent offices in Tunisia and Jordan while the opening of permanent offices in Egypt and Morocco is planned for 2014. It appointed heads of office and recruited staff for all four countries. In November 2013 the EBRD Board of Governors granted country of operations status to Jordan, Morocco and Tunisia. Egypt continues to have a potential country of operations status which is expected to be reviewed in 2014. The Bank continues to invest in Egypt through the Bank's SEMED Investment Special Fund.

Bank operations

Operational results

Annual Bank investment amounted to €8.5 billion in 2013. This comprised 392 operations and 72 outstanding balances under the 2013 trade facilitation programme (2012: €8.9 billion, 393 projects and 72 trade finance balances). This total included six commitments in Egypt for €152 million funded through the SEMED Investment Special Fund. This fund was created in support of the membership decision in 2012 to expand the Bank's region of operations to include the Southern and Eastern Mediterranean region and to enable financing of projects within the region until such time as they become full countries of operations.

Excluding investments in the SEMED region, annual business investment by region was as follows: Central Asia accounted for 7 per cent, Turkey 11 per cent, Eastern Europe and the Caucasus 19 per cent, south-eastern Europe 20 per cent, Central Europe and the Baltic states 20 per cent and Russia 23 per cent. The Bank continued to support key economic sectors in line with its operational strategy. Operations in the diversified corporate sectors accounted for 31 per cent of 2013 Bank investment, the financial sector accounted for 28 per cent, with priority given to the financing of SMEs, and the energy and infrastructure sectors accounted for the remaining 41 per cent.

The Bank's portfolio of investment operations increased marginally to €37.8 billion by the end of 2013, a 1 per cent increase on the 2012 year-end level of €37.5 billion. Portfolio reflows⁵ increased by 20 per cent from €4.9 billion in 2012 to €5.9 billion in 2013 reflecting strong repayments supported by low impairment levels and divestment of around €0.7 billion from the Bank's equity portfolio.

Gross disbursements reached €5.9 billion in 2013 (2012: €6.0 billion) and, with reflows equalling disbursements, the Bank's operating assets remained broadly constant at €26.4 billion at end 2013. Operating assets comprised €20.0 billion of disbursed outstanding loans (2012: €20.0 billion) and €6.4 billion of disbursed outstanding equity investments at historic cost (2012: €6.6 billion).

The Bank's projects included additional financing of approximately €13.5 billion during 2013 (2012: €17.4 billion) with the Bank directly mobilising €0.8 billion of syndicated loans (2012: €1.0 billion). In addition the Bank's activities continued to be strongly supported by donor funding, including the Special Funds programme and technical and cooperation funds.

Financial performance

Banking operations recorded a net profit of €791 million for 2013 (2012: €750 million).

The Banking profit for the year is primarily due to net interest income of €743 million.

Excluding unrealised fair value movements on the share investments portfolio and provisions charged against the loans portfolio, Banking operations returned a profit of €0.9 billion (2012: €0.8 billion).

The contribution from share investments to the Bank's income statement is expected to continue to show significant variability from year to year, given the volatility of equity markets and the timing of exits. Exits are mainly linked to the completion of the Bank's transition role in the specific operation and the opportunity, in the market or otherwise, to sell its holding.

Treasury operations

Portfolio

The value of assets under Treasury management at 31 December 2013 was €20.1 billion (2012: €20.5 billion). This comprised debt securities of €12.5 billion (2012: €12.4 billion), €7.3 billion of placements with credit institutions (2012: €7.5 billion) and collateralised placements of €0.3 billion (2012: €0.6 billion).

Financial performance

Treasury operations reported an operating profit of €176 million for 2013 before hedge accounting adjustments (2012: €202 million). The portfolio primarily generates profit through net interest income which was €102 million in 2013 (2012: €133 million), reflecting lower margins for Treasury's liquid asset portfolio.

Capital

At the 2010 Annual Meeting, the Board of Governors approved an increase to the Bank's authorised capital of €10.0 billion, for which €1.0 billion was capitalised from the Bank's reserves while the other €9.0 billion was callable. The €9.0 billion of callable capital became effective in April 2011 when the level of subscriptions reached 50 per cent of the number of newly authorised shares. At 31 December 2013 this figure was 99 per cent, with subscribed capital at €29.7 billion (2012: €29.6 billion).

Paid-in capital totalled €6.2 billion at 31 December 2013 (2012: €6.2 billion), of which €10 million was overdue (2012: €12 million).

The calculation of capital for gearing purposes under the Agreement Establishing the Bank is further explained under the Capital Management section of this report.

⁵ "Reflows" refers to reductions in the portfolio through the repayment or prepayment of loan principals and the divestment of share investments at cost. It also includes cancellations of committed but undisbursed amounts.

Reserves

The Bank's reserves increased from €7.7 billion at the end of 2012 to €8.7 billion at the end of 2013, primarily reflecting the net profit for the year. Unrestricted general reserves increased by €1.1 billion before net income allocations (2012: an increase of €859 million). After a net income allocation of €65 million,⁶ unrestricted general reserves stood at €5.0 billion at 31 December 2013 (2012: €3.9 billion).

Expenses

The Bank continues to focus on budgetary discipline, effective cost controls and a proactive cost-recovery programme. The Bank's general administrative expenses for 2013, including depreciation and amortisation, totalled €345 million (2012: €295 million). Sterling general administrative expenses for 2013, including depreciation and amortisation, totalled £295 million (2012: £260 million).

Outlook for 2014

The Bank expects its net realised profit to remain relatively stable. However its overall profitability will remain vulnerable to volatility in financial markets, with the fair value of its share investments portfolio and the level of specific debt impairment having particular influence on its profits.

⁶ In the "income statement" the figure for transfers of net income allocations is €90 million. Only €65 million had an impact on unrestricted general reserves in 2013 as €25 million came from restricted reserves set aside in 2012 for the SEMED Investment Special Fund.

Key financial indicators 2009-13

Key financial indicators are presented for the Bank over the last five years. These ratios are influenced by the growth in portfolio and annual business investment of the five-year period in line with the Bank's strategy. This business growth utilises the Bank's capital capacity in pursuit of its mandate objectives, while underlying ratios remain at prudent levels broadly consistent with the upper quartile among international financial institutions (IFIs) in terms of capital strength and cost efficiency.

The Bank's profits and reserves show volatility due to movements in the valuations of share investments. Excluding these movements, the Bank has continued to grow its members' equity in a challenging and complex environment, with an average return on equity of 6 per cent over the last five years (2008-12: an average of 5 per cent). The performance of the Bank's loan assets still remains strong with a non-performing loan ratio at 31 December 2013 of 3 per cent (2012: 3 per cent).

The strong growth in members' equity in 2013 has allowed the Bank to sustain a high level of investment across its region of operations while improving key balance sheet indicators.

Leverage - debt divided by members' equity - has decreased to 2.1 times at 31 December 2013 (2012: 2.5 times) reflecting the growth in the Bank's reserves and exchange rate movements on the debt currency (prior to associated swaps).

The Bank's capital strength is illustrated by the level of members' equity, which has increased to 30 per cent of total assets at 31 December 2013 (2012: 27 per cent), including Treasury assets with an average risk rating between AA and AA-. Members' equity was 59 per cent of Banking assets ('development related exposure') at 31 December 2013 (2012: 55 per cent) mainly reflecting the growth in the Bank's overall reserves.

The Bank's capital strength is further underpinned by its 'triple-A' rating with a stable outlook affirmed by all three major rating agencies in the second half of 2013.

	2013	2012	2011	2010	2009
Financial performance					
1. Return on members' equity – IFRS basis	7%	8%	0%	12%	(2%)
2. Return on members' equity – Realised basis	8%	7%	5%	8%	2%
Efficiency					
3. Cost-to-income ratio	23%	22%	25%	24%	25%
Portfolio quality					
4. Non-performing loans ratio	3%	3%	3%	3%	2%
5. Average rating of Treasury liquid assets	2.2	2.2	2.2	2.4	2.5
6. Average maturity of Treasury liquid assets (tenor)	1.2	1.0	1.3	1.5	1.9
Liquidity and leverage					
7. Liquid assets/undisbursed Banking investments plus one-year debt service	93%	85%	88%	82%	74%
8. Debt/members' equity: leverage ratio	210%	248%	241%	192%	172%
Capital strength					
9. Members' equity/total assets	30%	27%	28%	33%	35%
10. Members' equity/Banking assets	59%	55%	54%	61%	64%

Explanatory notes on ratios above

- (Total closing members' equity minus total opening members' equity) divided by total opening members' equity – members' equity before net income allocations.
- (Total closing members' equity minus total opening members' equity) divided by total opening members' equity with unrealised Banking fair value adjustments excluded from members' equity. Members' equity before net income allocations.
- Total operating expenses divided by total operating income before net movements in equity valuations and Banking and Treasury loan provisions.
- Total non-performing loans as a percentage of total loan operating assets.⁷
- Represents the average credit rating weighted by peak counterparty exposure, based on the Bank's internal rating scale as disclosed within the Risk Management: credit risk section of this report.
- The average tenor of Treasury assets in years is derived from the weighted average time to final maturity, with the exception of asset-backed securities whose final maturity is approximated by the average life of the transaction.
- Treasury liquid assets divided by total Banking undrawn commitments (undisbursed but committed investments), plus one year's debt service, which comprises debt due for redemption within one year and one year's estimated interest expense.
- Total borrowings divided by total members' equity.
- Total members' equity divided by total assets.
- Total members' equity divided by total Banking assets at fair value.

⁷ Operating assets are before accounting adjustments such as fair value adjustments and amortisation of deferred fees and costs.

Additional reporting and disclosures

Corporate governance

The EBRD is committed to the highest standards of corporate governance. Responsibilities and related controls throughout the Bank are properly defined and delineated. Transparency and accountability are integral elements of its corporate governance framework. This structure is further supported by a system of reporting, with information appropriately tailored for, and disseminated to, each level of responsibility within the Bank to enable the system of checks and balances on the Bank's activities to function effectively.

The Bank's governing constituent document is the Agreement Establishing the Bank ("the Agreement"), which states that the institution will have a Board of Governors, a Board of Directors, a President, Vice Presidents, officers and staff.

Board of Governors

All the powers of the Bank are vested in the Board of Governors, which represents the Bank's 66 members. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors, while retaining overall authority.

Board of Directors

The Board of Directors comprises 23 Directors and is chaired by the President. Each Director represents one or more members. Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the Bank's general operations and policies. It exercises the powers expressly assigned to it by the Agreement and those powers delegated to it by the Board of Governors.

Board Committees

The Board of Directors has established three Board Committees to assist with its work:

The **Audit Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the integrity of the Bank's financial statements and its accounting, financial reporting and disclosure policies and practices
- the soundness of the Bank's systems of internal controls that management has established regarding finance and accounting matters and their effective implementation
- the status, the ability to perform duties independently and the performance of the Bank's compliance, internal audit, evaluation and risk management functions
- the independence, qualifications and performance of the Bank's external auditor
- other responsibilities within its remit.

The **Budget and Administrative Affairs Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the budgetary, staff and administrative resources of the Bank
- efficiency, cost control and budgetary prudence
- the EBRD Shareholder Special Fund, the use of donor funding and relations with the donor community
- the Bank's Human Resources policies
- specific responsibilities in relation to Governors, the President, Vice Presidents and Directors of the Bank
- policies relating to governance and ethics
- the Bank's administrative arrangements
- other responsibilities within its remit.

The **Financial and Operations Policies Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the Bank's financial policies
- the Bank's Treasury operations, Liquidity Policy and Borrowing Programme
- the Bank's operational policies
- the Bank's strategic portfolio management within the framework of the Medium Term Strategy
- transparency and accountability of the Bank's operations within the framework of the Public Information Policy and the Project Complaint Mechanism
- other responsibilities within its remit.

The composition of these committees during 2013 is detailed in the separate Review section of the Annual Report.

The President

The President is elected by the Board of Governors. He is the legal representative and chief of staff of the Bank. Under the direction of the Board of Directors, the President conducts the day-to-day business of the Bank.

The President chairs the Bank's Executive Committee, which also includes the Vice Presidents and other members of the Bank's senior management.

Primary Management Committees

Listed below are the committees that directly advised the President or a member of the Executive Committee in the overall management of the Bank in 2013.

Management Committees	Chair	Purpose of the Committee	Meeting frequency
Executive Committee	President	Reviews and decides on all aspects of Bank strategy, the budget and day-to-day management falling within the competence of the President and approves submissions to the Board. Considers HR policy and senior management appointments and performance.	Fortnightly
Strategy and Policy Committee	Vice President, Policy	Primarily focuses on transition strategy and policy work: country, sector and thematic strategies and related policies, policy products and policy-related research.	Fortnightly
Risk Committee	Vice President and Chief Risk Officer	Oversees Bank-wide risks, including credit and operational risk, with associated follow-up actions. It oversees risk aspects of the Banking and Treasury portfolios (e.g. stress testing), approves risk policies and risk reports and considers new Banking/Treasury products.	Monthly
Operations Committee	First Vice President and Chief Operating Officer	Considers all banking transactions at various stages (concept, structure and final reviews) before submission by the President for consideration by the Board of Directors.	Weekly
Equity Committee	First Vice President and Chief Operating Officer	Maintains oversight of listed and unlisted share investments. Reviews and identifies suitable exit opportunities and makes recommendations on such exits to the Operations Committee.	Quarterly
Procurement Complaints Committee	Deputy General Counsel, Banking and Finance	Considers complaints and disputes arising from tendering and contracts for goods, works and consultant services (including those funded by cooperation funds or the Special Funds resources), subject to the Procurement Policies and Rules or the Corporate Procurement Policy. Reviews procurement and related matters referred to it by the Executive Committee.	As necessary
Information Technology Governance Committee	Vice President and Chief Administrative Officer	Ensures that the Bank's IT strategy and business plan support the Bank's business strategy. Establishes the framework for measuring business benefits and oversees the realisation of benefits arising from IT projects. Reviews and approves business requests for budget allocation on new projects from the approved IT budget.	At least six times per year
Crisis Management Team	Vice President and Chief Financial Officer	Prepares coordinated responses to all critical internal and external issues arising in connection with events that affect the normal operations of the Bank. Ensures that the crisis management and business recovery plans are in place and are tested on a regular basis.	At least three times per year
Enforcement Committee	Deputy General Counsel, Banking and Finance	Conducts proceedings in accordance with the Bank's Enforcement Policy and Procedures, concerning allegations of fraud, corruption, collusion or coercion in the context of projects financed by the Bank. Decides whether to take any enforcement action based on a third party finding or in the implementation of any agreement for the mutual enforcement of debarment decisions in effect between the Bank and another international organisation.	As necessary

EBRD Codes of Conduct

The EBRD has Codes of Conduct for Officials of the Board of Directors and for Bank personnel which articulate the values, duties and obligations, and ethical standards that the Bank expects of its Board officials and staff. These Codes were reviewed in 2011 and the revised versions were adopted by the Bank's Board of Governors in February 2012. The revised Codes of Conduct prohibit retaliation against whistleblowers. The Codes of Conduct can be obtained at www.ebrd.com/pages/about/integrity/compliance.shtml.

Compliance

The EBRD has an independent Office of the Chief Compliance Officer (OCCO). This is headed by a Chief Compliance Officer (CCO) who reports directly to the President, and to the Audit Committee either quarterly or as necessary. The CCO can be dismissed by the President only in accordance with guidance given by the Board of Directors in an executive session.

OCCO's mandate is to promote good governance throughout the EBRD and in its operations and to ensure that the highest standards of integrity are applied throughout all of the Bank's activities. The responsibilities of OCCO include dealing with issues of integrity due diligence, confidentiality, conflicts of interest, accountability, ethics, anti-money-laundering, counter-terrorist financing and the prevention of fraudulent and corrupt practices.

The EBRD has adopted an Integrity Risks Policy, which can be obtained at www.ebrd.com/downloads/integrity/integrityriskpol.pdf. This policy allocates responsibility within the EBRD for managing and mitigating integrity and compliance risks in the Bank's operations.

Financial and integrity due diligence are integrated into the Bank's normal approval of new business and in the monitoring of its existing transactions. OCCO provides independent expert advice to management about the existence of potential integrity risks and whether these risks are acceptable to the Bank. It monitors the integrity due diligence information provided by the Banking Department to ensure that it is accurate and that integrity concerns are properly identified.

OCCO is further responsible for investigating allegations of staff misconduct as well as fraud and corruption in relation to Bank projects and counterparties. Allegations of staff misconduct are investigated under the Conduct and Disciplinary Rules and Procedures (CDRPs). The CDRPs specify the rights and duties of both the Bank and staff member during the investigative and disciplinary processes and provide safeguards for the subject of the investigation.

Allegations of fraud and corruption in relation to Bank projects or counterparties are investigated under the Bank's Enforcement Policy and Procedures (EPPs). The EPPs also describe the process by which the Bank applies sanctions imposed by other multilateral development banks (MDBs) pursuant to the Agreement for the Mutual Enforcement of Debarment Decisions. In 2013 OCCO recommended to the EBRD Enforcement Committee that 88 Notices of Mutual Enforcement be issued after receiving debarment decisions from MDBs with respect to 303 incorporated entities and 25 individuals. The EBRD's Enforcement Committee approved this recommendation and determined that sanctions should be imposed on the entities and individuals noted in the 88 Notices. Details of the individuals, entities and sanctions are posted at www.ebrd.com/pages/about/integrity/list.shtml.

OCCO is also responsible for training Bank personnel in relation to the Bank's integrity, anti-money-laundering and counter-terrorist finance requirements. In addition, it provides specialist training and advises, as necessary, individuals who are nominated by the Bank to serve as directors on the boards of companies in which the Bank holds an equity interest.

The Bank has an accountability mechanism that assesses and reviews complaints about Bank-financed projects and provides, where warranted, a determination as to whether the Bank acted in compliance with its relevant policies when it approved a particular project. The Project Complaint Mechanism (PCM) is administered by OCCO, and there is a dedicated PCM Officer, appointed by the President. The PCM Officer is responsible for the day-to-day implementation of the PCM. Information about the PCM and registered complaints can be found at www.ebrd.com/pages/project/pcm/register.shtml.

The Bank's annual *Anti-Corruption Report* is published by OCCO. The report describes the Bank's strategy to promote integrity and prevent fraud and corruption, and highlights the most recent measures taken. The report can be found at www.ebrd.com/pages/about/integrity/reports.shtml.

Reporting

The EBRD's corporate governance structure is supported by appropriate financial and management reporting. The Bank has a functioning mechanism to be able to certify in the *Financial Report 2013* as to the effectiveness of internal controls over external financial reporting, using the COSO (Committee of Sponsoring Organisations of the Treadway Commission) internal control framework (1992).⁸ This annual certification statement is signed by both the President and the Vice President and Chief Financial Officer (VP & CFO) and is subject to a review and an attestation by the Bank's external auditor. In addition, the Bank has a comprehensive system of reporting to its Board of Directors and its committees. This includes reporting to the Audit Committee on the activities of the Evaluation Department and the Internal Audit Department.

Financial risks

Financial risks are discussed in the Risk Management section of this report.

⁸ In line with other organisations the Bank will adopt the revised 2013 framework during 2014.

Operational risk

The Bank defines operational risk as all aspects of risk-related exposure other than those falling within the scope of credit, market and liquidity risk. This includes the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and reputational risk. Examples include:

- errors or failures in transaction support systems
- inadequate disaster recovery planning
- errors in the mathematical formulae of pricing or hedging models
- errors in the computation of the fair value of transactions
- damage to the Bank's name and reputation, either directly by adverse comments or indirectly
- errors or omissions in the processing and settlement of transactions, whether in the areas of execution, booking or settlement or due to inadequate legal documentation
- errors in the reporting of financial results or failures in controls, such as unidentified limit excesses or unauthorised trading/trading outside policies
- dependency on a limited number of key personnel, inadequate or insufficient staff training or skill levels
- external events

The Bank has a low tolerance for material losses arising from operational risk exposures. Where material operational risks are identified (that is, those that may lead to material loss if not mitigated), appropriate mitigation and control measures are put in place after a careful weighing of the risk/return trade-off. Maintaining the Bank's reputation is of paramount importance and reputational risk has therefore been included in the Bank's definition of operational risk. The Bank will always take all reasonable and practical steps to safeguard its reputation.

Within the Bank, there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics, its established system of internal controls, checks and balances and segregation of duties. These are supplemented with:

- the Bank's Codes of Conduct
- disaster recovery/contingency planning
- the Public Information Policy
- the Environment and Social Policy
- client and project integrity due diligence procedures, including anti-money-laundering measures
- procedures for reporting and investigating suspected staff misconduct, including fraud
- the information security framework
- procurement and purchasing policies, including the detection of corrupt practices in procurement.

Responsibility for developing the operational risk framework and for monitoring its implementation resides within the Risk Vice Presidency. Risk Management is responsible for the overall framework and structure to support line managers who control and manage operational risk as part of their day-to-day activities. The Risk Committee governs all matters of risk and related policies Bank-wide, including monitoring, assessment and oversight of Bank-wide risks including operational risk. The Risk Committee is chaired by the Vice President and Chief Risk Officer (VP & CRO) with other senior managers represented or present for operational risk related discussion.

The Bank's current operational risk framework includes an agreed definition (see above); the categorisation of different loss type events to assess the Bank's exposure to operational risk; a group of key risk indicators to measure such risks; the identification of specific operational risks through an annual self-assessment exercise; internal loss data collection; and the contribution to, and use of, external loss data.

Departments within the Bank identify their operational risk exposures and evaluate the mitigating controls that help to reduce the inherent or pre-control risk. Each risk (both inherent and post control) is assessed for its impact, according to a defined value scale and the likelihood of occurrence, based on a frequency by time range. Operational risk incident losses or near misses above €5,000 are required to be reported. The collection of such data is primarily to improve the control environment by taking into account the cost of control strengthening and perceived potential future losses. The Bank is a member of the Global Operational Risk Loss Database (GOLD), the external loss database where members "pool" operational risk incident information over a monetary threshold. This provides the Bank with access to a depth of information wider than its own experience and supplements its own analysis on reported internal incidents. GOLD is run as an unincorporated not-for-profit consortium of financial services institutions.

External auditor

The external auditor is appointed by the Board of Directors, on the recommendation of the President, for a four-year term with a maximum of two consecutive terms. The Bank has appointed Deloitte LLP (UK) as auditor for the period 2011-14.

The external auditor performs an annual audit in order to be able to express an opinion on whether the financial statements present fairly the financial position and the profit of the Bank in accordance with International Financial Reporting Standards (IFRS). In addition, the external auditor reviews and offers its opinion on management's assertion as to the effectiveness of internal controls over financial reporting. This opinion is given as a separate report to the audit opinion. At the conclusion of its annual audit, the external auditor prepares a management letter for the Board of Governors, setting out its views and management's responses on the effectiveness and efficiency of internal controls and other matters. This letter is reviewed in detail and discussed with the Audit Committee. The Audit Committee reviews the performance and independence of the external auditor annually.

There are key provisions in the Bank's policies regarding the independence of the external auditor. The external auditor is prohibited from providing non-audit related services unless such service is judged to be in the interest of the Bank and unless it is approved by the Audit Committee. However, the external auditor can provide consultancy services paid for by cooperation funds relating to client projects; such incidents are reported periodically to the Audit Committee.

Compensation policy

The Bank has designed a market-oriented staff compensation policy, within the constraints of the Bank's status as a multilateral institution, to meet the following objectives:

- to be competitive enough to attract and retain high calibre employees from a wide range of member countries
- to motivate and encourage superior performance
- to take account of differing levels of responsibility
- to allow the Bank flexibility to respond rapidly to changing conditions
- to support a climate of constant staff development
- to deliver benefits that provide social security in daily life.

