

# FINANCIAL REPORT 2015



**European Bank**  
for Reconstruction and Development



FR-EBRD.COM



The *Financial Report 2015* 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, the Western Balkans and the southern and eastern Mediterranean region. With an emphasis on working 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

Highlights

## 4 Financial results

### 7 Key financial indicators: 2011-15

Financial results

## 8 Additional reporting and disclosures

Additional reporting

## 13 Financial statements

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

Financial statements

- 77 Responsibility for external financial reporting
- 78 Report of the independent auditor

External financial reporting

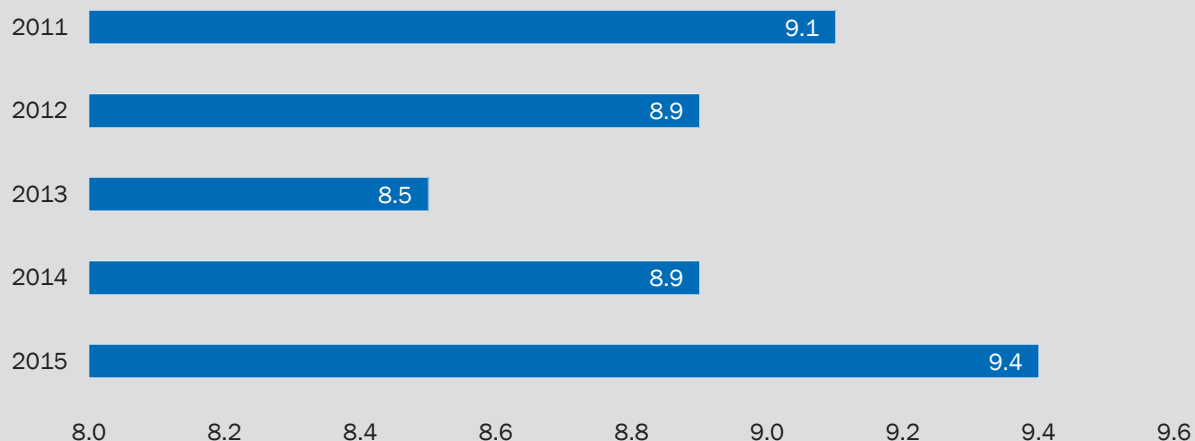
## 79 Independent auditor's report to the Governors

Independent auditor's report

# Highlights

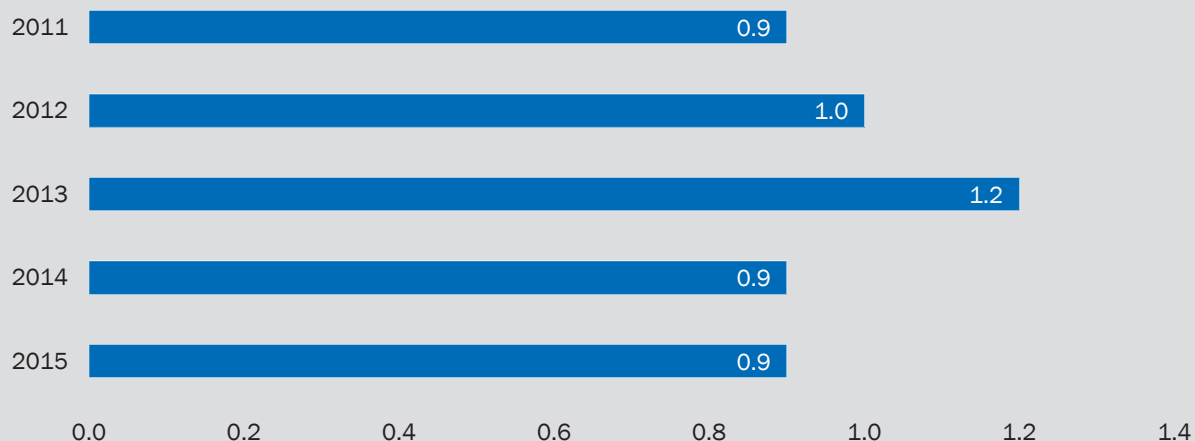
## EBRD annual Bank investment 2011-15<sup>1</sup>

€ billion



## Realised profit for the year before impairment 2011-15<sup>2</sup>

€ billion



<sup>1</sup> Volume of commitments made by the Bank during the year. This includes (i) new commitments (less any amount cancelled or syndicated within the year); (ii) restructured commitments; and (iii) trade finance (TFP) amounts issued during the year and outstanding at year-end.

<sup>2</sup> Realised profit before impairment is before unrealised fair value adjustments to share investments, provisions, loan write-offs, other unrealised amounts and transfers of net income.

## Financial results 2011-15

€ million	2015	2014	2013	2012	2011
Realised profit before impairment	949	927	1,169	1,007	866
Net profit/(loss) before transfers of net income approved by the Board of Governors	802	(568)	1,012	1,021	173
Transfers of net income approved by the Board of Governors	(360)	(155)	(90)	(190)	-
Net profit/(loss) after transfers of net income approved by the Board of Governors	442	(723)	922	831	173
Paid-in capital	6,202	6,202	6,202	6,202	6,199
Reserves and retained earnings	8,384	7,947	8,674	7,748	6,974
Total members' equity	14,586	14,149	14,876	13,950	13,173

## Operational results 2011-15

	2015	2014	2013	2012	2011
Number of projects <sup>3</sup>	381	377	392	393	380
Annual Bank investment (€ million)	9,378	8,853	8,498	8,920	9,051
Non-EBRD finance (€ million)	21,767	13,867	13,488	17,372	20,802
Total project value <sup>4</sup> (€ million)	30,303	20,796	20,527	24,871	29,479

<sup>3</sup> The number of projects to which the Bank made commitments in the year.

<sup>4</sup> 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.

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# Financial results

In 2015 the EBRD recorded a net realised profit of €0.9 billion before provisions, unrealised losses on share investments and other unrealised amounts (2014: €0.9 billion profit). The main contributor to realised profit is the Bank's strong net interest income.

Including provisions and unrealised amounts, the Bank recorded a net profit, before income allocations, of €0.8 billion for 2015 (2014: €0.6 billion net loss). The turnaround was due primarily to the return to profitability of the Bank's equity investment portfolio together with a strong operating profit from