To help meet these objectives, the Bank's members have agreed that the Bank should use market comparators to evaluate its staff compensation and that salary and performance-based compensation awards should be driven by performance. Market comparators for the Bank are primarily private sector financial institutions in each of its locations plus other IFIs.

The performance-based compensation awards are structured to recognise individual and team contributions to the Bank's overall performance. These payments represent a limited proportion of the overall total compensation and benefits package provided to staff.

EBRD staff remuneration

All staff on fixed-term or regular contracts receive a salary which is reviewed on 1 April each year. In addition, members of staff who are not eligible for overtime pay are eligible to receive a performance-based compensation award depending on the Bank's and the individual staff member's performance.

All fixed-term and regular employees, as well as most of the Board of Directors,⁹ the President and Vice Presidents, are covered by medical insurance, life insurance and participate in the Bank's retirement plans. Certain staff hired from abroad may be eligible for some allowances to assist with costs related to their relocation.

There are two retirement plans in operation. The Money Purchase Plan is a defined contribution scheme to which both the Bank and staff contribute, with Plan members making individual investment decisions. The Final Salary Plan is a defined benefit scheme, to which only the Bank contributes. Both plans provide a lump sum benefit on leaving the Bank or at retirement age, such that retirement plan obligations to staff once they have left the Bank or retired are minimal (being limited to inflation adjustments on undrawn or deferred benefits under each plan). The rules for the retirement plans are approved by the Board of Directors and are monitored by a Retirement Plan Committee, a Retirement Plan Administration Committee and a Retirement Plan Investment Committee.

The salaries and emoluments of all staff are subject to an internal tax, applied at rates that vary according to the individual's salary and personal circumstances. Their salaries and emoluments are exempt from national income tax in the United Kingdom.

⁹ Some Directors and Alternates are paid directly by their constituency and do not participate in the Bank's retirement plans and/or other benefits.

President and Vice Presidents

The President is elected by the Board of Governors and typically receives a fixed-term contract of four years. The President's salary and benefits are approved by the Board of Governors. The President can participate in the same benefit schemes as the staff but s/he is not eligible for performance-based compensation awards.

The Vice Presidents are appointed by the Board of Directors on the recommendation of the President and typically have fixed-term contracts of four years. Their salaries and benefits are approved by the Board of Directors. The Vice Presidents can participate in the same benefit schemes as the staff but are not eligible for performance-based compensation awards.

The most recently approved gross salaries, from which internal tax is deducted, for each of these positions is as follows:

	2013 £ 000	2013 € 000	2012 £ 000	2012 € 000
President	329	388	327	401
First Vice President and Chief Operating Officer ¹⁰	304	359	298	365
Vice President and Chief Financial Officer	277	327	272	334
Vice President and Chief Risk Officer ¹¹	277	327	225	276
Vice President and Chief Administrative Officer ¹²	70	83	n/a	n/a
Vice President, Policy ¹³	219	258	233	286

Board of Directors

Directors are elected by the Board of Governors for a term of three years and may be re-elected. Directors appoint Alternate Directors. The salaries of Directors and Alternate Directors are approved by the Board of Governors. They can participate in the same benefit schemes as staff but are not eligible for performance-based compensation awards. Some Directors and Alternates are paid directly by the directorship that they represent. In such cases, the funds that would otherwise be used by the Bank to pay such Directors and Alternates are made available to the directorship to offset other eligible costs to the directorship.

The most recently approved gross salaries for these positions, from which internal tax is deducted, are as follows:

	2013 £ 000	2013 € 000	2012 £ 000	2012 € 000
Director	143	169	140	172
Alternate Director	118	139	116	142

Senior management

Key management personnel comprises: members of the Bank's Executive Committee; Director of the President's Office; Managing Directors; the Treasurer; the Controller; the Head of Internal Audit; the Chief Evaluator; and the Chief Compliance Officer. This group, excluding the President and Vice Presidents (for whom information is given above), consists of 30 individuals who received gross salaries, from which internal tax is deducted, in the ranges shown in the table below. The average performance-based compensation award for this group was 22 per cent of annual gross salaries in 2013 (2012: 23 per cent).

	2013 £ 000	2013 € 000	2012 £ 000	2012 € 000
Minimum	100	118	95	117
Median	176	208	172	212
Maximum	213	251	210	258
No. in group	30	30	27	27

¹⁰ Role changed hands on 1 March 2013.

¹¹ Changed positions from Vice President, Risk and Resources to Vice President and Chief Risk Officer on 1 October 2013.

¹² Employed from 1 October 2013.

¹³ Role changed hands on 1 July 2013.

Income statement

These financial statements have been approved for issue by the Board of Directors on 26 February 2014.

		Year to 31 December 2013 € million	Restated ¹⁴ Year to 31 December 2012 € million
For the year ended 31 December 2013	Note		
Interest and similar income			
From Banking loans		998	1,040
From fixed-income debt securities and other interest		99	166
Interest expense and similar charges		(90)	(155)
Net interest expense on derivatives		(162)	(176)
Net interest income	4	845	875
Net fee and commission income	5	25	32
Dividend income		105	87
Net gains from share investments at fair value through profit or loss	6	376	274
Net gains from loans at fair value through profit or loss	7	1	11
Net gains from loans at amortised cost		3	1
Net losses from Treasury assets held at amortised cost	8	(7)	(16)
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	9	102	103
Fair value movement on non-qualifying and ineffective hedges	10	45	69
Impairment provisions on Banking loan investments	11	(133)	(120)
Impairment provisions on guarantees		(5)	-
General administrative expenses	12	(319)	(270)
Depreciation and amortisation	21,22	(26)	(25)
Net profit for the year from continuing operations		1,012	1,021
Transfers of net income approved by the Board of Governors		(90)	(190)
Net profit after transfers of net income approved by the Board of Governors		922	831
Attributable to:			
Equity holders		922	831

Pages 19 to 72 are an integral part of these financial statements.

¹⁴ As explained in Note 2

Statement of comprehensive income

	Year to 31 December 2013 € million	Restated Year ¹⁵ to 31 December 2012 € million
For the year ended 31 December 2013		
Net profit after transfers of net income approved by the Board of Governors	922	831
Other comprehensive income/(expense)		
1. Items that will not be reclassified subsequently to profit or loss		
Share investment designated as fair value through other comprehensive income	(1)	6
Actuarial gains/(losses) on defined benefit scheme	2	(5)
Cash flow hedges	(7)	(15)
2. Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	4	7
Total comprehensive income	920	824
Attributable to:		
Equity holders	920	824

Pages 19 to 72 are an integral part of these financial statements.

¹⁵ As explained in Note 2

Balance sheet

At 31 December 2013	Note	€ million	31 December 2013 € million	€ million	Restated ¹⁶ 31 December 2012 € million
Assets					
Placements with and advances to credit institutions	13	7,266		7,515	
Debt securities	14				
At fair value through profit or loss		139		175	
At amortised cost		12,398		12,243	
Less: Provisions for impairment		-		(8)	
		12,537		12,410	
Collateralised placements	15	247		600	
			20,050		20,525
Other financial assets	16				
Derivative financial instruments		3,094		4,671	
Other financial assets		304		294	
			3,398		4,965
Loan investments					
<i>Banking portfolio:</i>					
Loans at amortised cost	17	19,458		19,333	
Less: Provisions for impairment	11	(817)		(736)	
Loans at fair value through profit or loss	18	223		247	
			18,864		18,844
Share investments					
<i>Banking portfolio:</i>					
At fair value through profit or loss	19	6,490		6,649	
<i>Treasury portfolio:</i>					
Share investments at fair value through other comprehensive income	20	63		64	
			6,553		6,713
Intangible assets	21		39		41
Property, technology and office equipment	22		44		42
Paid-in capital receivable			10		12
Total assets			48,958		51,142
Liabilities					
Borrowings					
Amounts owed to credit institutions and other third parties	23	1,543		3,086	
Debts evidenced by certificates	24	29,659		31,824	
			31,202		34,910
Other financial liabilities	25				
Derivative financial instruments		2,475		1,752	
Other financial liabilities		405		530	
			2,880		2,282
Total liabilities			34,082		37,192
Members' equity attributable to equity holders					
Paid-in capital	26	6,202		6,202	
Reserves and retained earnings	27	8,674		7,748	
Total members' equity			14,876		13,950
Total liabilities and members' equity			48,958		51,142
Memorandum items					
Undrawn commitments	28		11,434		10,995

Pages 19 to 72 are an integral part of these financial statements.

¹⁶ As explained in Note 2

Statement of changes in equity

For the year ended 31 December 2013	Subscribed capital € million	Callable capital € million	Fair value through other comprehensive income reserve € million	Cash flow reserves € million	Actuarial remeasurement € million	Restated Retained earnings € million	Total equity € million
At 31 December 2011	28,380	(22,181)	10	15	-	6,949	13,173
Effect of change in accounting policy ¹⁷	-	-	-	-	-	(56)	(56)
At 31 December 2011 as restated	28,380	(22,181)	10	15	-	6,893	13,117
Total comprehensive income for the year	-	-	6	(8)	(5)	831	824
Internal tax for the year	-	-	-	-	-	6	6
Capital subscriptions	1,221	(1,218)	-	-	-	-	3
At 31 December 2012	29,601	(23,399)	16	7	(5)	7,730	13,950
Total comprehensive income for the year	-	-	(1)	(3)	2	922	920
Internal tax for the year	-	-	-	-	-	6	6
Capital subscriptions	72	(72)	-	-	-	-	-
At 31 December 2013	29,673	(23,471)	15	4	(3)	8,658	14,876

Refer to note 27 "Reserves and retained earnings" for a further explanation of the Bank's reserves.

Pages 19 to 72 are an integral part of these financial statements.

¹⁷ As explained in Note 2

Statement of cash flows

		Year to 31 December 2013	Restated ¹⁸ Year to 31 December 2012
For the year ended 31 December 2013	€ million	€ million	€ million
Cash flows from operating activities			
Net profit for the year	922		831
Adjustments for:			
Unwinding of the discount relating to impaired identified assets	(15)		(11)
Interest income	(1,082)		(1,195)
Interest expenses and similar charges	252		331
Net deferral of fees and direct costs	88		108
Internal tax	6		6
Realised gains on share investments and equity derivatives	(439)		(217)
Unrealised (gains)/losses on share investments and equity derivatives at fair value through profit or loss	63		(57)
Unrealised losses/(gains) from loans at fair value through profit or loss	1		(7)
Realised gains on Banking loans	(3)		(6)
Realised gains on Treasury investments	(8)		(17)
Fair value movement on hedges	(45)		(69)
Unrealised mark-to-market movement	140		(97)
Foreign exchange gains	-		(2)
Depreciation and amortisation	26		25
Profit on disposal of property, technology and office equipment	(1)		-
Release of provisions for impairment of debt securities at amortised cost	(2)		(1)
Gross provisions charge for Banking loan losses and guarantees	138		120
Adjusted net profit	41		(258)
Interest income received	990		1,112
Interest expenses and similar charges paid	(265)		(318)
(Increase)/decrease in operating assets:			
Prepaid expenses	(1)		138
Proceeds from repayments of Banking loans	6,979		6,147
Funds advanced for Banking loans	(7,656)		(7,486)
Proceeds from sale of Banking share investments and equity derivatives	1,161		856
Funds advanced for Banking share investments	(531)		(1,135)
Net placements to credit institutions	(2,685)		(174)
(Decrease)/increase in operating liabilities:			
Accrued expenses	11		(1)
Net cash used in operating activities		(1,956)	(1,119)
Cash flows used in investing activities			
Proceeds from debt securities at amortised cost	16,843		13,471
Purchases of debt securities at amortised cost	(17,857)		(13,621)
Proceeds from sale of debt securities held at fair value through profit or loss	473		1,026
Purchases of debt securities held at fair value through profit or loss	(473)		(885)
Proceeds from sale of property, technology and office equipment	3		-
Purchases of intangible assets, property, technology and office equipment	(29)		(25)
Net cash used in investing activities		(1,040)	(34)
Cash flows from financing activities			
Capital received	2		5
Issue of debts evidenced by certificates	12,182		13,631
Redemption of debts evidenced by certificates	(10,933)		(11,041)
Net cash from financing activities		1,251	2,595
Net (decrease)/increase in cash and cash equivalents		(1,745)	1,442
Cash and cash equivalents at beginning of the year		5,892	4,450
Cash and cash equivalents at 31 December¹⁹		4,147	5,892

Cash and cash equivalents are amounts with an original tenor of less than three months, available for use at short notice and subject to insignificant risk of change in value. Within the 2013 balance is €117 million restricted for signed projects and operational costs for the SEMED Investment Special Fund (ISF), and €15 million restricted for technical assistance to be provided to member countries in the SEMED region.

Pages 19 to 72 are an integral part of these financial statements.

¹⁸ As explained in Note 2

¹⁹ See note 13 for total amounts in 'placements with and advances to credit institutions'.

Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. In addition, financial assets and liabilities subject to amortised cost measurement which form part of a qualifying hedge relationship have been accounted for in accordance with hedge accounting rules – see “Derivative financial instruments and hedge accounting” within the Accounting policies section. The financial statements have been prepared on a going concern basis. The going concern assessment is made by the Bank’s Board of Directors at the time of approving the Bank’s annual Liquidity Policy in the fourth quarter of the year. The assessment was re-confirmed by the President and Vice President and CFO on 26 February 2014, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the financial statements, are disclosed in “Critical accounting estimates and judgments” within the section for Accounting policies.

New and amended IFRS mandatorily effective for the current reporting period

The following new and amended standards are effective for the current reporting period:

Pronouncement	Nature of change	Impact
IFRS 7 (Amendment) Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities	Requires disclosure of information that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements on the entity’s financial position.	New disclosures provided
IFRS 10: Consolidated Financial Statements	Establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.	No change to the Bank’s accounting for its equity investments or its administration of donor funds.
IFRS 11: Joint Arrangements	Establishes the principles for financial reporting by parties to a joint arrangement.	No changes of presentation required
IFRS 12: Disclosure of Interests in Other Entities	Consolidates the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.	New disclosures provided
IFRS 13: Fair Value Measurement	Defines fair value, establishes a single framework for measuring fair value and requires disclosures about fair value measurements.	No change to Bank’s fair value procedures
IAS 1 (Amendment): Presentation of Financial Statements	Requires entities to group items presented in other comprehensive income (“OCI”) on the basis of whether they are potentially re-classifiable to profit or loss.	Presentation of OCI adapted accordingly but amounts are immaterial.
IAS 19 (Amendment): Employee Benefits	Various amendments to the standard including: <ul style="list-style-type: none"> elimination of the option to defer the recognition of gains and losses through the use of the corridor method streamlining the presentation of changes in assets and liabilities arising from defined benefit plans enhancing disclosure requirements for defined benefit plans. 	Opening reserves reduced by €60 million following recognition of previously deferred actuarial losses. Retrospective reduction of €1 million in 2012 general administrative expenses. See accounting policies for further details.
IAS 27 (Reissued): Separate Financial Statements	Requires an entity preparing separate financial statements to account for investments in subsidiaries, joint ventures and associates at cost or in accordance with <i>IFRS 9: Financial Instruments</i> .	Not applicable
IAS 28 (Reissued): Investments in Associates and Joint Ventures	Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	No change as Bank accounts for such investments on a fair value basis

IFRS not yet effective but adopted early

IFRS 9: Financial Instruments is the IASB's replacement project for IAS 39 which is being completed in a number of distinct stages. At this time there is no mandatory application date for the standard although entities are allowed to adopt early all completed phases. The Bank adopted the first stage 'recognition and measurement of financial assets' (November 2009) in its 2010 financial statements.

See the accounting policy for financial assets for more details.

IFRS not yet effective and not adopted early

The following standards are not yet effective and have not been adopted early.

Pronouncement	Nature of change	Potential impact
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010) Hedge accounting (November 2013) Due to the Bank's use of hedge accounting for its borrowings, the Bank will consider these parts of IFRS 9 together. There is currently no mandatory effective date for application of this standard.	The Bank has yet to assess the potential impact of adopting this standard.
IAS 32 (Amendment) Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities	Updates the application guidance and basis of conclusions in relation to the offsetting of financial assets and financial liabilities. Effective for accounting periods beginning on or after 1 January 2014.	The Bank does not consider this standard will have a material impact as it considers that gross presentation of derivative assets and liabilities, to which this amendment predominantly relates, will continue to be appropriate.
Investment entities – amendments to IFRS 10, IFRS 12 and IAS 27	Introduces an exception to consolidating particular subsidiaries for "investment entities", requiring instead such subsidiaries to be measured at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. New disclosure requirements are also introduced. Effective for accounting periods beginning on or after 1 January 2014.	Not applicable
IAS 19 Amendment: Employee contributions to defined benefit plans	Simplifies the accounting for contributions to defined benefit plans from employees and other third parties. Effective for accounting periods beginning on or after 1 July 2014.	Not applicable

A number of existing standards were reviewed by the IASB in December 2013 as part of the IFRS annual improvements cycle. It is the Bank's opinion that none of these amendments, effective for accounting periods beginning on or after 1 July 2014, will have a material impact on the Bank's financial statements.

B. Significant accounting policies

Financial assets – Classification and measurement

The Bank early adopted the first instalment of IFRS 9: Financial Instruments, concerning the classification and measurement of financial assets, with effect from 1 January 2010. Pursuant to that adoption, the Bank classifies its financial assets in the following categories: those measured at amortised cost and those measured at fair value. This classification depends on both the contractual characteristics of the assets and the business model adopted for their management.

Financial assets at amortised cost

An investment is classified as 'amortised cost' only if both of the following criteria are met: the objective of the Bank's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. Except for debt securities held at amortised cost which are recognised on trade date, the Bank's financial assets at amortised cost are recognised at settlement date.

Collateralised placements are measured at amortised cost. These are structures wherein the risks and rewards associated with the ownership of a reference asset are transferred to another party through the use of a 'total return' swap contract, and represent a form of collateralised lending.

Financial assets at fair value

If either of the two criteria above is not met, the debt instrument is classified as 'fair value through profit or loss'. The presence of an embedded derivative, which could potentially change the cash flows arising on a debt instrument so that they no longer represent solely payments of principal and interest, requires that instrument to be classified at fair value through profit or loss, an example being a convertible loan.

Debt instruments classified at fair value through profit or loss are recognised on a settlement date basis if within the Banking loan portfolio and on a trade date basis if within the Treasury portfolio.

The Bank's share investments – equity investments held within its Banking portfolio – are measured at fair value through profit or loss, including associate investments. The Bank considers the latter to be venture capital investments for which IAS 28: Investments in Associates and Joint Ventures does not require the equity method of accounting.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Bank determines its classification as a debt or an equity instrument on the basis of how the investment was internally appraised and presented at its Operations Committee for approval.

The basis of fair value for listed share investments in an active market is the quoted bid market price on the balance sheet date. The basis of fair value for share investments that are either unlisted or listed in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are net asset value and earnings-based valuations to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

The Bank's share investments are recognised on a trade date basis.

At initial recognition, the Bank measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur.

A strategic equity investment held by Treasury is measured at fair value through other comprehensive income. All fair value gains or losses are recognised in the statement of comprehensive income and not recycled through the income statement.

Derecognition of financial assets

The Bank derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash-flows from the asset have been transferred to a third party and, with them, either:

- (i) substantially all the risks and rewards of the asset; or
- (ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Where significant risks and rewards have been transferred, but the transferee does not have the unconditional ability to sell or pledge the asset, the Bank continues to account for the asset to the extent of its continuing involvement. Where neither derecognition nor continuing involvement accounting is appropriate, the Bank continues to recognise the asset in its entirety and recognises any consideration received as a financial liability.

Financial liabilities

The Bank has not adopted early that part of IFRS 9 which relates to financial liabilities and therefore still applies IAS 39: Financial Instruments.

With the exception of derivative instruments which must be measured at fair value, the Bank does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost, unless they qualify for hedge accounting in which case the amortised cost is adjusted for the fair value attributable to the risks being hedged. Liabilities deriving from issued securities are recognised on a trade date basis with other liabilities on a settlement date basis.

Interest expense is accrued using the effective interest rate method and is recognised within the 'interest expense and similar charges' line of the income statement except for the allocated cost funding Treasury's trading assets which is recognised within 'net gains from Treasury activities at fair value through profit or loss'.

Derivative financial instruments and hedge accounting

The Bank primarily makes use of derivatives for three purposes:

- (i) the majority of the Bank's issued securities, excluding commercial paper, are individually paired with a swap to convert the issuance proceeds into the currency and interest rate structure sought by the Bank;
- (ii) to manage the net interest rate risks and foreign exchange risks arising from all of its financial assets and liabilities; and
- (iii) to provide potential exit strategies for its unlisted equity investments through negotiated put options.

All derivatives are measured at fair value through the income statement unless they form part of a qualifying cash flow hedge, in which case the fair value is taken to reserves and released into the income statement at the same time as the risks on the hedged

instrument are recognised therein. Any hedge ineffectiveness will result in the relevant proportion of the fair value remaining in the income statement. Fair values are derived primarily from discounted cash flow models, option-pricing models and from third-party quotes. Derivatives are carried as assets when their fair values are positive and as liabilities when their fair values are negative. All hedging activity is explicitly identified and documented by the Bank's Treasury department.

Hedge accounting

The Bank has not adopted early that part of IFRS 9 which relates to hedge accounting and therefore still applies IAS 39: Financial Instruments.

Hedge accounting is designed to bring accounting consistency to financial instruments that would not otherwise be permitted. A valid hedge relationship exists when a specific relationship can be identified between two or more financial instruments in which the change in value of one instrument (the hedging instrument) is highly negatively correlated to the change in value of the other (the hedged item). To qualify for hedge accounting this correlation must be within a range of 80 to 125 per cent, with any ineffectiveness within these boundaries recognised within "Fair value movement on non-qualifying and ineffective hedges" in the income statement. The Bank applies hedge accounting treatment to individually identified hedge relationships. Also included within this caption of the income statement are the gains and losses attributable to derivatives that the Bank uses for hedging interest-rate risk on a macro basis, but for which the Bank does not apply hedge accounting.

The Bank documents the relationship between hedging instruments and hedged items upon initial recognition of the transaction. The Bank also documents its assessment, on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

The Bank's hedging activities are primarily designed to mitigate interest rate risk by using swaps to convert the interest rate risk profile, on both assets and liabilities, into floating rate risk. Such hedges are known as "fair value" hedges. Changes in the fair value of the derivatives that are designated and qualify as fair value hedges, and that prove to be highly effective in relation to hedged risk, are included in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

In the case of a fair value hedge of a financial liability, where the hedge ceases to qualify for hedge accounting and the financial liability contains an embedded derivative which is of a different economic character to the host instrument, that embedded derivative is bifurcated and measured at fair value through the income statement. This is not required of hedged financial assets as IFRS 9 does not require bifurcation of embedded derivatives in the case of financial assets.

Cash flow hedges

The Bank has engaged in cash flow hedges, principally to minimise the exchange rate risk associated with the fact that its future administrative expenses are incurred in sterling. The amount and timing of such hedges fluctuates in line with the Bank's view on opportune moments to execute the hedges. Hedging is mainly through the purchase of sterling in the forward foreign exchange market, but currency options can also be used. The movement in the fair value of cash flow hedges is recognised directly in reserves until such time as the relevant expenditure is incurred. At 31 December 2013 the Bank had a number of cash flow hedges in place for future budgeted administrative expenditure to be incurred in sterling.

For further information on risk and related management policies see the Risk Management section of the report.

Financial guarantees

Issued financial guarantees are initially recognised at their fair value, and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the balance sheet date. The latter is recognised when it is both probable that the guarantee will need to be settled and that the settlement amount can be reliably estimated. Financial guarantees are recognised within other financial assets and other financial liabilities.

Impairment of financial assets

Financial assets at amortised cost

Where there is objective evidence that an identified loan asset is impaired, specific provisions for impairment are recognised in the income statement. Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The carrying amount of the asset is reduced directly only upon write-off. Resulting adjustments include the unwinding of the discount in the income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis. The methodology used for assessing such impairment is based on a risk-rated approach for non-sovereign assets. A separate methodology is applied for all sovereign risk assets that takes into account the Bank's preferred creditor status afforded by its members. The Bank's methodology calculates impairment on an incurred loss basis.²⁰ Impairment is deducted from the asset categories on the balance sheet.

The Bank maintains a loan loss reserve to set aside an amount of retained earnings within members' equity equal to the difference between the impairment losses expected over the full life of the loan portfolio, and the cumulative amount provisioned through the Bank's income statement on an incurred loss basis.

Impairment, less any amounts reversed during the year, is charged to the income statement. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries are credited to the income statement if previously written off.

Loans and advances are generally renegotiated in response to an adverse change in the circumstances of the borrower. Depending upon the degree to which the original loan is amended, it may continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, it will continue to be shown as overdue if appropriate and individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The Bank's reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement, except when deferred in reserves as qualifying cash flow hedges.

Capital subscriptions

The Bank's share capital is denominated in euro.

Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure that enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and is added to the original cost of the software. Computer software development costs recognised as intangible assets are amortised using the straight-line method over an estimated life of three years.

Property, technology and office equipment

Property, technology and office equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over the estimated life as follows:

Freehold property	30 years
Improvements on leases of less than 50 years unexpired	Unexpired periods
Technology and office equipment	Three years

Accounting for leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. The Bank has entered into such leases for most of its office accommodation, both in London and in other countries in which it has a presence. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

Interest, fees, commissions and dividends

Interest income and expense is recognised on an accruals basis using the effective interest rate method (EIR). This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating and maintaining the instrument are also recognised as interest income or expense over the life of the instrument. The

²⁰ See 'Loss emergence period' under 'Critical accounting estimates and judgements'.

amortisation of such fees and costs is recognised in the same line of interest income or expense as the instruments to which they relate. Further details are provided below.

- Banking loans: this represents interest income on banking loans. Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows.
- Fixed-income debt securities and other: this represents interest income on Treasury investments with the exception of those measured at fair value where the interest is recognised in 'net gains from Treasury activities at fair value through profit or loss'. Where hedge accounting is applied to an underlying investment – typically using a swap to convert fixed-rate interest into floating – the net interest of the swap is included within this interest income line.
- Interest expense and similar charges: this represents interest expense on all borrowed funds. The majority of the Bank's borrowings are undertaken through the issuance of bonds which are almost always paired with a one-to-one swap to convert the proceeds into the currency and floating rate profile sought by the Bank. Hedge accounting is applied to such relationships and the net interest of the associated swap is included within interest expense.
- Net interest income/(expense) on derivatives: in addition to swaps where the interest is associated with specific investments or borrowings, the Bank also employs a range of derivatives to manage the risk deriving from interest rate mismatches between the asset and liability side of the balance sheet. The net interest associated with these derivatives is presented separately as it is not identifiable to individual assets or liabilities presented elsewhere within 'net interest income'. This lack of specific "matching" also means that hedge accounting is not applied in respect of the risks hedged by these derivatives.

Fees received in respect of services provided over a period of time are recognised as income as the services are provided. Other fees and commissions are classed as income when received. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings on an effective yield basis.

Dividends relating to share investments are recognised in accordance with IAS 18 when the Bank's right to receive payments has been established, and when it is probable that the economic benefits will flow to the Bank and the amount can be reliably measured.

Staff retirement schemes

The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits to its staff. The Bank keeps all contributions to the schemes, and all other assets and income held for the purposes of the schemes, separately from all of its other assets.

Under the defined contribution scheme, the Bank and staff contribute to provide a lump sum benefit, such contributions being charged to the income statement and transferred to the scheme's independent custodians.

The defined benefit scheme is funded entirely by the Bank and benefits are based on years of service and a percentage of final gross base salary as defined in the scheme. Independent actuaries calculate the defined benefit obligation at least every three years by using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (relating to service accrued to the balance sheet date) using the yields available on high-quality corporate bonds. For intermediate years, the defined benefit obligation is estimated using approximate actuarial roll-forward techniques that allow for additional benefit accrual, actual cash flows and changes in the underlying actuarial assumptions.

The Bank's contributions to the defined benefit scheme are determined by the Retirement Plan Committee, with advice from the Bank's actuaries, and the contributions are transferred to the scheme's independent custodians.

IAS 19: Employee Benefits was amended in 2011 with the changes mandatory for the Bank's 2013 financial statements. The main changes introduced by the revised standard are as follows:

- The option to defer recognition of actuarial gains or losses using the 'corridor approach' has been removed and all such gains or losses must be recognised immediately in 'other comprehensive income' (OCI). The result is that the net defined benefit or liability recognised on the balance sheet will equal the actual surplus/(deficit) of the defined benefit plan
- The expected return on plan assets is now aligned with the discount rate used for plan obligations to give a single net interest income/(cost) figure for the net defined benefit or liability.
- The defined benefit cost charged to the income statement therefore includes the service cost and the net interest income/(cost) on the plan's net asset or liability. Remeasurements due to actuarial assumptions, including the difference between expected and actual net interest, are recognised in OCI.

As a result of implementing these changes, deferred actuarial losses of €60 million carried on the balance sheet at 31 December 2012 have been removed and adjusted against opening reserves. The charge to the income statement for 2012 has also been restated, resulting in a reduction of €1 million.

Taxation

In accordance with Article 53 of the Agreement, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services.

C. Critical accounting estimates and judgements

Preparing financial statements in conformity with IFRS requires the Bank to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the countries in which the Bank invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The Bank's critical accounting estimates and judgements are as follows:

Fair value of derivative financial instruments

The fair values of the Bank's derivative financial instruments are determined by using discounted cash flow models. These cash flow models are based on underlying market prices for currencies, interest rates and option volatilities. Where market data is not available for all elements of a derivative's valuation, extrapolation and interpolation of existing data has been used. Where unobservable inputs have been used, a sensitivity analysis has been included under "fair value hierarchy" within the risk management section of the report.

Fair value of Banking loans at fair value through profit or loss

The fair values of the Bank's loans at fair value through profit or loss are determined by using a combination of discounted cash flow models and options pricing models. These models incorporate market data pertaining to interest rates, a borrower's credit spreads, underlying equity prices and dividend cash flows. Where relevant market data is not available extrapolation and interpolation of existing data has been used. Where unobservable inputs have been used, a sensitivity analysis has been included under "fair value hierarchy" within the Risk Management section of the report.

Fair value of share investments

The Bank's method for determining the fair value of share investments is described under "Financial assets" in the Accounting policies section of the report and an analysis of the share investment portfolio is provided in note 19. In relation to the Bank's share investments where the valuations are not based on observable market inputs, additional sensitivity information has been included under "fair value hierarchy" in the Risk Management section of the report.

Provisions for the impairment of loan investments

The Bank's method for determining the level of impairment of loan investments is described in the Accounting policies section of the report and further explained under "credit risk" in the Risk Management section of the report.

Portfolio provisions for the unidentified impairment of non-sovereign loan investments at 31 December 2013 were €417 million (2012: €439 million). The sensitivity of portfolio provisions to the key variables used in determining the level of impairment is provided below.

Risk ratings

- If all non-sovereign loan investments were upgraded by three 'notches' or detailed risk ratings within the Bank's probability of default rating scale, this would result in a reduction of €351 million in portfolio provisions on loan investments.
- Conversely, if all non-sovereign loan investments were downgraded by three 'notches' or detailed risk ratings within the Bank's probability of default rating scale this would result in a charge to the income statement of €977 million in relation to portfolio provisions for non-sovereign loans.
- With respect to specific provisions, an increase or decrease of 10 per cent on the loss given default level would have a +/- €65 million impact.

Loss emergence period

- Provisions for unidentified impairment are made to reflect losses arising from events existing but not identified at the balance sheet date and which will emerge within a 12 month period from that date. If the loss emergence period was reduced to three months it is broadly estimated that this would result in a decrease in portfolio provisions charged to the income statement of approximately €313 million. The loan loss reserve would increase by an offsetting amount as the change of the emergence period does not affect the overall estimated loss on the portfolio.

Probability of default rates

- In determining the probabilities of default for each risk rating, the relative weighting applied to external data and the Bank's own experience is reviewed annually. The 2013 general provisioning methodology applies a 50 per cent weighting to the Bank's own experience and a 50 per cent weighting to external data, which is consistent with the methodology approved in the previous year. A decrease in the weighting assigned to the Bank's own experience to 40 per cent (60 per cent external default data) would lead to an increase in portfolio provisions of €46 million, increasing provisions for unidentified impairment of non-sovereign loan investments to €463 million. Similarly, an increase in the weighting assigned to the Bank's own experience to 60 per cent (40 per cent external default data) would lead to a decrease in portfolio provisions of €46 million, decreasing provisions for unidentified impairment of non-sovereign loan investments to €371 million.

Loss given default rates

- A decrease in loss given default rates by 10 percentage points would lead to a decrease in portfolio provisions of €65 million, reducing provisions for unidentified impairment in non-sovereign loans to €352 million.
- An increase in loss given default rates by 10 percentage points would lead to an increase in portfolio provisions for unidentified impairment of non-sovereign loans by €65 million, to a total of €482 million.

Sovereign ratings

- Portfolio provisions for the unidentified impairment of sovereign loan investments at 31 December 2013 amounted to €18 million (2012: €17 million). Due to the Bank's preferred creditor status afforded by its members, a downgrade or upgrade by three 'notches' or detailed ratings within the Bank's probability of default rating scale would not have had a significant impact on the level of sovereign portfolio provisions, and hence the income statement.

The methodology and judgements used for estimating provisions for the impairment of loan investments are reviewed annually to reduce any differences between loss estimates and actual experience.

Risk management

Financial risks

The independent identification, measurement, monitoring and mitigation of all risks incurred by the Bank in both its Banking and Treasury activities is the overall responsibility of the Vice President and Chief Risk Officer, a member of the Bank's Executive Committee. The Vice President and Chief Risk Officer has the overall responsibility for formulating the risk management strategy for both Banking and Treasury functions and ensuring that any risks are correctly identified, managed and mitigated through comprehensive and rigorous processes, which reflect industry best practice.

In carrying out its mission, the Bank is exposed to financial risks through both its Banking and Treasury activities. The principal financial risks to which the Bank is exposed are credit, market and liquidity risk. In 2013 there was some volatility in eastern European equity markets, as systemic risks remained a concern. Debt performance, however, remained relatively strong.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Bank also monitors concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Bank is exposed to credit risk in both its Banking and Treasury activities, as borrowers and Treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could become impaired.

The Bank's maximum exposure to credit risk from financial instruments is represented by their carrying amounts on the balance sheet, inclusive of the undrawn commitments related to loans and guarantees (see note 28).

Details of collateral and other forms of risk reduction are provided within the respective sections on Banking and Treasury below.

Credit risk in the Banking portfolio: Management

The Board of Directors approves a credit process document that defines the procedures for the approval, management and review of Banking exposures by the Operations Committee. The Audit Committee reviews the credit process annually and its review is submitted to the Board for approval.

Banking projects are reviewed by the Operations Committee which is chaired by the First Vice President Banking and whose membership comprises senior managers of the Bank. The Operations Committee is responsible for reviewing all Banking operations prior to their submission for Board approval. This includes a number of frameworks for smaller projects which are then each considered by the Small Business Investment Committee. Both committees review projects to ensure they meet the Bank's criteria for sound banking, transition impact and additionality. The Operations Committee operates within the authority delegated by the Board, via the Executive Committee, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The responsibility for oversight of the Banking and Treasury portfolios resides with the Risk Committee. The Risk Committee is chaired by the Vice President Risk, comprises senior managers of the Bank and operates within the authority delegated by the Board via the Executive Committee. Risk Management is responsible for recommending provisions for the impairment of Banking loans and reports these quarterly to the Risk Committee.

The Equity Committee acts as governance committee for the equity portfolio and the Bond Portfolio Review Committee oversees the Banking bond investments. Both these committees report to the Operations Committee.

The Bank conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. For equity investments it also reviews the fair value. At the recommendation of Risk Management, investments considered to be in jeopardy may be transferred from Banking teams to the Corporate Recovery Unit – which reports jointly to Risk Management and Banking – in order to manage the restructuring work-out and recovery process.

The table below shows the Bank's internal probability of default rating scale from 1.0 (lowest risk) to 8.0 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P). References to risk rating through this text relate to probability of default ratings unless otherwise specified.

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7	AA+	Very strong	
	2.0	AA		
	2.3/2.5	AA-		
3	2.7	A+	Strong	
	3.0	A		
	3.3	A-		
4	3.7	BBB+	Good	
	4.0	BBB		
	4.3	BBB-		
5	4.7	BB+	Fair	
	5.0	BB		
	5.3	BB-		
6	5.7	B+	Weak	
	6.0	B		
	6.3	B-		
7	6.7	CCC+	Special attention	Classified
	7.0	CCC		
	7.3	CCC-		
8	8.0	CC/CD	Expected loss/Impaired	

Disbursements are managed by the Operations Administration Department (OAD) within the Office of the General Counsel (OGC). The OAD is responsible for checking compliance with loan and other project agreements and ensuring that correct procedures are followed in line with approved policy. Waivers, consents and amendments of loan covenants and conditionality are prepared by the OAD and are approved by Banking, Risk Management and, where required, by the OGC, the Office of the Chief Economist and the Environment and Sustainability Department.

The Bank assigns its internal risk ratings to all counterparties, guarantors, put counterparties and sovereigns in the Banking and Treasury portfolios. Counterparty ratings reflect the financial strength of the risk counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assessed by external rating agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the local sovereign rating, except where the Bank has recourse to a guarantor from outside the country of operations which may have a better rating than the local sovereign rating. The Bank also assigns loss given default ratings on a scale of 0 per cent to 100 per cent determined by the seniority, jurisdiction and sector of the transaction.

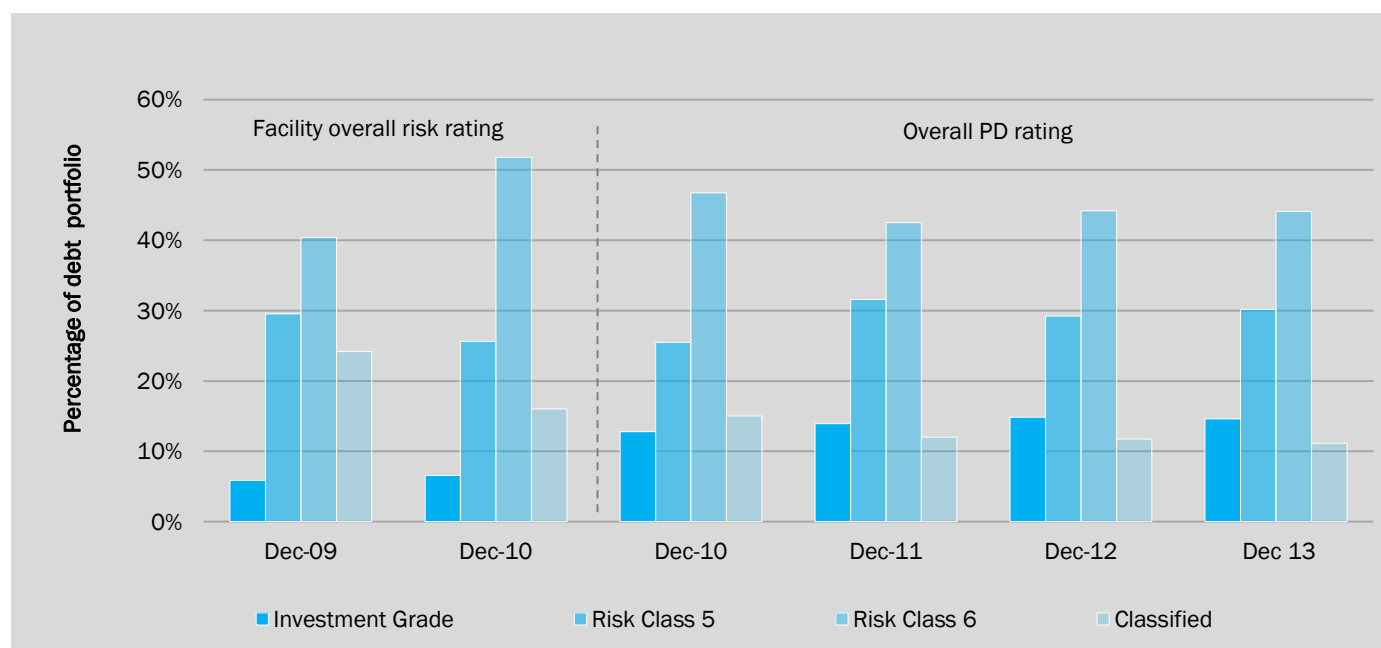
The Bank's general portfolio provisions are based on an assumed value for the probability of default rating assigned to each transaction by Risk Management and loss given default parameters based on product seniority and legal jurisdiction. Both the assumed probability of default value and the loss given default assumptions remain more conservative than the Bank's own default and recovery experience.

Risk Management reports on the development of the portfolio as a whole on a quarterly basis to the Audit Committee. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and within various sub-portfolios. It also includes reporting on compliance with all portfolio risk limits including explanation of any limit breaches.

Credit risk in the Banking portfolio: 2013 results

Total Banking loan exposure (operating assets including fair value adjustments but before provisions) increased marginally during the year from €19.6 billion at 31 December 2012 to €19.7 billion at 31 December 2013. The total signed Banking loan portfolio (operating assets, excluding fair value adjustments and provisions but including undrawn commitments) and guarantees increased from €29.3 billion at 31 December 2012 to €29.6 billion at 31 December 2013.

The average credit profile of the portfolio was relatively stable in 2013 as the weighted average probability of default rating remained at 5.59. Classified assets (those risk rated 6.7 to 8.0) declined slightly from 11.7 per cent to 11.1 per cent and the absolute level now stands at €3.3 billion (2012: €3.4 billion). This performance largely reflected continued stabilisation in the countries where the Bank invests since the crisis years of 2008 and 2009. This has been the dominant trend so far despite a generally lacklustre recovery, and small areas of country risk deterioration.



Note: The vertical line at December 2010 represents changes in reporting from Facility Overall Risk Rating to Overall Probability of Default (PD) Risk Rating. December 2010 is presented with both rating methodologies to show the impact of the methodology change.

Non-performing loan assets²¹ still remain low relative to the average portfolio risk rating, amounting to €663 million at year-end 2013, equal to 3.3 per cent of operating assets (€676 million equal to 3.4 per cent at year-end 2012). Distressed restructured loans²² were also relatively low, comprising an additional €295 million or 1.5 per cent of operating assets at year-end 2013. Net write-offs amounted to €12 million in 2013. This brings the total net write-offs over the last five years to €89 million. Write-offs are typically relatively low as the Bank benefits from its strong liquidity and capitalisation to work out distressed loans.

²¹ Non-performing loan assets are either: where the borrower is more than 90 days past due on payment to any material creditor, or where the Bank considers the counterparty is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realised security (if held). Non-performing loan assets include impaired loans of €655 million (2012: €624 million) and loans at fair value through profit or loss of €8 million (2012: €52 million).

²² Defined as a loan in which any of the key terms and conditions have been amended due to the financial stress of the borrower, and without such amendment(s) would like have become an impaired loan.

Loan investments at amortised cost

Set out below is an analysis of the Banking loan investments and the associated impairment provisions for each of the Bank's internal risk rating categories.

Risk rating category	Neither past due nor impaired € million	Past due but not impaired € million	Impaired € million	Total € million	Total %	Portfolio provisions for unidentified impairment € million	Specific provisions for identified impairment € million	Total net of impairment € million	Impairment provisions %
2: Very strong	57	-	-	57	0.3	-	-	57	-
3: Strong	503	-	-	503	2.6	-	-	503	-
4: Good	2,706	-	-	2,706	13.8	(6)	-	2,700	0.2
5: Fair	6,240	-	-	6,240	32.1	(23)	-	6,217	0.4
6: Weak	7,579	18	-	7,597	39.0	(174)	-	7,423	2.3
7: Special attention	1,656	44	-	1,700	8.8	(232)	-	1,468	13.6
8: Expected loss/impaired	-	-	655	655	3.4	-	(382)	273	58.3
At 31 December 2013	18,741	62	655	19,458	100.0	(435)	(382)	18,641	-

Risk rating category	Neither past due nor impaired € million	Past due but not impaired € million	Impaired € million	Total € million	Total %	Portfolio provisions for unidentified impairment € million	Specific provisions for identified impairment € million	Total net of impairment € million	Impairment provisions %
2: Very strong	79	-	-	79	0.4	-	-	79	0.0
3: Strong	482	-	-	482	2.5	(1)	-	481	0.2
4: Good	2,805	-	-	2,805	14.5	(7)	-	2,798	0.2
5: Fair	6,222	-	-	6,222	32.2	(21)	-	6,201	0.3
6: Weak	7,298	17	-	7,315	37.9	(180)	-	7,135	2.5
7: Special attention	1,761	45	-	1,806	9.3	(247)	-	1,559	13.6
8: Expected loss/impaired	-	-	624	624	3.2	-	(280)	344	45.0
At 31 December 2012	18,647	62	624	19,333	100.0	(456)	(280)	18,597	-

All past due – but not impaired – loans were outstanding for less than 30 days and amounted to €62 million (2012: €57 million were outstanding for less than 30 days, and €5 million for more than 90 days).

At 31 December 2013 the Bank had security arrangements in place for €5.8 billion of its loan operating assets. It also benefited from guarantees and risk-sharing facilities provided by Special Funds (see note 31: Related Parties) which provided credit enhancement of approximately €85 million at the year-end.

Loans at fair value through profit or loss

Set out below is an analysis of the Bank's loans held at fair value through profit or loss for each of the Bank's relevant internal risk rating categories.

Risk rating category	Fair value 2013 € million	Fair value 2012 € million
5: Fair	17	41
6: Weak	123	102
7: Special attention	83	74
8: Expected loss/impaired	-	30
At 31 December	223	247

Undrawn commitments and guarantees

Set out below is an analysis of the Bank's undrawn commitments and guarantees for each of the Bank's relevant internal risk rating categories.

Risk rating category	Undrawn commitments ²³ 2013 € million	Guarantees 2013 € million	Undrawn commitments 2012 € million	Guarantees 2012 € million
3: Strong	29	-	13	-
4: Good	953	13	870	24
5: Fair	2,451	93	2,103	86
6: Weak	4,700	486	4,916	460
7: Special attention	657	30	718	57
8: Expected loss/impaired	122	5	106	-
At 31 December	8,912	627	8,726	627

For projects risk rated 8, it is unlikely that commitments would be drawn down without additional assurances that credit quality would improve. In addition, the Bank would typically have conditions precedent that would need to be satisfied before further disbursements on its debt transactions.

Paid-in capital receivable

Set out below is an analysis of the Bank's paid-in capital receivable at 31 December 2013 and 31 December 2012, none of which was considered impaired.

	2013 € million	2012 € million
Cash and promissory notes due but not yet received	10	12
Paid-in capital receivable at 31 December	10	12

²³ References to undrawn commitments within the Credit Risk Management section relates to Banking loans only.

Credit risk in the Banking portfolio: Concentration

Concentration by country

The following table breaks down the main Banking credit risk exposures in their carrying amounts by country. The Bank is generally well diversified by country apart from its concentration in Russia which accounts for 23 per cent of loans specifically (as shown below) and 26 per cent of the Bank's total portfolio including equity at cost. However, by nature of the regional focus in the Bank's business model, some groups of countries in which the Bank operates are highly correlated.

	Loans 2013 € million	Undrawn commitments and guarantees 2013 € million	Total 2013 € million	Loans 2012 € million	Undrawn commitments and guarantees 2012 € million	Total 2012 € million
Albania	264	139	403	318	131	449
Armenia	198	47	245	207	59	266
Azerbaijan	332	303	635	390	223	613
Belarus	336	134	470	178	163	341
Bosnia and Herzegovina	565	376	941	467	385	852
Bulgaria	861	182	1,043	832	282	1,114
Croatia	725	188	913	646	277	923
Czech Republic	19	-	19	28	1	29
Egypt	56	93	149	-	-	-
Estonia	16	15	31	18	1	19
Former Yugoslav Republic of Macedonia	179	373	552	153	374	527
Georgia	351	122	473	418	139	557
Hungary	333	176	509	446	43	489
Jordan	49	81	130	-	76	76
Kazakhstan	895	453	1,348	964	445	1,409
Kosovo	20	12	32	20	4	24
Kyrgyz Republic	136	81	217	127	72	199
Latvia	59	66	125	31	86	117
Lithuania	124	11	135	125	33	158
Moldova	158	213	371	151	184	335
Mongolia	339	105	444	303	203	506
Montenegro	150	174	324	130	139	269
Morocco	77	76	153	-	13	13
Poland	1,044	722	1,766	1,025	565	1,590
Romania	1,564	706	2,270	1,697	734	2,431
Russia	4,255	1,365	5,620	4,994	1,571	6,565
Serbia	1,114	1,016	2,130	1,079	939	2,018
Slovak Republic	428	36	464	412	89	501
Slovenia	163	-	163	86	60	146
Tajikistan	40	63	103	46	66	112
Tunisia	10	60	70	-	15	15
Turkey	2,392	430	2,822	1,819	420	2,239
Turkmenistan	28	10	38	31	9	40
Ukraine	2,364	1,711	4,075	2,390	1,550	3,940
Uzbekistan	37	-	37	49	2	51
At 31 December	19,681	9,539	29,220	19,580	9,353	28,933

Concentration by industry sector

The following table breaks down the main Banking credit exposures in their carrying amounts by the industry sector of the project. The portfolio is generally well diversified with only Banking constituting a material sector concentration.

	Loans 2013 € million	Undrawn commitments and guarantees 2013 € million	Total 2013 € million	Loans 2012 € million	Undrawn commitments and guarantees 2012 € million	Total 2012 € million
Agribusiness	2,136	663	2,799	2,044	612	2,656
Depository credit (banks)	5,161	1,022	6,183	5,620	1,000	6,620
Information and communication technologies	348	24	372	298	35	333
Insurance, pension, mutual funds	33	3	36	209	-	209
Leasing finance	341	107	448	290	75	365
Manufacturing and services	2,515	252	2,767	2,251	493	2,744
Municipal and environmental infrastructure	1,079	1,031	2,110	1,102	760	1,862
Natural resources	973	894	1,867	1,153	781	1,934
Non-depository credit (non-bank)	433	10	443	442	20	462
Power and energy	2,113	1,416	3,529	1,817	1,390	3,207
Property and tourism	354	171	525	469	243	712
Transport	1,394	391	1,785	1,195	763	1,958
Non-sovereign	16,880	5,984	22,864	16,890	6,172	23,062
Sovereign	2,801	3,555	6,356	2,690	3,181	5,871
At 31 December	19,681	9,539	29,220	19,580	9,353	28,933

Concentration by counterparty

The Bank has a maximum non-sovereign banking counterparty exposure limit²⁴ of 5 per cent of paid-in capital and reserves which is applied on an economic group basis. Maximum exposure to a non-sovereign economic group was €628 million and to a non-sovereign single legal entity was €366 million at year-end 2013.

Credit risk in the Treasury portfolio: Management

The Board of Directors approve a Treasury and Treasury Risk Management Authority (T&TRMA), which defines the risk parameters for funding, cash management, asset and liability management and the investment activities of the Bank. This document is updated annually by the Finance and Risk Vice Presidencies and approved by the Board. It covers all aspects of Treasury where financial risks arise and also Risk Management's identification, measurement, management and mitigation of those risks. In addition, Treasury and Treasury Risk Management Guidelines (T&TRMG) have been approved in respect of Treasury risk taking and the related risk management processes and procedures.

The T&TRMA is the document by which the Board of Directors delegates authority to the VP & CFO to manage and the Vice President and Chief Risk Officer to identify, measure, monitor and mitigate the Bank's Treasury exposures. The two Vice Presidents jointly interpret the T&TRMA and notify the Board of Directors of any material interpretation. The Financial and Operations Policies Committee reviews the T&TRMA annually and its review is submitted to the Board for approval.

Treasury risks are reviewed by the Treasury Exposure Committee (TEC). The TEC is responsible for reviewing and monitoring the implementation of the T&TRMA and related guidelines. It assesses Treasury and Risk Management policy proposals for approval by the Board, and monitors and reviews the asset/liability profile and risk/return trade off in aggregate Treasury exposures. It also evaluates new product proposals for Treasury. Impairment of Treasury assets is identified by Risk Management and approved by the Vice President Finance and CFO and the Vice President Risk.

Maximum credit limits for Treasury counterparties are based on internal credit ratings determined by Risk Management. These ratings are based on internal analysis of approved counterparties' creditworthiness which takes account of externally available credit research and market data, including recognised external agency ratings. The internal credit rating scale is the same as that used for Banking exposure.

Eligible Treasury counterparties and investments are normally rated between 1.0 and 3.3 (approximately equivalent to S&P AAA to A- ratings), with the exception of counterparties approved for local currency activities in the countries where the Bank invests. These activities support the Bank's initiatives to provide local currency financing to Banking clients and to develop local capital markets. In

²⁴ A very limited group of banking counterparties is subject to a higher 10 per cent threshold but all are currently below the lower 5 per cent limit.

cases where the creditworthiness of an issuer or counterparty deteriorates to levels below the standard of eligibility for new exposures, Risk Management and Treasury jointly recommend actions for the approval of the VP & CRO and the VP & CFO. Any decision to retain ineligible exposures is reported to senior management and the Audit Committee.

The T&TRMA states the minimum rating and maximum tenor by type of eligible counterparty. The T&TRMG, issued by the VP & CRO and the VP & CFO, set the maximum credit limits per rating. The actual credit limit and/or tenor approved for individual counterparties by Risk Management may be smaller or shorter, respectively, based on the likely direction of creditworthiness over the medium term, or on sector considerations. The limits apply across the range of eligible Treasury products for the relevant counterparty with exposures measured on a risk adjusted basis. All individual counterparty and investment credit lines are monitored and reviewed by Risk Management at least annually.

The Bank's exposure measurement methodology for Treasury credit risk uses a "Monte Carlo" simulation technique that produces, to a high degree of confidence, maximum exposure amounts at future points in time for each counterparty (in practice, 95 per cent eVaR).²⁵ This includes all transaction types and is measured out to the maturity of the longest dated transaction with that counterparty. These Potential Future Exposures (PFE) are calculated and controlled against approved credit limits on a daily basis with exceptions escalated to the relevant authority level for approval.

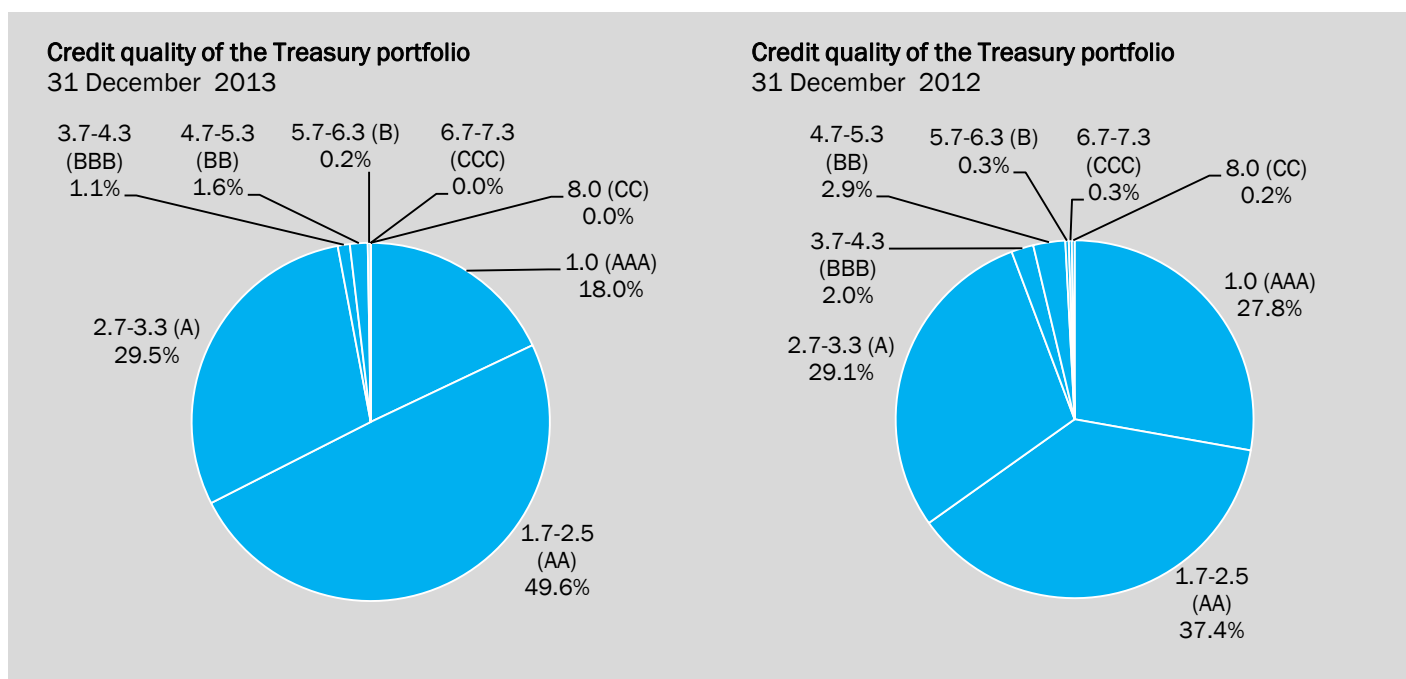
Risk mitigation techniques (such as netting and collateral) and risk transfer instruments reduce calculated credit exposure. For example, Credit Support Annexes (CSA) for over-the-counter (OTC) derivatives activity reduce PFE in line with collateral posting expectations.

Credit risk in the Treasury portfolio: 2013 results

Treasury PFE stood at €17.6 billion at 31 December 2013 (2012: €16.7 billion).

Despite continued rating downgrades of Treasury counterparties, Treasury continued to maintain a low average credit risk profile during 2013 by investing new liquidity in triple-A rated sovereign and other highly rated assets. This resulted in a stable weighted average probability of default rating for the Treasury portfolio as weighted by PFE of 2.23 at 31 December 2013 (2012: 2.21).

A very low proportion of Treasury exposures were below investment grade quality²⁶, amounting to 1.9 per cent at 31 December 2013 (2012: 3.7 per cent). These comprised a small pool of local currency liquidity assets held with counterparties from the countries in which the Bank invests and several financial sector bonds.



There are no non-performing assets in the Treasury portfolio at 31 December 2013 (2012: €34.5 million). The Bank disposed of those held at 31 December 2012 during 2013.

²⁵ Value-at-risk ("VaR") is a statistical estimate of the maximum probable loss that can be incurred, due to adverse movements in major risk drivers, over a one-day trading horizon and estimated at a given confidence level. Expected shortfall ("eVaR") is the average loss beyond the VaR level and is a more accurate measure of large potential losses.

²⁶ BB+/Ba1/BB+ level or worse.

Placements with and advances to credit institutions

Set out below is an analysis of the Bank's placements with and advances to credit institutions for each of the Bank's relevant internal risk rating categories.

Risk rating category	2013 € million	2012 € million
1-3: Excellent to strong	7,073	7,208
4: Good	-	-
5-6: Fair to weak	193	307
At 31 December	7,266	7,515

At 31 December 2013 there were no placements with and advances to credit institutions that were past due or impaired (2012: €nil).

Debt securities at fair value through profit or loss

Set out below is an analysis of the Bank's debt securities at fair value through profit or loss for each of the Bank's relevant internal risk rating categories.

Risk rating category	2013 € million	2012 € million
1-3: Excellent to strong	4	16
4: Good	88	7
5-6: Fair to weak	47	117
7-8: Special attention to expected loss/impaired	-	35
At 31 December	139	175

There were no debt securities at fair value past due in 2013 (2012: €nil).

Debt securities at amortised cost

Set out below is an analysis of the Bank's debt securities at amortised cost for each of the Bank's relevant internal risk rating categories.

Risk rating category	Neither past due nor impaired € million	Impaired gross € million	Total € million	Cumulative impairment losses € million	Total net of impairment € million
1-3: Excellent to strong	12,292	-	12,292	-	12,292
4: Good	83	-	83	-	83
5-6: Fair to weak	23	-	23	-	23
7-8: Special attention to expected loss/impaired	-	-	-	-	-
At 31 December 2013	12,398	-	12,398	-	12,398

Risk rating category	Neither past due nor impaired € million	Impaired gross € million	Total € million	Cumulative impairment losses € million	Total net of impairment € million
1-3: Excellent to strong	11,894	-	11,894	-	11,894
4: Good	318	-	318	-	318
5-6: Fair to weak	7	-	7	-	7
7-8: Special attention to expected loss/impaired	3	21	24	(8)	16
At 31 December 2012	12,222	21	12,243	(8)	12,235

Derivative financial assets

Set out below is an analysis of the Bank's derivative financial assets for each of the Bank's internal risk rating categories.

Risk rating category	2013 € million	2012 € million
1-3: Excellent to strong	2,898	4,328
4: Good	70	155
5-6: Fair to weak	113	178
7-8: Special attention to expected loss/impaired	13	10
At 31 December	3,094	4,671

There were no derivative financial assets past due in 2013 or 2012.

Collateralised placements

Collateralised placements of €247 million (2012: €600 million) were all internally risk rated 1-3: Excellent to strong, with none that were past due or impaired.

Derivatives

The Bank makes use of derivatives for different purposes within both its Banking portfolio and its Treasury portfolio. Within the Banking portfolio option contracts are privately negotiated with third party sponsors to provide potential exit routes for the Bank on many of its unlisted share investments. Banking also has a limited portfolio of swaps with clients to hedge their market risks or to facilitate hard currency funding. Furthermore, the Banking portfolio has a small portfolio of currency swaps which are fully hedged and have been entered into with clients to assist them in the management of their market risks. Within the Treasury portfolio, use of exchange-traded and OTC derivatives is primarily focused on hedging interest rate and foreign exchange risks arising from Bank-wide activities. Market views expressed through derivatives are also undertaken as part of Treasury's activities, while the transactions through which the Bank funds itself in capital markets are typically swapped into floating-rate debt with derivatives. In addition, Treasury has a small legacy portfolio of credit derivatives but is no longer active in this market.

The risks arising from derivative instruments are combined with those deriving from all other instruments dependent on the same underlying risk factors, and are subject to overall market and credit risk limits, as well as to stress tests. Additionally, special care is devoted to those risks that are specific to the use of derivatives through, for example, the monitoring of volatility risk for options, credit spread risk for swaps and basis risk for futures.

The table below shows the fair value of the Bank's derivative financial assets and liabilities at 31 December 2013 and 31 December 2012.

	Assets 2013 € million	Liabilities 2013 € million	Total 2013 € million	Assets 2012 € million	Liabilities 2012 € million	Total 2012 € million
Derivatives held for trading						
OTC foreign currency products						
Currency swaps	224	(38)	186	89	(94)	(5)
Spot and forward currency transactions	109	(119)	(10)	86	(179)	(93)
	333	(157)	176	175	(273)	(98)
OTC interest rate products						
Interest rate swaps	101	(103)	(2)	111	(163)	(52)
OTC credit products						
Credit default swaps	-	(1)	(1)	1	(3)	(2)
Banking derivatives						
Fair value of equity derivatives held in relation to the Banking portfolio	315	(97)	218	411	(60)	351
Total derivatives held for trading and Banking derivatives	749	(358)	391	698	(499)	199
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	1,077	(426)	651	1,600	(330)	1,270
Cross currency interest rate swaps	1,259	(1,494)	(235)	2,352	(649)	1,703
Embedded derivatives	5	(197)	(192)	12	(272)	(260)
	2,341	(2,117)	224	3,964	(1,251)	2,713
Derivatives designated as cash flow hedges						
Forward currency transactions	4	-	4	9	(2)	7
Total derivatives held for hedging	2,345	(2,117)	228	3,973	(1,253)	2,720
Total derivatives at 31 December	3,094	(2,475)	619	4,671	(1,752)	2,919

In order to manage credit risk in OTC derivative transactions,²⁷ the Bank's policy is to approve, ex ante, each counterparty individually and to review its creditworthiness and eligibility regularly. Derivatives limits are included in overall counterparty credit limits. OTC derivative transactions are normally carried out only with the most creditworthy counterparties, rated at the internal equivalent of single-A and above. Furthermore, the Bank pays great attention to mitigating the credit risk of OTC derivatives through the negotiation of appropriate legal documentation with counterparties. OTC derivative transactions are documented under a Master Agreement (MA) and

²⁷ This does not include negotiated options associated with share investments.

a CSA. These provide for close-out netting and the posting of collateral by the counterparty once the Bank's exposure exceeds a given threshold, which is usually a function of the counterparty's risk rating.

The Bank has also expanded the scope for applying risk mitigation techniques by documenting the widest possible range of instruments transacted with a given counterparty under a single MA and CSA, notably foreign exchange transactions. The Bank also uses credit-downgrade clauses and, for long-dated transactions, unilateral break clauses to manage its credit exposures. Similarly, the Bank emphasises risk mitigation for repurchase and reverse repurchase agreements and related transaction types through MA documentation.

Collateral

The Bank mitigates credit risk by holding collateral against exposures to derivative counterparties.

Counterparty exposure, for the purposes of collateralising credit risk, is only concerned with counterparties with whom the Bank has an overall net positive exposure. At 31 December 2013 this exposure stood at €1.4 billion (2012: €3.1 billion). Against this, the Bank held collateral of €1.3 billion (2012: €3.0 billion), reducing its net credit exposure to €0.1 billion (2012: €0.1 billion).

Where the Bank borrows or purchases securities subject to a commitment to resell them (a reverse repurchase agreement) but does not acquire the risk and rewards of ownership, the transactions are treated as collateralised loans. The securities are not included in the balance sheet and are held as collateral.

The table below illustrates the fair value of collateral held that is permitted to be sold or repledged in the absence of default. Sold or repledged collateral includes collateral on-lent through bond lending activities. In all cases the Bank has an obligation to return equivalent securities.

	Held collateral 2013 € million	Sold or repledged 2013 € million	Held collateral 2012 € million	Sold or repledged 2012 € million
Collateral held as security				
Derivative financial instruments				
High grade government securities	854	-	1,075	-
Cash	478	478	1,932	1,932
Reverse sale and repurchase transactions	3,088	-	4,199	-
At 31 December	4,420	478	7,206	1,932

The term "collateralised placements" in the Bank's balance sheet is used to describe the economic substance of the transactions in that category. Such transactions involve the purchase of a financial asset together with entering into a total return swap whereby the risks and rewards of ownership of the asset are transferred back to the entity selling the asset. For accounting purposes, therefore, the economic substance of such transactions is a form of collateralised lending. However as the assets are legally owned by the Bank, they do not represent collateral for the purposes of the above disclosure. At 31 December 2013, the Bank held €0.2 billion (2012: €0.6 billion) of collateralised placements.

The table below shows the reported values of derivatives that are subject to MA netting arrangements.

	Recognised derivative assets 2013 € million	Recognised derivative liabilities 2013 € million	Net position 2013 € million	Collateral held 2013 € million
Subject to a master netting agreement				
Net derivative assets by counterparty	2,073	(674)	1,399	1,314
Net derivative liabilities by counterparty	693	(1,494)	(801)	18
	2,766	(2,168)		
No master netting agreement				
Other derivatives	8	(13)	(5)	-
Embedded derivatives	5	(197)	(192)	-
Equity derivatives	315	(97)	218	-
	328	(307)		
At 31 December	3,094	(2,475)		

	Recognised derivative assets 2012 € million	Recognised derivative liabilities 2012 € million	Net position 2012 € million	Collateral held 2012 € million
Subject to a master netting agreement				
Net derivative assets by counterparty	4,115	(1,157)	2,958	2,973
Net derivative liabilities by counterparty	57	(166)	(109)	34
	4,172	(1,323)		
No master netting agreement				
Other derivatives	76	(97)	(21)	-
Embedded derivatives	12	(272)	(260)	-
Equity derivatives	411	(60)	351	-
	499	(429)		-
At 31 December	4,671	(1,752)		

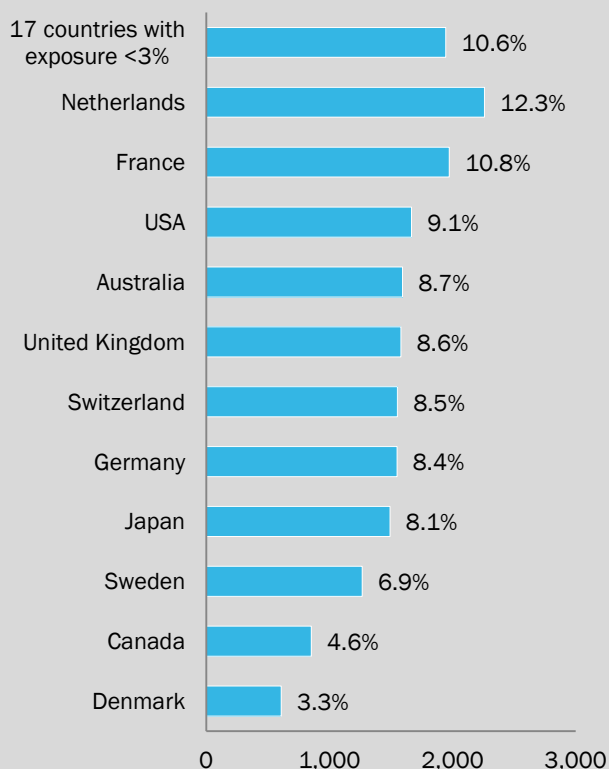
Total return swaps are excluded from the fair values of the above tables as they are accounted for as collateralised placements and not stand-alone derivatives. The full amount of collateral held from the counterparty to those swaps is, however, reported above as it relates to the net exposure on the entire derivatives portfolio with that counterparty (2013: €6 million; 2012: €23 million).

Credit risk in the Treasury portfolio: Concentration

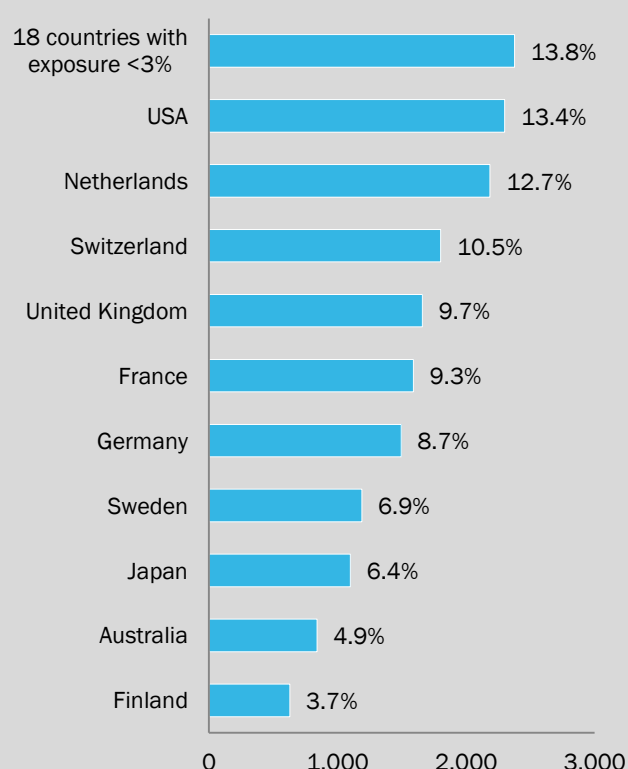
Concentration by country

At the end of 2013, Treasury credit risk exposure in terms of PFE was spread across 28 countries. The top five countries (by percentage of the total exposure) were the Netherlands (12 per cent), France (11 per cent), the United States (9 per cent), Australia (9 per cent) and the United Kingdom (9 per cent). In 2012 the top five countries (by percentage of the total exposure) were the United States (13 per cent), the Netherlands (13 per cent), Switzerland (11 per cent), the United Kingdom (10 per cent) and France (9 per cent).

Concentration of Treasury peak exposure by country/region, 31 December 2013

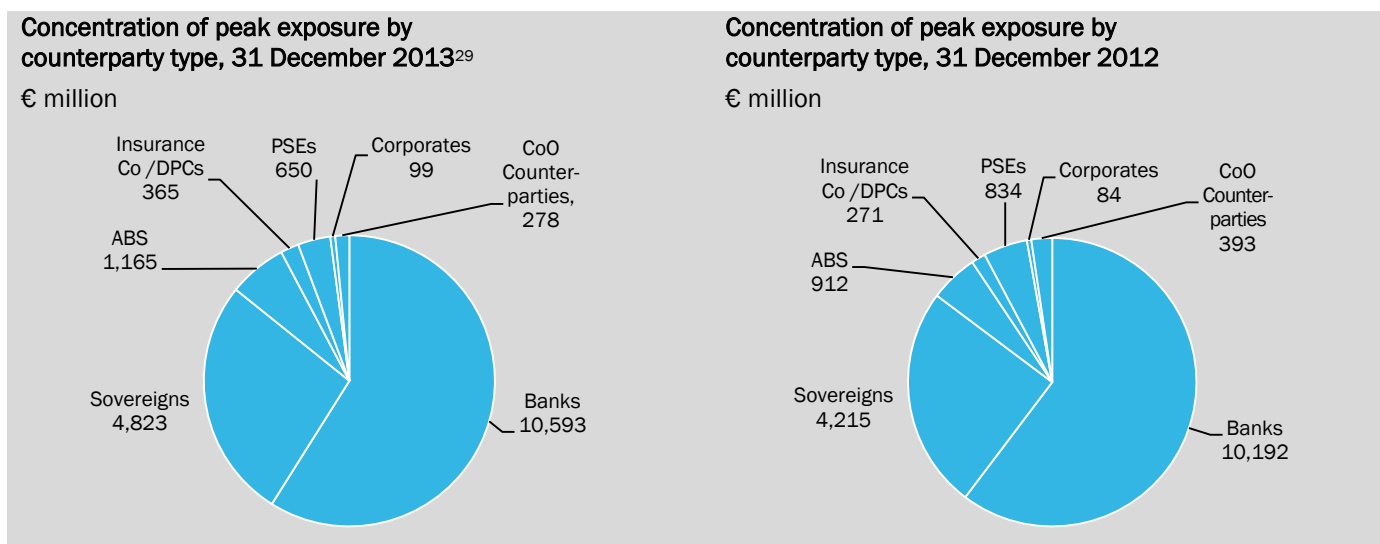


Concentration of Treasury peak exposure by country/region, 31 December 2012



Concentration by counterparty type

The Bank continues to be largely exposed to banks in the Treasury portfolio which accounted for 59 per cent of the portfolio peak exposure (2012: 60 per cent). Direct²⁸ sovereign exposure increased to 27 per cent (2012: 25 per cent), while exposure to counterparties in the countries in which the Bank invests decreased by almost 30 per cent to €278 million on a PFE basis.



CoO: Countries of operations ABS: Asset-backed securities PSEs: Public sector entities DPCs: Derivative product companies

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk are: (i) interest rate risk; (ii) foreign exchange risk; (iii) equity risk; and (iv) commodity price risk. Interest rate risks are further broken down into yield curve risk, which measures the impact of changes in the position and shape of the yield curve for a given currency, and volatility risk, which deals with risks specific to interest rate option transactions. Yield curve risk can in turn be divided into changes in the overall level of interest rates (a parallel shift of an entire yield curve), and changes in the slope or the shape of the yield curve.

Similarly, foreign exchange rate risks are split into risk emanating from changes in the level of foreign exchange rates, and volatility risk, which is inherent within foreign exchange options. In the market risk area, the year was marked by the steepening of main currency yield curves due to speculation about the Fed's tapering, with intermittently higher interest rate and currency volatilities. Equity markets in the region dropped back in the first half of the year, only to partially recoup in the second half of the year. The most significant market risk is in Banking equities and its associated foreign exchange risk, whereas interest rate risk is moderate.

Market risk in the Banking portfolio

The Banking loan portfolio is match-funded by Treasury in terms of currency, so for loan facilities extended in currencies other than euro the foreign exchange risk is hedged via the Treasury portfolio. Likewise, interest rate risk to which the Banking loan portfolio would normally be exposed is managed through the Treasury portfolio. As such there is minimal residual foreign exchange or interest rate risk present in the Banking loan portfolio. The main exposure to market risk in the Banking portfolio arises from the exposure of share investments to foreign exchange and equity price risk, neither of which is captured in the VaR figures discussed under "Market risk in the Treasury portfolio". Additional sensitivity information for the Bank's share investments has been included under "fair value hierarchy" later in this section of the report.

Foreign exchange risk

The tables below summarise the potential impact on the Bank's net profit from a strengthening or weakening of foreign exchange rates relative to the euro.

²⁸ Indirect exposure is not included – that is, where the Bank holds government securities as collateral.

²⁹ The Bank had some counterparty type classification changes during 2013 resulting in very small changes in the year-end 2012 breakdown.

Share investments at fair value through profit or loss

	5-year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Croatian kuna	0.7	506	3
Euro	-	1,827	-
Kazakhstan tenge	5.2	136	7
Polish zloty	0.2	425	1
Romanian leu	2.2	281	6
Russian rouble	2.1	1,317	27
United States dollar	0.3	1,345	4
Other non-euro	1.2	653	7
At 31 December 2013	-	6,490	55

	5-year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Croatian kuna	0.6	530	3
Euro	-	1,845	-
Kazakhstan tenge	2.9	149	5
Polish zloty	3.1	367	11
Romanian leu	4.5	270	12
Russian rouble	2.5	1,617	41
United States dollar	2.1	1,237	26
Other non-euro	2.3	634	15
At 31 December 2012	-	6,649	113

Equity price risk

In terms of equity price risk, the Bank expects the effect on net profit will bear a linear relationship to the movement in equity indices. The table below summarises the potential impact on the Bank's net profit from an increase or decrease in relevant benchmark indices.

Share investments at fair value through profit or loss

		5-year rolling average movement in benchmark index %	Fair value € million	Impact on net profit € million
Croatia	CROBEX Index	1.4	506	7
Georgia	BGAX Index	17.9	128	23
Kazakhstan	KASE Index	4.8	167	8
Poland	WIG Index	15.8	698	110
Romania	BET Index	20.9	304	63
Russia	RTS Index	26.8	2,154	578
Serbia	BELEX15 Index	0.7	179	1
Ukraine	PFTS Index	13.6	149	20
Regional and other	Weighted average	18.9	2,205	417
At 31 December 2013		-	6,490	1,227

		5-year rolling average movement in benchmark index %	Fair value € million	Impact on net profit € million
Croatia	CROBEX Index	12.6	530	67
Hungary	CHTX Index	2.1	63	1
Kazakhstan	KASE Index	6.7	193	13
Poland	WIG Index	4.0	663	26
Romania	BET Index	1.6	278	4
Russia	RTS Index	13.5	2,463	332
Serbia	BELEX15 Index	15.7	149	23
Ukraine	PFTS Index	0.5	154	1
Regional and other	Weighted average	10.4	2,156	224
At 31 December 2012		-	6,649	691

Commodity risk in the Banking portfolio

The Bank is exposed to commodity risk both directly through some of its investments and indirectly due to the significant importance of commodities in a number of the countries in which it invests. The Bank's direct commodity risk is relatively limited, with the aggregate exposure to oil and gas extraction, metal ore mining and coal mining (and related support activities) at 3.2 per cent of the overall banking portfolio. The indirect risk is more substantial, as several countries in which the Bank invests, most notably Russia, are heavily reliant on hydrocarbon exports to support their economic growth, domestic demand and budgetary revenues. A prolonged and material decline in oil prices would have an adverse effect on hydrocarbon producers and processors, as well as on the relevant sovereigns and corporate clients reliant on domestic demand. The Bank monitors this risk carefully and periodically stress tests its portfolio to oil price decline.

Market risk in the Treasury portfolio

The Bank's market risk exposure arises from the fact that the movement of interest rates and foreign exchange rates may have an impact on positions taken by the Bank. These risks are centralised and hedged by the Asset and Liabilities management desk in Treasury.

The Bank monitors its exposure to market risk in its portfolio through a combination of limits, based on Monte Carlo simulation-based eVaR, also known as Expected Shortfall, and a variety of additional risk measures. The Bank's overall eVaR limit is laid down in the Board-approved T&TRMA. Foreign exchange exposures are further constrained by a dedicated eVaR sub-limit.

Additional eVaR measures are monitored, in particular for drilling down from aggregate eVaR measures to individual market factors (marginal eVaR and VaR sensitivities). For the options portfolio, dedicated options eVaR computations are performed in order to factor in the non-linear behaviour of option instruments.

For internal monitoring purposes, eVaR is defined as the average (above a certain threshold) potential loss that could be incurred due to adverse fluctuations in interest rates and foreign exchange rates over a one-day trading horizon and computed with a 95 per cent confidence level. For enhanced comparability across institutions, numbers disclosed in this financial report are also VaR-based and scaled up to a 99 per cent confidence level over a 10-trading-day horizon.

Although eVaR is a more robust measure of market risk than VaR and is used to measure Treasury portfolio risk, it also remains limited by its historical framework insofar as past market events are not necessarily a perfect predictor of future unfolding scenarios. For these reasons a number of other risk measures are employed to complement eVaR and VaR data, with numbers produced using a different set of assumptions and based on a set of risk factor sensitivities. This is also to ensure that material risks are not ignored by focusing on one particular set of risk measures. Foreign exchange risk and the various types of interest rate risks, whether for outright exposures or for options, are monitored with sensitivity-based measures independently for each currency and type of option. A series of stress tests is also produced on a daily basis. These primarily encompass:

- stress-testing the options portfolio for joint large changes in the level of the price of the underlying security and that of volatility
- analysing, for each currency separately, the profit and loss impact of large changes in the level and shape of the yield curve
- stress tests covering the entire Treasury portfolio based on historical scenarios

This approach is in line with the needs for complementary risk monitoring as evidenced in the recent market turmoil, and will be further strengthened and refined in light of the lessons learnt from the economic crisis.

The Bank aims to limit and manage market risks through active asset and liability management. Interest rate risks are managed by synthetically hedging the interest rate profiles of assets and liabilities, mainly through the use of exchange-traded and OTC derivatives for hedging purposes. Exposures to foreign exchange and interest rate risks are measured and monitored daily by Risk Management to ensure compliance with authorised limits. The limits themselves are low compared with the Bank's capital, and in addition to that, actual limit utilisation has been moderate (typically less than 30 per cent).

Interest rate and foreign exchange risk

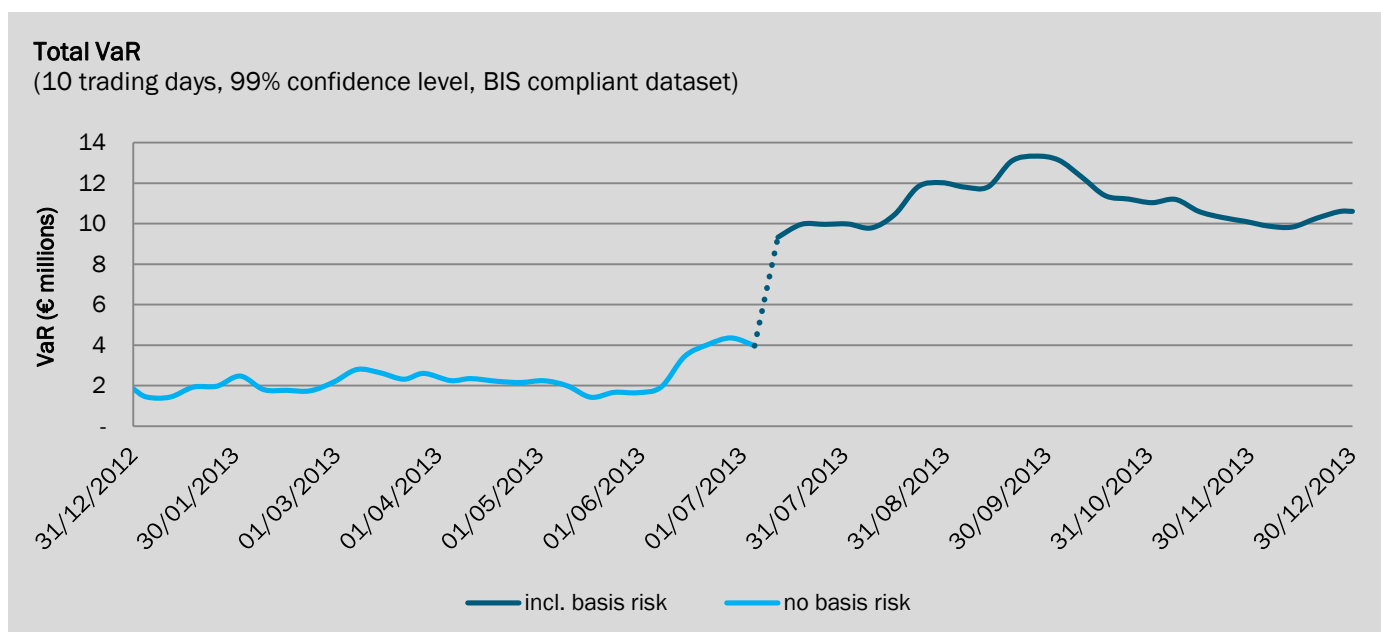
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates the extent to which it is exposed to interest rate risk.

The Bank's interest rate risk measurement is complemented by accepted market techniques including VaR, (non-credit) spread risk and volatility risk, on which frequent management reporting takes place. In July 2013, the Board-approved T&TRMA³⁰ revised the scope of the risk factors part of the VaR measure by extending it to basis spreads. The new methodology considers the 3-month swap curve as the main interest rate risk factor and the other factors as basis spread risk factors (that is, 3-month Libor vs. discount spread, 6-month Libor vs. 3-month Libor tenor basis spreads and Government asset swap spreads).

At 31 December 2013, the aggregate VaR of the Bank's Treasury portfolio, including the aforementioned basis spread risks, calculated by reference to a 99 per cent confidence level and over a ten-trading-day horizon, stood at €10.6 million (2012: €1.8 million). The maximum VaR level was €13.3 million in September, well within the Board-approved total VaR limit for all Treasury funds. The average VaR over the year was €6.5 million, while the range during the year was between €1.4 million and €13.3 million.³¹ The peak potential future exposure of the portfolio to which these figures relate was €17.6 billion at 31 December 2013 (2012: €16.7 billion).

³⁰ The Board approved an increase of the limit from €27 million to €45 million (VaR 99% confidence level, 10 trading days) on 23 July 2013 (BDS13-154).

³¹ The time-series of VaR shows large shift in July following the methodology revision.



The specific contribution from foreign exchange risk to the overall VaR stood at €0.2 million at year-end (2012: €0.5 million). As in previous years, this contribution was small throughout 2013 and never exceeded €1.0 million (2012: €1.2 million). Interest rate positioning continued to form most of the Treasury's market risk exposure with basis risk being the largest component. Interest rate option exposure remained modest throughout the year with option VaR at just €0.4 million at year-end (2012: €0.3 million), having peaked at €2.6 million in September (2012: €1.4 million in August).

In addition to the above, the sterling budget hedges portfolio, tied to the EUR/GBP currency movements, had a stand-alone VaR figure of €10.0 million at year-end (2012: €11.3 million). Since the portfolio is not actively managed (nor limit-based), it would be inappropriate to combine the VaR figure with other risk measures for the Treasury portfolio.

Equity price risk

The Bank has direct exposure to equity risk through one Treasury share investment. Indirect exposure to equity risk occurs in the form of linked structures that are traded on a back-to-back basis and therefore result in no outright exposure.

C. Liquidity risk

Liquidity risk management process

The Bank's liquidity policies are set out in its Liquidity Policy Review which is updated annually and approved by the Board of Directors. The policies are designed to ensure that the Bank maintains a prudent level of liquidity, given the risk environment in which it operates, and to support its 'triple-A' credit rating.

The Bank's medium-term liquidity policy has two elements to it and is based on a multi-year context:

- net Treasury liquid assets should be at least 45 per cent of the next three years' projected net cash requirements, with a 90 per cent operating target; and
- gross Treasury liquid assets should be at least 75 per cent of the total of undrawn commitments plus one year's debt service, with a 100 per cent operating target.

For the purposes of these ratios, all assets managed within its Treasury portfolio are considered to be liquid assets while 'net' treasury liquid assets represent gross treasury assets net of short-term debt.³² "One year's debt service" represents all interest and principal outflows on debt which either matures within one year or could be called within the same period.

On this basis the Bank exceeded the minimum requirement on each ratio, both at 31 December 2013 and consistently throughout the year. The average weighted maturity of assets managed by Treasury at 31 December 2013 was 1.2 years (2012: 1.0 years).

In 2012 the Bank introduced a new short-term liquidity policy which is based on the principles of the Liquidity Coverage Ratio proposed as part of the Basel III reform package. The policy requires that the ratio of eligible liquid assets and scheduled cash inflows to cash outflows over both a 30-day and 90-day horizon must be a minimum of 100 per cent. Since its introduction, these minimum ratios have been consistently exceeded.

³² For this ratio, short-term debt is debt with a maturity of one year or less at the point of acquisition – that is, it is not debt where the remaining maturity is one year or less.

In addition to the above, Treasury actively manages the Bank's liquidity position on a daily basis.

The Bank has a proven record of access to funding in the capital markets via its global medium-term note programme and commercial paper facilities. In 2013 the Bank raised €6.5 billion of medium-long-term debt with an average tenor of 5.1 years (2012: €6.3 billion and 4.1 years). The Bank's 'triple-A' credit rating with a stable outlook was affirmed by the three major rating agencies in the second half of 2013.

The Bank's liquidity policies are subject to independent review by Risk Management and by the Executive Committee prior to the submission for Board approval.

IFRS 7 Financial Instruments: Disclosures, requires a maturity analysis of the undiscounted cash flows deriving from the Bank's financial liabilities. Cash flows are presented in the earliest maturity band in which they could potentially fall due. For this purpose, the Bank profiles its callable debt in line with options conferring the right to its derivative counterparties to terminate the associated hedging instruments prior to legal maturity. This reflects how the Bank manages its debt in practice despite the fact that the debt is callable at the option of the Bank and therefore there is no legal obligation to redeem the debt before its legal maturity.

Net settling interest rate derivatives typically include interest rate swaps and forward rate agreements. Gross settling interest rate derivatives include cross currency interest rate swaps. While the pay legs of these derivatives must be disclosed, the inflows have also been presented in the accompanying table for information purposes. Foreign exchange derivatives include currency forwards and currency swaps.

As the figures represent undiscounted cash flows, they do not agree to the balance sheet.

Financial liabilities at 31 December 2013	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	(1,526)	(19)	-	-	-	(1,545)
Debts evidenced by certificates	(1,040)	(1,177)	(6,066)	(8,566)	(16,612)	(33,461)
Other financial liabilities	(2)	(4)	(97)	(65)	-	(168)
At 31 December 2013	(2,568)	(1,200)	(6,163)	(8,631)	(16,612)	(35,174)
Trading derivative cash flows						
Net settling interest rate derivatives	(2)	(2)	(48)	(38)	(26)	(116)
Gross settling interest rate derivatives – outflow	(17)	(192)	(787)	(1,132)	(196)	(2,324)
Gross settling interest rate derivatives – inflow	18	189	708	1,125	189	2,229
Foreign exchange derivatives – outflow	(3,011)	(1,643)	(745)	-	-	(5,399)
Foreign exchange derivatives – inflow	2,978	1,608	693	-	-	5,279
Credit derivatives	-	-	-	-	-	-
At 31 December 2013	(34)	(40)	(179)	(45)	(33)	(331)
Hedging derivative cash flows						
Net settling interest rate derivatives	(28)	(2)	(62)	(134)	(151)	(377)
Gross settling interest rate derivatives – outflow	(296)	(241)	(1,699)	(2,740)	(4,566)	(9,542)
Gross settling interest rate derivatives – inflow	275	255	1,604	2,224	4,113	8,471
At 31 December 2013	(49)	12	(157)	(650)	(604)	(1,448)
Total financial liabilities at 31 December 2013	(2,651)	(1,228)	(6,499)	(9,326)	(17,249)	(36,953)
Other financial instruments						
Undrawn commitments						
Financial institutions	(2,330)	-	-	-	-	(2,330)
Non-financial institutions	(9,104)	-	-	-	-	(9,104)
At 31 December 2013	(11,434)	-	-	-	-	(11,434)

Financial liabilities at 31 December 2012	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	(3,084)	(2)	-	-	-	(3,086)
Debts evidenced by certificates	(728)	(1,713)	(7,077)	(9,062)	(16,678)	(35,258)
Other financial liabilities	(2)	(4)	(84)	(70)	-	(160)
At 31 December 2012	(3,814)	(1,719)	(7,161)	(9,132)	(16,678)	(38,504)
Trading derivative cash flows						
Net settling interest rate derivatives	(6)	(8)	(32)	(75)	(54)	(175)
Gross settling interest rate derivatives – outflow	(48)	(321)	(1,399)	(1,360)	(1,131)	(4,259)
Gross settling interest rate derivatives – inflow	44	300	1,324	1,202	1,081	3,951
Foreign exchange derivatives – outflow	(3,345)	(2,587)	(1,461)	-	-	(7,393)
Foreign exchange derivatives – inflow	3,264	2,521	1,426	-	-	7,211
Credit derivatives	-	(1)	(2)	-	-	(3)
At 31 December 2012	(91)	(96)	(144)	(233)	(104)	(668)
Hedging derivative cash flows						
Net settling interest rate derivatives	7	(7)	(80)	(113)	(83)	(276)
Gross settling interest rate derivatives – outflow	(93)	(541)	(1,194)	(1,626)	(1,850)	(5,304)
Gross settling interest rate derivatives – inflow	110	468	1,224	1,549	1,517	4,868
At 31 December 2012	24	(80)	(50)	(190)	(416)	(712)
Total financial liabilities at 31 December 2012	(3,881)	(1,895)	(7,355)	(9,555)	(17,198)	(39,884)
Other financial instruments						
Undrawn commitments						
Financial institutions	(2,082)	-	-	-	-	(2,082)
Non-financial institutions	(8,913)	-	-	-	-	(8,913)
At 31 December 2012	(10,995)	-	-	-	-	(10,995)

D. Capital management

The Bank's original authorised share capital was €10.0 billion. Under Resolution No. 59, adopted on 15 April 1996, the Board of Governors approved a doubling of the Bank's authorised capital stock to €20.0 billion.

In accordance with the requirements of Article 5.3 of the Agreement, the Board of Governors reviews the capital stock of the Bank at intervals of not more than five years. At the Annual Meeting in May 2010 the Bank's Board of Governors approved the Fourth Capital Resources Review (CRR4) which established the Bank's strategy for the period 2011 to 2015. This included an analysis of the transition impact and operational activity of the Bank; an assessment of the economic outlook and transition challenges in the region; the formulation of medium-term portfolio development strategy and objectives; and a detailed analysis of the Bank's projected future financial performance and capital adequacy. The review underlined the fact that the Bank relies on a strong capital base and stressed the need for prudent financial policies supporting conservative provisioning, strong liquidity and long-term profitability.

As a result of the assessment of capital requirements in CRR4, in May 2010 the Board of Governors approved a two-step increase in the authorised capital stock of the Bank: an immediate €1.0 billion increase in authorised paid-in shares (Resolution No. 126), and a €9.0 billion increase in authorised callable capital shares (Resolution No. 128). This amounts to an aggregate increase in the authorised capital stock of the Bank of €10.0 billion (collectively referred to as the second capital increase). The increase in callable capital became effective on 20 April 2011 when subscriptions were received for at least 50 per cent of the newly authorised callable capital. All subscriptions were originally due to be received on or before 30 April 2011, but the Board of Directors has extended this date to no later than 11 May 2014. In accordance with the terms of Resolution No. 128, all or some of the callable shares shall be redeemed on the day following the Bank's 2016 Annual Meeting. The number of shares to be redeemed, if any, shall be determined through application of the agreed formula set out in Resolution No. 128. At 31 December 2013, €8.9 billion of the callable capital increase had been subscribed (2012: €8.8 billion).

The Bank does not have any other classes of capital.

The Bank's capital usage is guided by statutory and financial policy parameters. Article 12 of the Agreement establishes a 1:1 gearing ratio which limits the total amount of outstanding loans, share investments and guarantees made by the Bank in the countries in which it invests to the total amount of the Bank's unimpaired subscribed capital, reserves and surpluses. This capital base incorporates unimpaired subscribed capital, the unrestricted general reserves, loan loss reserve, special reserve and adjustments for accumulated specific and general loan impairment provisions on Banking exposures and equity losses. The capital base for these purposes amounted to €38.7 billion³³ at 31 December 2013 (2012: €37.7 billion).

Article 12 also limits the total amount of disbursed share investments to the total amount of the Bank's unimpaired paid-in subscribed capital, surpluses and general reserve. The Bank interprets the gearing ratio on a 'disbursed Banking assets' or 'operating assets' basis. At 31 December 2013, the Bank's gearing ratio on an aggregated basis was 68 per cent (2012: 70 per cent). No capital utilisation limits were breached during the year (2012: none).

The Bank's statutory measure of capital adequacy under the gearing ratio is supplemented by a risk-based prudential capital adequacy limit under its Economic Capital Policy.

The Bank defines required economic capital as the potential capital losses – both expected and unexpected – it may incur based on probabilities consistent with the Bank's 'triple-A' credit rating. The main risk categories assessed under the economic capital framework are credit risk, market risk and operational risk, and the total risk is managed within an available economic capital base that excludes callable capital, while maintaining a prudent capital buffer.

One of the main objectives of the Economic Capital Policy is to manage the Bank's capital within a medium-term planning framework, providing a consistent measurement of capital headroom over time. The Bank's objective is to prevent the need to call on subscribed callable capital and to use only available risk capital including paid-in capital, reserves and provisions. The available economic capital managed by the Bank consists of paid-in capital, the unrestricted general reserves, loan loss reserve, special reserve and adjustments for accumulated general loan impairment provisions and equity losses, assessed at the period end. The capital base amounted to €15.0 billion at 31 December 2013 (2012: €14.0 billion).

At 31 December 2013 the ratio of required economic capital to available economic capital was 72 per cent (2012: 74 per cent) compared with a policy threshold for this ratio of 90 per cent. The Bank's risk-based capital requirement under this policy is managed alongside the Bank's statutory capital constraint.

The Bank's prudent approach to capital management is reflected in the key financial ratios presented on page 7. At 31 December 2013, the ratio of members' equity to total assets was 30 per cent (2012: 27 per cent) and the ratio of members' equity to Banking assets was 59 per cent (2012: 55 per cent).

E. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

	Carrying amount € million	Fair value € million
Financial assets at 31 December 2013		
Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:		
– Debt securities	139	139
– Derivative financial instruments	3,094	3,094
– Banking loans at fair value through profit or loss	223	223
– Banking portfolio: Share investments at fair value through profit or loss	6,490	6,490
– Treasury portfolio: Share investments at fair value through other comprehensive income	63	63
	10,009	10,009
Financial assets measured at amortised cost:		
– Placements with and advances to credit institutions	7,266	7,266
– Debt securities	12,398	12,384
– Collateralised placements	247	248
– Other financial assets	304	304
– Banking loan investments at amortised cost	18,641	19,504
– Paid in capital receivable	10	10
	38,866	39,716
Total	48,875	49,725

³³ This capital base incorporates subscribed capital (paid-in and callable), reserves and retained earnings, as well as provisions (as this capital base is compared to operating assets prior to provisions). Deductions are made to exclude revaluation reserves related to Banking assets (as operating assets are considered at cost) and for net income allocations other than to the SEMED ISF (as the associated investments are included in operating assets).

	Restated carrying amount € million	Restated fair value € million
Financial assets at 31 December 2012		
Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:		
– Debt securities	175	175
– Derivative financial instruments	4,671	4,671
– Banking loans at fair value through profit or loss	247	247
– Banking portfolio: Share investments at fair value through profit or loss	6,649	6,649
– Treasury portfolio: Share investments at fair value through other comprehensive income	64	64
	11,806	11,806
Financial assets measured at amortised cost:		
– Placements with and advances to credit institutions	7,515	7,515
– Debt securities	12,235	12,144
– Collateralised placements	600	624
– Other financial assets	294	294
– Banking loan investments at amortised cost	18,597	19,560
– Paid in capital receivable	12	12
	39,253	40,149
Total	51,059	51,955

	Held for trading € million	At fair value through profit or loss € million	Derivatives held for hedging purposes € million	Financial liabilities at amortised cost € million	Carrying amount € million	Fair value € million
Financial liabilities at 31 December 2013						
Amounts owed to credit institutions	-	-	-	(1,543)	(1,543)	(1,543)
Debts evidenced by certificates	-	-	-	(29,659)	(29,659)	(29,506)
Derivative financial instruments	(261)	(97)	(2,117)	-	(2,475)	(2,475)
Other financial liabilities	-	-	-	(405)	(405)	(405)
Total financial liabilities	(261)	(97)	(2,117)	(31,607)	(34,082)	(33,929)

	Held for trading € million	At fair value through profit or loss € million	Derivatives held for hedging purposes € million	Financial liabilities at amortised cost € million	Carrying amount € million	Fair value € million
Financial liabilities at 31 December 2012						
Amounts owed to credit institutions	-	-	-	(3,086)	(3,086)	(3,086)
Debts evidenced by certificates	-	-	-	(31,824)	(31,824)	(31,738)
Derivative financial instruments	(439)	(60)	(1,253)	-	(1,752)	(1,752)
Other financial liabilities	-	-	-	(530)	(530)	(530)
Total financial liabilities	(439)	(60)	(1,253)	(35,440)	(37,192)	(37,106)

At 31 December 2013, the Bank's balance sheet approximates to fair value in all financial asset and liability categories, with the exception of debt securities at amortised cost, loan investments at amortised cost and debts evidenced by certificates.

The basis of fair value for debt securities listed in an active market is the quoted bid market price on the balance sheet date.

The basis of fair value for debt securities that are unlisted or listed in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are quotes from brokerage services and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

Banking loan investments whereby the objective of the Bank's business model is to hold these investments to collect the contractual cash flow, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest, are recognised at amortised cost. The fair value of these loans was calculated by discounting the cash flows at a year-end interest rate applicable to each loan and further discounting the value by an internal measure of credit risk.

“Debts evidenced by certificates” represents the Bank’s borrowing activities executed through the issuance of commercial paper and bonds. Due to the short-tenor nature of commercial paper, amortised cost approximates fair value.³⁴

Fair value hierarchy

IFRS 7 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed share investments on stock exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes debt securities and most derivative products. The sources of inputs include prices available from screen-based services such as Reuters and Bloomberg, broker quotes and observable market data such as interest rates and foreign exchange rates which are used in deriving the valuations of derivative products.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments and debt securities or derivative products for which not all market data is observable.

The table below provides information at 31 December 2013 about the Bank’s financial assets and financial liabilities measured at fair value. Financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement.

At 31 December 2013				
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	139	-	139
Derivative financial instruments	-	2,774	320	3,094
Banking loans	-	-	223	223
Share investments (Banking portfolio)	1,308	-	5,182	6,490
Share investments (Treasury portfolio)	-	63	-	63
Total financial assets at fair value	1,308	2,976	5,725	10,009
Derivative financial instruments	-	(2,378)	(97)	(2,475)
Total financial liabilities at fair value	-	(2,378)	(97)	(2,475)

At 31 December 2012				
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	131	44	175
Derivative financial instruments	-	4,256	415	4,671
Banking loans	-	-	247	247
Share investments (Banking portfolio)	1,094	-	5,555	6,649
Share investments (Treasury portfolio)	-	64	-	64
Total financial assets at fair value	1,094	4,451	6,261	11,806
Derivative financial instruments	-	(1,692)	(60)	(1,752)
Total financial liabilities at fair value	-	(1,692)	(60)	(1,752)

There have been no transfers between Level 1 and Level 2 during the year.

³⁴ Adjusted for hedge accounting as applicable.

The table below provides a reconciliation of the fair values of the Bank's Level 3 financial assets and financial liabilities for the year ended 31 December 2013.

Level 3 financial assets and financial liabilities
Year ended 31 December 2013

	Debt securities € million	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total assets € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2012	44	415	247	5,555	6,261	(60)	(60)
Total gains/(losses) for the year ended 31 December 2013 in:							
Net profit/(loss)	4	(95)	(6)	95	(2)	(37)	(37)
Purchases/issues	-	-	67	446	513	-	-
Sales/settlements	(48)	-	(85)	(714)	(847)	-	-
Transfers out of Level 3	-	-	-	(200)	(200)	-	-
Balance at 31 December 2013	-	320	223	5,182	5,725	(97)	(97)
Total gains/(losses) for the period included in net profit from assets and liabilities held at 31 December 2013	-	85	(18)	124	191	(40)	(40)

Level 3 financial assets and financial liabilities
Year ended 31 December 2012

	Debt securities € million	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total assets € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2011	202	433	239	5,085	5,959	(83)	(83)
Total gains/(losses) for the year ended 31 December 2012 in:							
Net profit/(loss)	24	(18)	4	10	20	22	22
Purchases/issues	-	-	36	949	985	-	-
Sales/settlements	(182)	-	(32)	(489)	(703)	-	-
Transfers in to Level 3	-	-	-	-	-	1	1
Balance at 31 December 2012	44	415	247	5,555	6,261	(60)	(60)
Total (losses)/gains for the period included in net profit for assets and liabilities held at 31 December 2012	1	32	11	134	178	(15)	(15)

Transfers into and out of Level 3 for Banking share investments relate to listed investments that switch from/(to) an actively traded market. Transfers into and out of Level 3 for derivative financial instruments relate to whether a model used to value a derivative is based on observable market inputs or otherwise.

Level 3 – sensitivity analysis

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2013, the main valuation models/techniques³⁵ used in the valuation of these financial instruments and the estimated increases or decreases in fair value based on reasonably possible alternative assumptions:

Main valuation models/techniques		Impact on net profit in 2013		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
Treasury derivative financial instruments	Discounted cash flow models	5	2	(2)
Banking loans	Discount cash flow and option pricing models	223	9	(26)
Banking share investments & associated derivatives ³⁶	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	5,400	2,723	(1,078)
At 31 December		5,628	2,734	(1,106)

Main valuation models/techniques		Impact on net profit in 2012		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
Debt securities	Discounted cash flow models, broker quotes and observable market data	44	2	(2)
Treasury derivative financial instruments	Discounted cash flow models	4	-	(1)
Banking loans	Discount cash flow and option pricing models	247	7	(20)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	5,906	970	(1,371)
At 31 December		6,201	979	(1,394)

Treasury debt securities and derivative financial instruments

The Bank's derivative instruments held within the Treasury portfolio are valued through discounted cash flow models. Valuations are reconciled to counterparty statements on a daily basis. Therefore the reasonable possible alternative valuations have been determined based on the range of discrepancies between the Bank's valuations and those of our counterparties.

The Bank's debt securities are priced via a third party market data service, screen-based services such as Reuters and Bloomberg or using broker quotes.

Banking loans

Banking loans at fair value through profit or loss mainly comprise convertible loans or loans with an element of performance-based return. The valuation models/techniques used to fair value these instruments are discounted cash flow models and option pricing models. The inputs into the models include interest rates, the borrower's credit spreads and underlying equity prices. Reasonable possible alternative valuations have been determined based on the borrower's probability of default.

Banking share investments and derivatives

The Bank's unlisted equity portfolio comprises direct share investments, equity derivatives and equity funds. The main valuation models/techniques used to fair value these financial instruments are net asset value (NAV) multiples, earnings before interest, tax, depreciation and amortisation (EBITDA) multiples and discounted cash flow (DCF) models.

NAV multiples are most commonly applied to bank investments and equity funds. Reasonable possible alternative valuations have been determined based on the NAV multiple ranges in the valuations received for bank investments, and by considering the impact of adjusting the portfolio discount applied to equity funds. For investments valued using EBITDA multiples and DCF models, sensitivity analysis was performed by determining reasonable alternative valuations using Sales, EBITDA, Price-to-Earnings multiples methods, as well as industry specific methods like multiples based on production capacities. Recent transactions within sectors were also considered where available. Further, within a given method valuation ranges were determined by using bottom and top quartile multiples. For DCF models sensitivity analysis was performed by changing certain underlying assumptions (for example, an increase or decrease in the discount rate).

³⁵ NAV = net asset value; EBITDA = earnings before interest, tax, depreciation and amortisation.

³⁶ Banking share investments typically have an attached put and/or call option derivative. As such, any change in the underlying value of the equity may be offset by the change in the value of the derivative. For this reason, Banking share investments and the associated derivatives have been combined for the sensitivity analysis.

Notes to the financial statements

1. Establishment of the Bank

i Agreement Establishing the Bank

The European Bank for Reconstruction and Development (the Bank), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 (the Agreement). At 31 December 2013, the Bank's members comprised 64 countries, together with the European Union (EU) and the European Investment Bank.

ii Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected with the Bank in the United Kingdom are confirmed and supplemented in the Headquarters Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Bank (Headquarters Agreement). The Headquarters Agreement was signed in London at the start of the Bank's operations on 15 April 1991.

2. Restatement

In 2013 the Bank adopted IAS 19 *Employee Benefits* (amended 2011), which supersedes IAS 19 *Employee Benefits* (1998) and is applicable to annual periods beginning on or after 1 January 2013. Comparative information for 2012 is therefore restated in accordance with the rules of the revised standard.

The effect of the restatement on the financial statements for 2012 was a €60 million reduction in the net defined benefit asset, a €1 million reduction in general administrative expenses, an additional recognition of €5 million actuarial losses on the net defined benefit asset through other comprehensive income, and a €56 million reduction in retained earnings.

3. Segment information

The Bank's activities are primarily Banking and Treasury. Banking activities represent investments in projects that, in accordance with the Agreement, are made for the purpose of assisting the countries in which the Bank invests in their transition to a market economy, while applying sound banking principles. The main investment products are loans, share investments and guarantees. Treasury activities include raising debt finance, investing surplus liquidity, managing the Bank's foreign exchange and interest rate risks and assisting clients in asset and liability management matters.

Information on the financial performance of Banking and Treasury operations is prepared regularly and provided to the chief operating decision-maker. On this basis, Banking and Treasury operations have been identified as the operating segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, is the President.

Segment performance

The President assesses the performance of the operating segments based on the net profit for the year, which is measured in a manner consistent with the financial statements. The segment information provided to the President for the operating segments for the year ended 31 December 2013 and 31 December 2012 is as follows:

	Banking 2013 € million	Treasury 2013 € million	Aggregated 2013 € million	Restated Banking 2012 € million	Restated Treasury 2012 € million	Restated Aggregated 2012 € million
Interest income	998	99	1,097	1,040	166	1,206
Other income/(expense)	510	95	605	405	87	492
Total segment revenue	1,508	194	1,702	1,445	253	1,698
Less interest expense and similar charges ³⁷	(278)	163	(115)	(382)	133	(249)
Net interest expense on derivatives	-	(162)	(162)	-	(176)	(176)
Allocation of the return on capital	23	2	25	84	10	94
Less general administrative expenses	(300)	(19)	(319)	(253)	(17)	(270)
Less depreciation and amortisation	(24)	(2)	(26)	(24)	(1)	(25)
Segment result before provisions and hedges	929	176	1,105	870	202	1,072
Fair value movement on non-qualifying and ineffective hedges	-	45	45	-	69	69
Provisions for impairment of loan investments and guarantees	(138)	-	(138)	(120)	-	(120)
Net profit for the year	791	221	1,012	750	271	1,021
Transfers of net income approved by the Board of Governors			(90)			(190)
Net profit after transfers approved by the Board of Governors			922			831
Segment assets						
Total assets	25,919	23,039	48,958	26,189	24,953	51,142
Segment liabilities						
Total liabilities	261	33,821	34,082	215	36,977	37,192

Segment revenues – Geographic

The Bank's activities are divided into six regions for internal management purposes.

	Segment revenue 2013 € million	Segment revenue 2012 € million
Advanced countries ³⁸	403	256
Early/Intermediate countries ³⁹	530	526
Russia	458	585
SEMED	7	-
Turkey	110	78
OECD ⁴⁰	194	253
Total	1,702	1,698

Revenues are attributed to countries on the basis of the location in which a project operates.

³⁷ Interest expense and similar charges and allocation of the return on capital equates to the interest expense and similar charges on the face of the income statement.

³⁸ Advanced countries are Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.

³⁹ Early/Intermediate countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Mongolia, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

⁴⁰ Member countries of the Organisation for Economic Co-operation and Development. <http://www.oecd.org/about/membersandpartners/>

4. Net interest income

	2013 € million	2012 € million
Interest and similar income		
Banking loans	998	1,040
Debt securities	63	111
Collateralised placements	2	8
Reverse repurchase agreements	4	6
Cash and short-term funds	26	41
Other	4	-
Interest and similar income	1,097	1,206
Interest expense and similar charges		
Debts evidenced by certificates	(85)	(146)
Amounts owed to credit institutions	(4)	(9)
Other	(1)	-
Interest expense and similar charges	(90)	(155)
Net interest expense on derivatives	(162)	(176)
Net interest income	845	875

Interest income accrued on impaired financial assets at 31 December 2013 was €15 million (2012: €11 million).

5. Net fee and commission income

The main components of net fee and commission income are as follows:

	2013 € million	2012 € million
Trade finance fees	10	10
Administration fees	4	15
Syndication and agency fees	4	4
Other	2	2
Prepayment fees	5	1
Net fee and commission income	25	32

Front-end and commitment fees of €94 million (2012: €119 million) received in 2013, together with related direct costs of €6 million (2012: €8 million), have been deferred on the balance sheet. They will be recognised in interest income over the period from disbursement to repayment of the related loan, in accordance with IAS 18. In 2013, €122 million (2012: €92 million) of previously deferred fees and direct costs were recognised in interest income.

6. Net gains/(losses) from share investments at fair value through profit or loss

	2013 € million	2012 € million
Net realised gains from share investments and equity related derivatives	439	217
Net unrealised (losses)/gains from share investments and equity related derivatives	(63)	57
Net gains from share investments at fair value through profit or loss	376	274

On exit of an equity investment, the cumulative gain/loss is realised with a corresponding reversal of the cumulative unrealised gain/loss recorded prior to the exit.

7. Net (losses)/gains from loans at fair value through profit or loss

	2013 € million	2012 € million
Net realised gains from loans at fair value through profit or loss	2	4
Net unrealised (losses)/gains from changes in fair value	(1)	7
Net (losses)/gains from loans at fair value through profit or loss	1	11

8. Net losses from Treasury assets held at amortised cost

	2013 € million	2012 € million
Net realised losses from debt securities	(9)	(17)
Recoveries of previously recognised impairments on debt securities	2	2
Impairment losses from debt securities	-	(1)
Net losses from Treasury assets held at amortised cost	(7)	(16)

During the year the Bank sold €1,414 million of debt securities held at amortised cost (2012: €358 million).

9. Net gains from Treasury activities at fair value through profit or loss

	2013 € million	2012 € million
Debt buybacks and termination of related swaps	16	16
Treasury portfolio	84	85
Foreign exchange	-	2
Dividend income from Treasury share investments	2	-
Net gains from Treasury activities at fair value through profit or loss	102	103

Net gains on the Treasury portfolio include both realised and unrealised gains or losses, together with associated interest income and expense.

10. Fair value movement on non-qualifying and ineffective hedges

The hedging practices and accounting treatment are disclosed under “Derivative financial instruments and hedge accounting” in the Accounting policies section of the report.

The fair value movement on non-qualifying and ineffective hedges represents an accounting adjustment in respect of hedging relationships undertaken by the Bank that either do not qualify for hedge accounting or do not fully offset when measured in accordance with IFRS. This unrealised adjustment does not reflect economic substance, inasmuch as the reported losses would not be realised in cash if the hedging relationships were terminated. The adjustment will reverse over time as the underlying deals approach their maturities.

The Bank applies hedge accounting where there is an identifiable, one-to-one relationship between a hedging derivative instrument and a hedged cash instrument. These relationships predominantly arise within the context of the Bank's borrowing activities in which the Bank's issued bonds are combined with swaps to achieve floating-rate debt in the currency sought by the Bank. While such hedges are matched in cash flow terms, accounting rules may require different valuation methodologies to be applied to such cash flows. In particular, a pricing component of currency swaps (known as the basis swap spread) is not applied to the related hedged bond. This component is a feature of supply and demand requirements for other currencies relative to the US dollar or euro. Such differences can create hedge ineffectiveness or hedge failures under IFRS, the combined effect of which is reported within this line of the income statement. For the year this resulted in a loss of €4 million, comprising losses of €1,020 million on the derivative hedging instruments and gains of €1,016 million on the hedged items (2012: a gain of €83 million comprising gains of €468 million on the derivative hedging instruments and losses of €385 million on the hedged items).

In addition to the one-to-one hedge relationships for which the Bank applies hedge accounting, the Bank also hedges interest rate risk across total assets and liabilities on a portfolio basis, for which hedge accounting is not applied. This activity results in the gains or losses arising on the hedging derivative instruments being recognised in the periods in which they occur, while the offsetting impact deriving from the hedged cash instruments will accrue over a different timescale in keeping with the interest rates applicable to the specific periods for those instruments. For the year this resulted in a gain of €49 million (2012: loss of €14 million).

The combined effect of all the hedging activities described above was a gain of €45 million for the year (2012: €69 million).

Cash flow hedges

The Bank hedges on an annual basis to minimise the exchange rate risk associated with incurring administrative expenses in sterling. In 2013 and 2012 there was no ineffectiveness recognised in the income statement arising from cash flow hedges.

11. Provisions for impairment of Banking loan investments at amortised cost

	2013 € million	2012 € million
Charge for the year		
Portfolio provisions for the unidentified impairment of loan investments		
Non-sovereign loan investments	10	(32)
Sovereign loan investments	-	(5)
Specific provisions for the identified impairment of loan investments ⁴¹	(143)	(83)
Provisions for impairment of Banking loan investments at amortised cost	(133)	(120)

	2013 € million	2012 € million
Movement in provisions		
At 1 January	(736)	(672)
Charge for the year to the income statement ⁴²	(133)	(120)
Unwinding of the discount relating to the identified impairment of assets	15	11
Foreign exchange adjustments	21	7
Release against amounts written off	13	38
Release against amounts recovered from guarantees	4	-
Recovery from amounts written off	(1)	-
At 31 December	(817)	(736)
Analysed between		
Portfolio provisions for the unidentified impairment of loan investments:		
Non-sovereign loan investments	(417)	(439)
Sovereign loan investments	(18)	(17)
Specific provisions for the identified impairment of loan investments	(382)	(280)
At 31 December	(817)	(736)

12. General administrative expenses

	2013 € million	2012 € million
Personnel costs	(222)	(192)
Overhead expenses	(93)	(86)
General administrative expenses	(315)	(278)
Release of deferral of direct costs related to loan origination and commitment maintenance	6	8
Pension past service cost	(10)	-
Net general administrative expenses	(319)	(270)

Sterling general administrative expenses totalled £273 million (2012: £240 million).⁴³

Direct costs of €6 million (2012: €8 million) relating to loan origination in 2013, together with front-end and commitment fee receipts of €94 million (2012: €119 million), have been deferred on the balance sheet in accordance with IAS 18. These figures will be recognised in interest income over the period from disbursement to repayment of the related loans.

⁴¹ Comprised of €178 million of new provisions against €35 million of released provisions (2012: €118 million against €35 million respectively).

⁴² Excludes provisions for guarantees which are recorded in Other assets.

⁴³ Excludes depreciation and amortisation.

The following fees for work performed by the Bank's external auditor were included in overhead expenses:

	2013 € 000	2012 € 000
Audit and assurance services		
Services as auditor of the Bank	(281)	(268)
Internal controls framework assurance	(134)	(137)
Retirement plan audit	(23)	(24)
Tax recovery audit	(11)	(11)
Audit and assurance services	(449)	(440)

13. Placements with and advances to credit institutions

	2013 € million	2012 € million
Analysed between		
Cash and cash equivalents	4,147	5,892
Other current placements and advances	3,119	1,623
At 31 December	7,266	7,515

Cash and cash equivalents are those placements and advances which have an original tenor equal to, or less than, three months. "Current" is defined as those assets maturing, or liabilities due, within the next 12 months. All other assets or liabilities are "non-current".

14. Debt securities

	2013 € million	2012 € million
Debt securities at fair value through profit or loss	139	175
Debt securities at amortised cost	12,398	12,235
At 31 December	12,537	12,410
Analysed between		
Current	6,045	6,620
Non-current	6,492	5,790
At 31 December	12,537	12,410
Cumulative impairment losses		
Balance at 1 January	(8)	(34)
Charge for the year	-	(1)
Amounts recovered during the year	2	2
Amounts released	6	25
At 31 December	-	(8)

15. Collateralised placements

	2013 € million	2012 € million
Analysed between		
Current	-	-
Non-current	247	600
At 31 December	247	600

16. Other financial assets

	2013 € million	Restated 2012 € million
Fair value of derivatives designated as fair value hedges	2,341	3,964
Fair value of derivatives designated as cash flow hedges	4	9
Fair value of derivatives held for trading	434	287
Fair value of derivatives held in relation to the Banking portfolio	315	411
Interest receivable	240	255
Other	64	39
At 31 December	3,398	4,965
Analysed between		
Current	774	1,083
Non-current	2,624	3,882
At 31 December	3,398	4,965

Included within "Other" above are deferred fair value amounts related to Banking derivative instruments that have a determinable return. Specifically, these relate to Banking derivatives that are valued using valuation techniques other than observable market data. On initial recognition, the difference between the transaction price and the value derived from the valuation technique is deferred. These amounts are recognised in profit when market data becomes observable, when the underlying equity is exited or when the derivative is exercised. At 31 December 2013, net gains of €36 million were deferred (2012: €57 million).

17. Banking loan investments at amortised cost

	2013 Sovereign loans € million	2013 Non-sovereign loans € million	2013 Total loans € million	2012 Sovereign loans € million	2012 Non-sovereign loans € million	2012 Total loans € million
At 1 January	2,690	16,643	19,333	2,440	15,648	18,088
Movement in fair value revaluation ⁴⁴	-	(34)	(34)	-	(1)	(1)
Disbursements	484	7,105	7,589	625	6,825	7,450
Repayments and prepayments	(380)	(6,509)	(6,889)	(357)	(5,752)	(6,109)
Foreign exchange movements	(31)	(529)	(560)	(16)	(22)	(38)
Movement in net deferral of front end fees and related direct costs	38	(6)	32	(2)	(17)	(19)
Written off	-	(13)	(13)	-	(38)	(38)
At 31 December	2,801	16,657	19,458	2,690	16,643	19,333
Impairment at 31 December	(18)	(799)	(817)	(17)	(719)	(736)
Total net of impairment at 31 December	2,783	15,858	18,641	2,673	15,924	18,597
Analysed between						
Current			2,982			3,042
Non-current			15,659			15,555
Total net of impairment at 31 December			18,641			18,597

At 31 December 2013 the Bank categorised 68 loans as impaired, with operating assets totalling €655 million (2012: 72 loans totalling €624 million).

⁴⁴ This movement in fair value relates to a hedge adjustment to fixed rate loans which qualify for hedge accounting for interest rate risk.

18. Banking loan investments at fair value through profit or loss

	2013 € million	2012 € million
Non-sovereign loans		
At 1 January	247	239
Disbursements	67	36
Repayments and prepayments	(85)	(32)
Movement in fair value revaluation	(1)	7
Foreign exchange movements	(5)	(3)
At 31 December	223	247
Analysed between		
Current	40	36
Non-current	183	211
At 31 December	223	247

19. Share investments at fair value through profit or loss

	2013 Fair value Unlisted € million	2013 Fair value Listed € million	2013 Fair value Total € million	2012 Fair value Unlisted € million	2012 Fair value Listed € million	2012 Fair value Total € million
Outstanding disbursements						
At 1 January	4,871	1,696	6,567	4,444	1,627	6,071
Transfer between unlisted and listed	(202)	202	-	-	-	-
Disbursements	348	183	531	908	227	1,135
Disposals	(590)	(132)	(722)	(470)	(158)	(628)
Written off	(17)	-	(17)	(11)	-	(11)
At 31 December	4,410	1,949	6,359	4,871	1,696	6,567
Fair value adjustment						
At 1 January	145	(63)	82	141	(175)	(34)
Transfer between unlisted and listed	5	(5)	-	-	-	-
Movement in fair value revaluation	78	(29)	49	4	112	116
At 31 December	228	(97)	131	145	(63)	82

Summarised financial information on share investments where the Bank owned greater than, or equal to, 20 per cent of the investee share capital at 31 December 2013, is detailed under note 31, "Related parties".

20. Treasury share investments at fair value through other comprehensive income

Treasury holds a strategic share investment in The Currency Exchange Fund N.V. Through this investment the Bank can access the foreign currency hedging products offered by the fund and therefore it was deemed appropriate to designate this investment to be measured at fair value through other comprehensive income.

	2013 € million	2012 € million
Share investment designated at fair value through other comprehensive income		
The Currency Exchange Fund N.V.	63	64

Dividend income of €2 million was received on this share investment during 2013 (2012: €nil).

21. Intangible assets

	Computer software development costs 2013 € million	Computer software development costs 2012 € million
Cost		
At 1 January	179	163
Additions	16	16
At 31 December	195	179
Amortisation		
At 1 January	(138)	(119)
Charge	(18)	(19)
At 31 December	(156)	(138)
Net book value at 31 December	39	41

22. Property, technology and office equipment

	Property 2013 € million	Property under construction 2013 € million	Technology and office equipment 2013 € million	Total 2013 € million	Property 2012 € million	Property under construction 2012 € million	Technology and office equipment 2012 € million	Total 2012 € million
Cost								
At 1 January	48	7	25	80	43	5	25	73
Additions	6	1	6	13	6	2	2	10
Transfers	7	-	(7)	-	-	-	-	-
Disposals	(7)	-	(3)	(10)	(1)	-	(2)	(3)
At 31 December	54	8	21	83	48	7	25	80
Depreciation								
At 1 January	(20)	-	(18)	(38)	(17)	-	(18)	(35)
Charge	(5)	-	(3)	(8)	(4)	-	(2)	(6)
Transfers	(7)	-	7	-	-	-	-	-
Disposals	5	-	2	7	1	-	2	3
At 31 December	(27)	-	(12)	(39)	(20)	-	(18)	(38)
Net book value at 31 December	27	8	9	44	28	7	7	42

23. Borrowings

	2013 € million	2012 € million
Amounts owed to credit institutions and other third parties		
Amounts owed to credit institutions	(96)	(226)
Amounts held as collateral	(478)	(1,932)
Amounts managed on behalf of third parties ⁴⁵	(969)	(928)
At 31 December	(1,543)	(3,086)
Of which current:	(1,543)	(3,086)

⁴⁵ See Note 32 for details of third parties

24. Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates and related fair value hedging swaps are summarised below, both in the currency of the bond and the currency obtained after currency swap hedges have been taken into account.

	Bond denominations 2013 € million	Currency after swap 2013 € million	Bond denominations 2012 € million	Currency after swap 2012 € million
Australian dollars	(1,224)	-	(2,023)	-
Canadian dollars	(33)	-	(70)	-
Euro	(2,602)	(6,535)	(2,116)	(5,693)
Japanese yen	(1,765)	-	(2,562)	-
Mexican peso	(62)	-	(52)	-
New Turkish lira	(1,356)	-	(1,832)	-
New Zealand Dollar	-	-	(100)	-
Norwegian krone	(225)	(78)	(131)	-
Romanian leu	(39)	(3)	(37)	(4)
Russian roubles	(887)	(678)	(1,108)	(685)
South African rands	(480)	-	(754)	-
Sterling	(4,216)	(2,816)	(5,055)	(3,200)
Swedish krona	(73)	(73)	(762)	-
Swiss franc	(1)	-	(46)	-
United States dollars	(16,696)	(19,476)	(15,176)	(22,242)
At 31 December	(29,659)	(29,659)	(31,824)	(31,824)

Where the swap counterparty exercises a right to terminate the hedging swap prior to legal maturity, the Bank is committed to exercise the same right with its issued bond.

	2013 € million	2012 € million
Analysed between		
Current	(7,120)	(8,591)
Non-current	(22,539)	(23,233)
Debts evidenced by certificates at 31 December	(29,659)	(31,824)

During the year the Bank redeemed €0.59 billion of bonds and medium-term notes prior to maturity (2012: €0.39 billion), generating a net gain of €16 million (2012: €16 million).

25. Other financial liabilities

	2013 € million	2012 € million
Fair value of derivatives designated as fair value hedges	(2,117)	(1,251)
Fair value of derivatives designated as cash flow hedges	-	(2)
Fair value of derivatives held for trading	(261)	(439)
Fair value of other derivatives held in relation to the Banking portfolio	(97)	(60)
Interest payable	(227)	(240)
Other	(178)	(290)
At 31 December	(2,880)	(2,282)

	2013 € million	2012 € million
Analysed between		
Current	(1,333)	(1,141)
Non-current	(1,547)	(1,141)
At 31 December	(2,880)	(2,282)

26. Subscribed capital

	2013 Number of shares	2013 Total € million	2012 Number of shares	2012 Total € million
Authorised shared capital	3,000,000	30,000	3,000,000	30,000
of which				
Subscriptions by members – initial capital	993,055	9,931	993,055	9,931
Subscriptions by members – first capital increase	988,055	9,881	988,055	9,881
Subscriptions by members – second capital increase	986,146	9,861	979,033	9,789
Subscribed capital	2,967,256	29,673	2,960,143	29,601
Unsubscribed capital	32,744	327	39,857	399
At 31 December	3,000,000	30,000	3,000,000	30,000

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of €10,000. At the Bank's Annual Meeting in May 2010, the Board of Governors approved a two-step increase in the authorised capital stock of the Bank: a €1.0 billion increase in authorised paid-in shares and a €9.0 billion increase in authorised callable capital shares, amounting to a €10.0 billion aggregate increase in the authorised capital stock of the Bank (collectively referred to as the second capital increase). Resolution No. 126 authorised the increase in authorised capital stock by 100,000 paid-in shares, each share having a par value of €10,000, taking the authorised capital stock of the Bank to €21.0 billion. Resolution No. 128 authorised the increase in the authorised capital stock of the Bank by 900,000 callable shares, each share having a par value of €10,000, with the shares subject to redemption in accordance with the terms of Resolution No. 128. The increase in callable capital became effective in April 2011.

Payment for the paid-in shares issued as part of the original authorised capital stock, and as part of the first capital increase and subscribed to by members, is made over a period of years determined in advance. Payment for the paid-in shares issued under the second capital increase was by way of a reallocation of net income previously allocated to surplus for other purposes, namely for the payment of such paid-in shares, pursuant to Article 36.1 of the Agreement and approved by Board of Governors Resolution No. 126, dated 14 May 2010. Article 6.4 of the Agreement states that payment of the amount subscribed to the callable capital is subject to call by the Bank, taking account of Articles 17 and 42 of the Agreement, only as and when required by the Bank to meet its liabilities. Article 42.1 states that in the event of the termination of the Bank's operations, the liability of all members for all uncalled subscriptions to the capital stock will continue until all claims of creditors, including all contingent claims, have been discharged.

The Agreement allows for a member to withdraw from the Bank, in which case the Bank is required to repurchase the former member's shares. No member has ever withdrawn its membership. The stability in the membership reflects the fact that the members are 64 countries and two inter-governmental organisations, and that the purpose of the Bank is to foster the transition process in politically qualifying countries from central Europe to central Asia and the SEMED region.

Moreover, there is a financial disincentive to withdrawing membership. The upper limit of the amount of the repurchase price of the former member's shares is the amount of its paid-in capital, yet a former member remains liable for its direct obligations and its contingent liabilities to the Bank for as long as any part of the loans, share investments or guarantees contracted before it ceased to be a member are outstanding. Were a member to withdraw from the Bank, the Bank would be able to impose conditions and set dates in respect of payments for shares repurchased. If, for example, paying a former member would have adverse consequences for the Bank's financial position, the Bank could defer payment until the risk had passed, and indefinitely if appropriate. If a payment was then made to a former member, the member would be required to repay, on demand, the amount by which the repurchase price would have been reduced if the losses for which the former member remained liable had been taken into account at the time of payment.

Under the Agreement, payment for the paid-in shares of the initial capital stock subscribed to by members was made in five equal annual instalments. Of each instalment, up to 50 per cent was payable in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the subscribing member and payable to the Bank at par value upon demand. Under Resolution No. 59, payment for the paid-in shares subscribed to by members under the first capital increase was made in eight equal annual instalments. Under Resolution No. 126, payment for the paid-in shares issued to members under the second capital increase was made in one instalment immediately following approval of Resolution No. 126.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the amount of unallocated shares and votes, is set out in the following table. Under Article 29 of the Agreement, the voting rights of members that have failed to pay any part of the amounts due in respect of their capital subscription are proportionately reduced until payment is made.

Statement of capital subscriptions

At 31 December 2013					
Members	Total shares (number)	Resulting votes ⁴⁶ (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Albania	3,001	2,511	30	24	6
Armenia	1,499	1,499	15	12	3
Australia	30,014	30,014	300	237	63
Austria	68,432	68,432	684	541	143
Azerbaijan	3,001	3,001	30	24	6
Belarus	6,002	6,002	60	47	13
Belgium	68,432	68,432	684	541	143
Bosnia and Herzegovina	5,071	5,071	51	40	11
Bulgaria	23,711	23,711	238	188	50
Canada	102,049	102,049	1,020	807	213
Croatia	10,942	10,942	109	86	23
Cyprus	3,001	3,001	30	24	6
Czech Republic	25,611	25,611	256	203	53
Denmark	36,017	36,017	360	285	75
Egypt	2,101	2,101	21	15	6
Estonia	3,001	3,001	30	24	6
European Investment Bank	90,044	90,044	900	712	188
European Union	90,044	90,044	900	712	188
Finland	37,518	37,518	375	297	78
Former Yugoslav Republic of Macedonia	1,762	1,762	18	14	4
France	255,651	255,651	2,557	2,024	533
Georgia	3,001	3,001	30	24	6
Germany	255,651	255,651	2,557	2,024	533
Greece	19,508	19,508	195	154	41
Hungary	23,711	23,711	237	188	49
Iceland	3,001	3,001	30	24	6
Ireland	9,004	9,004	90	71	19
Israel	19,508	19,508	195	154	41
Italy	255,651	255,651	2,557	2,024	533
Japan	255,651	255,651	2,557	2,024	533
Jordan	986	986	10	8	2
Kazakhstan	6,902	6,902	69	55	15
Korea, Republic of	30,014	30,014	300	237	63
Kosovo	580	580	6	5	1
Kyrgyz Republic	2,101	1,010	21	15	6
Latvia	3,001	3,001	30	24	6
Liechtenstein	599	599	6	5	1
Lithuania	3,001	3,001	30	24	6
Luxembourg	6,002	6,002	60	47	13
Malta	210	210	2	1	1
Mexico	4,501	4,501	46	35	11
Moldova	3,001	2,554	30	24	6
Mongolia	299	299	3	2	1
Montenegro	420	420	4	3	1

⁴⁶ Voting rights are restricted for non-payment of amounts due in respect of the member's obligations in relation to paid-in shares. Total votes before restrictions amount to 2,967,256 (2012:2,960,143)

Statement of capital subscriptions

At 31 December 2013	Total shares (number)	Resulting votes (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Morocco	1,478	1,478	15	11	4
Netherlands	74,435	74,435	744	589	155
New Zealand	1,050	1,050	11	7	4
Norway	37,518	37,518	375	297	78
Poland	38,418	38,418	384	304	80
Portugal	12,605	12,605	126	100	26
Romania	14,407	14,407	144	114	30
Russian Federation	120,058	120,058	1,201	951	250
Serbia	14,031	14,031	140	111	29
Slovak Republic	12,807	12,807	128	101	27
Slovenia	6,295	6,295	63	50	13
Spain	102,049	102,049	1,020	807	213
Sweden	68,432	68,432	684	541	143
Switzerland	68,432	68,432	684	541	143
Tajikistan	2,101	602	21	15	6
Tunisia	986	986	10	8	2
Turkey	34,515	34,515	345	273	72
Turkmenistan	210	164	2	1	1
Ukraine	24,011	24,011	240	190	50
United Kingdom	255,651	255,651	2,557	2,024	533
United States of America	300,148	300,148	3,002	2,376	625
Uzbekistan	4,412	4,134	44	31	13
Capital subscribed by members	2,967,256	2,963,405	29,673	23,471	6,202

27. Reserves and retained earnings

	2013 € million	Restated 2012 € million
Special reserve		
At 1 January	306	306
At 31 December	306	306
Loan loss reserve		
At 1 January	689	676
Transferred from retained earnings	41	13
At 31 December	730	689
Net income allocation		
At 1 January	1,013	210
Transferred (to)/from retained earnings	(304)	993
Distributions	(90)	(190)
At 31 December	619	1,013
General reserve – other reserve		
Revaluation reserve		
At 1 January	16	10
Net (losses)/gains arising on revaluation of share investments at fair value through other comprehensive income	(1)	6
At 31 December	15	16
Hedging reserve – cash flow hedges		
At 1 January	7	15
(Losses)/Gains from changes in fair value of hedges recognised in equity	(6)	9
Losses/(Gains) reclassified to general administrative expenses	3	(17)
At 31 December	4	7
Other		
At 1 January	199	193
Internal tax for the year	6	6
At 31 December	205	199
General reserve – other reserve at 31 December	224	222
General reserve – retained earnings		
At 1 January	5,518	5,508
Net profit before transfers of net income approved by the Board of Governors	1,012	1,021
Transferred to loan loss reserve	(41)	(13)
Transferred from/(to) net income allocation	304	(993)
Actuarial gains/(losses) on defined benefit scheme	2	(5)
General reserve retained earnings at 31 December	6,795	5,518
Total reserves and retained earnings at 31 December	8,674	7,748

The **special reserve** is maintained, in accordance with Article 16 of the Agreement, for meeting certain defined losses of the Bank. The special reserve has been established, in accordance with the Bank's financial policies, by setting aside 100 per cent of qualifying fees and commissions received by the Bank associated with loans, guarantees and underwriting the sale of securities. In 2011 the Board of Directors decided that the size of the special reserve was adequate.

In 2005, the Bank created a **loan loss reserve** within members' equity, to set aside an amount of retained earnings equal to the difference between the impairment losses expected over the life of the loan portfolio and the amount recognised through the Bank's income statement on an incurred loss basis.

The **general reserve** represents all reserves except those amounts allocated to the special and loan loss reserves and it primarily comprises retained earnings. It also includes the retention of internal tax paid in accordance with Article 53 of the Agreement. This requires that all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank and which is retained for its benefit. At the end of the year internal tax amounted to €95 million (2012: €89 million).

The **hedging reserve** includes forward exchange contracts entered into by the Bank to hedge part of its estimated future sterling operating expenditure. At 31 December 2013 there was a €4 million unrealised mark-to-market gain on these contracts (2012: €7 million). These gains remain in reserves until such time as the related hedged expenditure is incurred.

Reserves and retained earnings	2013 € million	Restated 2012 € million
Special reserve	306	306
Loan loss reserve	730	689
Net income allocation	619	1,013
Unrealised gains	2,042	1,832
Total restricted reserves	3,697	3,840
Unrestricted general reserves	4,977	3,908
At 31 December	8,674	7,748

The Bank's reserves are used to determine, in accordance with the Agreement, what part of the Bank's net income will be allocated to surplus or other purposes and what part, if any, will be distributed to its members. For this purpose, the Bank uses unrestricted general reserves.

Article 36 of the Agreement relates to the allocation and distribution of the Bank's net income and states: "No such allocation, and no distribution, shall be made until the general reserve amounts to at least ten per cent of the authorised capital stock". This figure is currently €3.0 billion (2012: €3.0 billion).

The SEMED ISF was established in 2012 with a net income allocation of €1.0 billion, to be used to finance EBRD special operations in the SEMED region. This amount was ring-fenced within the Bank's restricted reserves, to be drawn upon by the Fund as necessary to finance its operations. As each country within the SEMED region obtains recipient membership status of the Bank, the resources held within the Fund in respect of that country are to be returned to the Bank's ordinary capital resources. On 1 November 2013, €337 million of the Fund's resources were transferred back to the Bank following the granting of recipient country status to Jordan, Morocco and Tunisia. At 31 December 2013, there were €175 million of resources in the SEMED ISF and €430 million of the original €1 billion net income allocation that remains undrawn. These funds support existing and new special operations in Egypt, including regional investments.

Under IFRS accounting rules, the resources transferred to the SEMED ISF remained on the Bank's balance sheet at all times because the Bank did not divest itself of the risks and rewards of those resources.

During 2013 the Board of Governors approved €90 million of net income to be allocated to the EBRD Shareholder Special Fund. This amount was reflected in the income statement, below net profit in 2013. Of this allocation, €65 million was attributable to EBRD ordinary operations, with the remaining €25 million transferred from net income allocated to the SEMED ISF.

28. Undrawn commitments and guarantees

Analysis by instrument	2013 € million	2012 € million
Undrawn commitments		
Loans	8,912	8,726
Share investments	1,895	1,642
At 31 December	10,807	10,368
Guarantees		
Trade finance guarantees ⁴⁷	475	473
Other guarantees ⁴⁸	152	154
At 31 December	627	627
Undrawn commitments and guarantees at 31 December	11,434	10,995

29. Operating lease commitments

The Bank leases its headquarters building in London and some of its Resident Office buildings in the countries of in which it invests. These are standard operating leases and include renewal options, periodic escalation clauses and are mostly non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant lease is that for the Bank's headquarters building. Rent payable under the terms of this lease is reviewed every five years and is based on market rates. The last review was conducted in December 2011.

Minimum future lease payments under long-term non-cancellable operating leases and payments made under such leases during the year are shown below:

Payable	2013 € million	2012 € million
Not later than one year	30	29
Later than one year and not later than five years	112	102
Later than five years	85	111
At 31 December	227	242
Expenditure incurred in the current year	26	26

The Bank has entered into sub-lease arrangements for two floors of its headquarters building. The total minimum future lease payments expected to be received under these sub-leases and income received during the year is shown below:

Receivable	2013 € million	2012 € million
Not later than one year	5	5
Later than one year and not later than five years	-	6
Later than five years	-	-
At 31 December	5	11
Income received in the current year	5	5

⁴⁷ Trade finance guarantees represent stand-by letters of credit issued in favour of confirming banks that have undertaken the payment risk of issuing banks in the countries where the Bank invests.

⁴⁸ Other guarantees include unfunded full or partial risk participations.

30. Staff retirement schemes

There are two retirement plans in operation. The Final Salary Plan (FSP) is a defined benefit scheme, to which only the Bank contributes. The Money Purchase Plan (MPP) is a defined contribution scheme to which both the Bank and staff contribute, with Plan members making individual investment decisions. Both plans provide a lump sum benefit on leaving the Bank or at retirement age, such that retirement plan obligations to staff once they have left the Bank or retired are minimal (being limited to inflation adjustments on undrawn or deferred benefits under each plan).

Defined benefit scheme

A qualified actuary performs a full actuarial valuation of the FSP at least every three years using the projected unit method, with a more high-level interim valuation performed annually. The most recent interim valuation was carried out on 30 June 2013 which, for the purposes of IAS 19: Employee Benefits, was rolled forward to 31 December. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

On 18 December 2013 the Board agreed to increase the accrual rate for all past and future service for all members who are in active service as at 1 April 2014. In addition, any members who were in active service as of 1 January 2013 and who are eligible to retire with an unreduced benefit before 1 April 2014 will also have their benefits increased to the new accrual rate. The impact of this increased accrual rate has been reflected in the past service costs shown below.

The primary risk associated with the FSP is that its assets will fall short of its liabilities. This risk, encompassing market risk and credit risk associated with the its investments and the liquidity risk associated with the payment of defined obligations as they fall due is borne by the Bank as the FSP is fully funded by the Bank. Responsibility for the investment strategy of the Scheme rests with the Retirement Plan Investment Committee (the "RPIC").

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the FSP assets and to maximise the opportunity for gains across the whole investment portfolio. This is achieved through asset diversification to reduce exposure to market risk and credit risk to an acceptable level. For example, the non-cash and government bond investment holdings held by the FSP are fund-based investments that diversify their exposure to a number of underlying investments.

The RPIC passively manages credit risk by selecting investment funds which invest in gilts rather than corporate bonds. To mitigate against market risk the RPIC meets quarterly with the FSP's investment advisor to review the performance of all of the funds against their benchmarks. No asset-liability matching strategies are undertaken in relation to the FSP.

If, at the effective date of any actuarial valuation, the value of the plan's assets is less than the liabilities, it is the Bank's policy to review the funding status of the FSP and decide if a recovery plan should be put in place. Typically, such a recovery plan would include either anticipated investment out-performance, additional contributions from the Bank, or both. In the event that the plan assets are estimated to have fallen below 90 per cent of the defined benefit obligation, the Bank would expect to make additional contributions to restore the funding of the plan to at least 90 per cent as soon as possible.

Amounts recognised in the balance sheet are as follows:

	2013 € million	Restated 2012 € million
Fair value of plan assets	289	257
Present value of the defined benefit obligation	(289)	(247)
Net defined benefit asset at 31 December	-	10
Movement in the net defined benefit asset (included in "Other assets"):		
At 1 January	10	14
Exchange differences	-	2
Contributions paid ⁴⁹	22	21
Total expense as below	(34)	(22)
Remeasurement effects recognised in OCI	2	(5)
At 31 December	-	10
The amounts recognised in the income statement are as follows:		
Current service cost	(25)	(23)
Net finance income	1	1
Past service cost	(10)	-
Total included in staff costs	(34)	(22)

⁴⁹ Contributions for 2014 are expected to be €23 million.

Principal actuarial assumptions used:

	2013	2012
Discount rate	4.10%	3.70%
Expected return on plan assets	4.10%	5.10%
Future salary increases	4.25%	3.5%
Weighted average duration of the defined benefit obligation	11 years	11 years

Sensitivity analysis on the key actuarial assumptions:

	Assumption	Sensitivity	Effect on DBO € million
Discount rate	4.10%	+/- 0.5% pa	(14)/16
Price inflation	3.25%	+/- 0.25% pa	7/(7)

These sensitivity analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as the assumptions may be correlated.

	2013 Quoted € million	2013 Unquoted € million	2013 Total € million	2012 Quoted € million	2012 Unquoted € million	2012 Total € million
Plan asset allocation						
Equities	132	28	160	117	26	143
Index-linked bonds	103	-	103	90	-	90
Commodities	-	14	14	-	13	13
Other	-	12	12	-	11	11
Cash	-	-	-	-	-	-
Total	235	54	289	207	50	257

	2013 € million	Restated 2012 € million
Changes in the present value of the defined benefit obligation are as follows:		
Present value of defined benefit obligation at 1 January	(247)	(206)
Service cost	(25)	(23)
Interest cost	(9)	(9)
Past service cost	(10)	-
Effect of exchange rate movement	5	(5)
Actuarial loss arising due to changes in assumptions ⁵⁰	(11)	(10)
Benefits paid	8	6
Present value of defined benefit obligation at 31 December	(289)	(247)

	2013 € million	2012 € million
Changes in the fair value of plan assets are as follows:		
Fair value of plan assets at 1 January	257	220
Interest income on plan assets	10	11
Return on assets greater/(less) than discount rate	14	5
Effect of exchange rate movement	(6)	6
Contributions paid	22	21
Benefits paid	(8)	(6)
Present value of plan assets at 31 December	289	257

⁵⁰ All actuarial losses relate to changes in financial assumptions.

History of experience gains and losses	2013 € million	2012 € million	2011 € million	2010 € million	2009 € million
Defined benefit obligation	(289)	(247)	(206)	(162)	(137)
Plan assets	289	257	220	199	166
Surplus	-	10	14	37	29
Experience (losses)/gains on plan liabilities:					
Amount	(10)	(5)	(16)	2	1
Percentage of the present value of the plan liabilities	(3.3%)	(2.2%)	(7.6%)	1.2%	1.1%
Actual return less expected return on plan assets:					
Amount	14	5	(4)	9	18
Percentage of the present value of the plan assets	4.7%	2.1%	(1.9%)	4.5%	11.0%

Defined contribution scheme

The charge recognised under the MPP was €13 million (2012: €12 million) and is included in “General administrative expenses”.

Other long-term employee benefits

The Bank maintains a medical retirement benefit plan to provide staff retiring from the Bank, aged 50 or over and with at least seven years’ service, with a lump sum benefit to help purchase medical insurance cover. The total charge for the year calculated under IAS 19 was €0.5 million (2012: €2 million).

31. Related parties

The Bank has the following related parties:

Key management personnel

Key management personnel comprise: the President and Vice Presidents; members of the Bank’s Executive Committee; Director of the President’s Office; Managing Directors; the Treasurer; the Controller; the Head of Internal Audit; the Chief Evaluator; and the Chief Compliance Officer.

In sterling terms, salaries and other benefits paid to key management personnel in 2013 amounted to £11 million (2012: £10 million). This comprises salary and employee benefits of £9 million (2012: £8 million) and post-employment benefits of £2 million (2012: £2 million).

Venture capital associates

The Bank has invested in a number of venture capital associates that it accounts for at fair value through profit or loss. At 31 December 2013, according to the most recently audited financial statements (and where these are not available, the most recent unaudited management information) from the investee companies, these venture capital associates had total assets of €38.1 billion (2012: €36.0 billion) and total liabilities of €29.7 billion (2012: €26.2 billion). For the year ended 31 December 2013, these associates had income of €8.6 billion (2012: €7.8 billion) and made a net profit before tax of €639 million (2012: €541 million).

In addition, the Bank has provided €60.2 million (2012: €115.0 million) of financing to these companies on which it received €2.8 million (2012: €2.0 million) of interest income during the year.

Set out below is summarised financial information for each venture capital associate deemed material to the Bank. The information presented is based on the latest set of audited financial statements available at the time for each company which was 31 December 2012.

	Lenta Ltd€ million	Privredna banka Zagreb d.d€ million
The Bank's ownership percentage	21.5%	20.9%
Principal place of business	Russia	Croatia
Summarised balance sheet		
Current assets	449	1,289
Current liabilities	662	6,415
Non-current assets	767	8,229
Non-current liabilities	572	1,425
Summarised income statement		
Revenue	2,462	719
Profit or loss from continuing operations	116	133
Other comprehensive income	-	3
Total comprehensive income	116	136
Dividends	23	-

Special Funds

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered under the terms of the rules and regulations for each such Special Fund. At 31 December 2013 the Bank administered 16 Special Funds (2012: 16 Funds) with aggregate pledged contributions amounting to €1.1 billion (2012: €1.0 billion).⁵¹

The Bank acts as manager and administrator of the Special Funds for which it receives management and cost recovery fees. In 2013 these fees amounted to €1.5 million (2012: €0.3 million).

The Bank pays for guarantees from certain Special Funds in respect of specific exposures arising in its trade finance portfolios for which it paid €0.1 million in 2013 (2012: €0.2 million). In addition, the Bank also benefits from fee-free guarantee arrangements with certain Special Funds for losses which it could potentially incur in its investment activities. The provision of these guarantees qualifies such Special Funds as 'unconsolidated structured entities' within the meaning of IFRS 12. The Bank's only exposure to these Special Funds would arise in the period between recognising a guarantee receivable on its balance sheet and the settlement of that receivable.

At 31 December 2013 the Bank had no such exposure (2012: nil).

Audit fees payable to the Bank's auditor for the 2013 audits of the Special Funds totalled €111,000 (2012: €110,000).

The financial statements of each Special Fund are approved separately by the Board of Governors at the Bank's Annual Meeting.

⁵¹ This excludes the SEMED Investment Special Fund. See note 33 for an explanation of this fund.

32. Other fund agreements

Technical Cooperation and Carbon Funds

In addition to the Bank's ordinary operations and the Special Funds programme, the Bank administers numerous bilateral and multilateral contribution agreements to provide technical assistance and investment support grants in the existing and potential countries in which it invests. These grants focus primarily on project preparation, project implementation (including goods and works), advisory services and training. The resources provided through these contribution agreements are held separately from the ordinary capital resources of the Bank and are subject to external audit.

The table below provides a summary of these Funds.

	2013 Cumulative contributions pledged € million	2013 Cumulative contributions received € million	2013 Cumulative disbursements € million	2013 Cumulative No. of Funds	2012 Cumulative contributions pledged € million	2012 Cumulative contributions received € million	2012 Cumulative disbursements € million	2012 Cumulative No. of Funds
Technical Cooperation	2,783	2,504	1,523	389	2,474	2,236	1,409	364
Carbon	231	147	95	3	231	147	88	3
Total	3,014	2,651	1,618	392	2,705	2,383	1,497	367

Nuclear Funds

Following a proposal by the G-7 countries for a multilateral programme of action to improve safety in nuclear power plants in the countries in which the Bank invests, the Nuclear Safety Account (NSA) was established by the Bank in March 1993. The NSA funds are in the form of grants and are used for funding safety improvement measures.

At their Denver Summit in June 1997, the G-7 countries and the European Union endorsed the setting up of the Chernobyl Shelter Fund (CSF). The CSF was established on 7 November 1997, when the rules of the CSF were approved by the Board of Directors. It became operational on 8 December 1997, when the required eight contributors had entered into contribution agreements with the Bank. The objective of the CSF is to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system.

In 1999, in pursuit of their policy to accede to the European Union, Lithuania, Bulgaria and the Slovak Republic gave firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 reactors by certain dates. In response to this, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants over a period of 8 to 10 years, and invited the Bank to administer three International Decommissioning Support Funds (IDSFs). On 12 June 2000, the Bank's Board of Directors approved the rules of the Ignalina, Kozloduy and Bohunice IDSFs and the role of the Bank as their administrator. The funds will finance selective projects to help carry out the first phase of decommissioning the designated reactors. They will also finance measures to facilitate the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency that are a consequence of the closure decisions.

In 2001, the Nordic Investment Bank hosted a meeting with participants from Belgium, Finland, Sweden, the European Commission and international financial institutions with activities in the Northern Dimension Area (NDA). At this meeting, participants agreed to establish the Northern Dimension Environmental Partnership (NDEP) to strengthen and coordinate financing of important environmental projects with cross-border effects in the NDA. On 11 December 2001, the Bank's Board of Directors approved the rules of the NDEP Support Fund and the role of the Bank as fund manager.

The table below provides a summary of these funds.

	2013 Contributions pledged € million	2013 No. of contributors	2012 Contributions pledged € million	2012 No. of contributors
Nuclear Safety Account	367	17	352	17
Chernobyl Shelter Fund	1,295	26	1,125	26
Ignalina IDSF	770	16	752	16
Kozloduy IDSF	883	11	808	11
Bohunice IDSF	623	9	559	9
NDEP*	352	12	346	12

* The NDEP includes a nuclear and non-nuclear window.

The cash balances belonging to each of the funds in the table above are managed by the Bank on their behalf.⁵²

Audit fees payable to the Bank's auditor for the 2013 audits of the technical cooperation and Nuclear Safety funds amounted to €0.4 million (2012: €0.4 million).

33. Results from ordinary operations

In 2012, an amendment to Article 18 of the Agreement which enables the Bank to carry out special operations in member countries of the SEMED region entered into force. To enable this work, the SEMED ISF was established by the EBRD Board of Directors. Following this, the Board of Governors approved a net income allocation of €1.0 billion for the SEMED ISF pursuant to Article 36.1 of the Agreement.

For financial reporting purposes under IFRS, the Bank retains control of any funds transferred to the SEMED ISF and accordingly such amounts are recognised in its financial statements. As such, the Bank's results include those from ordinary operations and its activities in potential countries of operations. Excluding the latter, the results from ordinary operations are disclosed below:

Income statement from ordinary operations

	Year to 31 December 2013 € million	Restated Year to 31 December 2012 € million
For the year ended 31 December 2013		
Interest and similar income		
From Banking loans	996	1,040
From fixed-income debt securities and other interest	99	166
Interest expense and similar charges	(90)	(155)
Net interest expense on derivatives	(162)	(176)
Net interest income	843	875
Net fee and commission income	25	32
Dividend income	105	87
Net gains/(losses) from share investments at fair value through profit or loss	379	274
Net gains from loans at fair value through profit or loss	1	11
Net gains from loans at amortised cost	3	1
Net losses from Treasury assets held at amortised cost	(7)	(16)
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	109	103
Fair value movement on non-qualifying and ineffective hedges	45	69
Impairment provisions on Banking loan investments	(123)	(118)
Impairment provisions on guarantees	(5)	-
General administrative expenses	(311)	(268)
Depreciation and amortisation	(26)	(25)
Net profit for the year from continuing operations	1,038	1,025
Transfers of net income approved by the Board of Governors	(65)	(190)
Net profit after transfers of net income approved by the Board of Governors	973	835
Attributable to:		
Equity holders	973	835

⁵² See Note 23.

Balance sheet related to ordinary operations

At 31 December 2013	€ million	31 December 2013 € million	€ million	Restated 31 December 2012 € million
Assets				
Placements with and advances to credit institutions	7,149		7,279	
Debt securities				
At fair value through profit or loss	139		175	
At amortised cost	12,398		12,243	
Less: Provisions for impairment	-		(8)	
	12,537		12,410	
Collateralised placements	247		600	
		19,933		20,289
Other financial assets				
Derivative financial instruments	3,094		4,671	
Other financial assets	300		295	
		3,394		4,966
Loan investments				
<i>Banking portfolio:</i>				
Loans at amortised cost	19,402		19,333	
Less: Provisions for impairment	(806)		(734)	
Loans at fair value through profit or loss	223		247	
		18,819		18,846
Share investments				
<i>Banking portfolio:</i>				
At fair value through profit or loss	6,481		6,645	
		6,481		6,645
<i>Treasury portfolio:</i>				
Share investments at fair value through other comprehensive income	63		64	
		6,544		6,709
Intangible assets		39		41
Property, technology and office equipment		44		42
Paid-in capital receivable		10		12
Total assets		48,783		50,905
Liabilities				
Borrowings				
Amounts owed to credit institutions and other third parties	1,543		3,086	
Debts evidenced by certificates	29,659		31,824	
		31,202		34,910
Other financial liabilities				
Derivative financial instruments	2,475		1,752	
Other financial liabilities	405		530	
		2,880		2,282
Total liabilities		34,082		37,192
Members' equity attributable to equity holders				
Paid-in capital		6,202		6,202
Reserves and retained earnings		8,499		7,511
Total members' equity		14,701		13,713
Total liabilities and members' equity		48,783		50,905
Memorandum items				
Undrawn commitments		11,290		10,866

34. Post-balance sheet events

There have been no material post-reporting date events that would require disclosure or adjustment to these financial statements.

Responsibility for external financial reporting

Management's responsibility

Management's report regarding the effectiveness of internal controls over external financial reporting

The management of the European Bank for Reconstruction and Development (the Bank) is responsible for the preparation, integrity, and fair presentation of its published financial statements and associated disclosures presented in this Financial Report. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The financial statements have been audited by an independent accounting firm, which has been given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. Management believes that all representations made to the external auditor during its audit were valid and appropriate. The external auditor's report accompanies the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with IFRS. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting – which are subject to scrutiny and testing by management and are revised, as considered necessary, taking account of any related internal audit recommendations – support the integrity and reliability of the financial statements.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statements. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Bank's Board of Directors has appointed an Audit Committee, which assists the Board in its responsibility to ensure the soundness of the Bank's accounting practices and the effective implementation of the internal controls that management has established relating to finance and accounting matters. The Audit Committee is comprised entirely of members of the Board of Directors. The Audit Committee meets periodically with management in order to review and monitor the financial, accounting and auditing procedures of the Bank and related financial reports. The external auditor and the internal auditor regularly meet with the Audit Committee, with and without other members of management being present, to discuss the adequacy of internal controls over financial reporting and any other matters that they believe should be brought to the attention of the Audit Committee.

The Bank has assessed its internal controls over external financial reporting for 2013. Management's assessment includes the Special Funds and other fund agreements referred to in notes 31 and 32 of the *Financial Report 2013*, and the retirement plans. However, the nature of the assessment is restricted to the controls over the reporting and disclosure of these funds/plans within the Bank's financial statements, rather than the operational, accounting and administration controls in place for each fund.

The Bank's assessment was based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (1992 framework). Based upon this assessment, management asserts that at 31 December 2013 the Bank maintained effective internal controls over its financial reporting as contained in the *Financial Report 2013*.

The Bank's external auditor has provided an audit opinion on the fairness of the financial statements presented within the *Financial Report 2013*. In addition, it has issued an attestation report on management's assessment of the Bank's internal control over financial reporting, as set out on page 74.



Suma Chakrabarti
President



Manfred Schepers
Vice President and Chief Financial Officer

European Bank for Reconstruction and Development
London
26 February, 2014

Report of the independent auditor

To the Governors of the European Bank for Reconstruction and Development

We have examined management's assessment that the European Bank for Reconstruction and Development (the Bank) maintained effective internal controls over financial reporting as contained in the Bank's *Financial Report 2013*, based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (1992 framework). Management is responsible for maintaining effective internal controls over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assertion over the effectiveness of the Bank's internal control over financial reporting, based on our examination.

We conducted our examination in accordance with the International Standard on Assurance Engagements (ISAE) 3000. Our examination included obtaining an understanding of internal control over financial reporting, evaluating management's assessment and performing such other procedures as we considered necessary in the circumstances. We believe that our work provides a reasonable basis for our opinion.

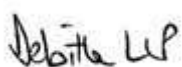
A bank's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal controls over financial reporting include those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with the authorisation of the bank's management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, management's assertion that the Bank maintained effective internal control over financial reporting, included within the Responsibility for external financial reporting section of the Bank's *Financial Report 2013* is fairly stated, in all material respects, based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (1992 framework).

This report, including the opinion, has been prepared for, and only for, the Board of Governors as a body in connection with management's attestation for maintaining effective internal controls over financial reporting and for no other purpose.

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.



Deloitte LLP

Chartered Accountants
London, United Kingdom
26 February 2014

Independent auditor's report to the Governors of the European Bank for Reconstruction and Development

Report on the financial statements

We have audited the financial statements of the European Bank for Reconstruction and Development (the Bank) for the year ended 31 December 2013 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows, the accounting policies, the related notes 1 to 34 and the risk management statement. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

President's responsibility for the financial statements

The President is responsible for the preparation and fair presentation of the Financial Statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as the President determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion the Financial Statements present fairly, in all material respects, the financial position of the Bank at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Other reporting responsibilities

We also report to you if, in our opinion, the financial results section of the *Financial Report 2013* is not consistent with the Financial Statements, if the proper accounting records for the Bank have not been kept, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the *Financial Report 2013* and consider whether it is consistent with the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We have nothing to report to you in connection with these matters.

Other matters

This Report, including the opinion, has been prepared for, and only for, the Board of Governors as a body in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this Report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.



Deloitte LLP
Chartered Accountants
London, United Kingdom
26 February 2014

Notes

Controller's office

Nigel Kerby

Terry Cullen

Editorial production

Lucy Plaskett

Stuart Roberts

Jane Ross

Helen Valvona

Design and print management

Daniel Kelly

Katja Rosenberg

European Bank for Reconstruction and Development

One Exchange Square

London EC2A 2JN

United Kingdom

Switchboard/central contact

Tel: +44 20 7388 6000

Fax: +44 20 7338 6100

Information requests

For information requests and general enquiries, please use the form at www.ebrd.com/inforequest

Project enquiries

Tel: +44 20 7338 7168

Fax: +44 20 7338 7380

Email: projectenquiries@ebrd.com

EBRD publications

Tel: +44 20 7338 7553

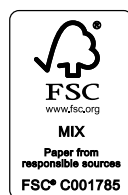
Fax: +44 20 7338 6102

Email: pubsdesk@ebrd.com

Web site

www.ebrd.com

Printed in England by Park Communications which operates an environmental waste and paper recycling programme. The *Financial Report 2013* is printed on Core Silk containing 100 per cent virgin fibre sourced from responsibly-managed, FSC® certified forests. The cover is printed on Vision Superior. Park Communications is an EMAS certified company and its Environmental Management System is certified to ISO 14001.



397 Financial Report 2013 (E/2,000)

© European Bank for Reconstruction and Development

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means including photocopying and recording, without the written permission of the copyright holder. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature. Applications for such permission should be addressed to permissions@ebrd.com

WWW.EBRD.COM/FINANCIALREPORT

European Bank for Reconstruction and Development
One Exchange Square London EC2A 2JN United Kingdom
Tel: +44 20 7338 6000 Fax: +44 20 7338 6100
Requests for publications: pubsdesk@ebrd.com

FINANCIAL REPORT 2013



European Bank
for Reconstruction and Development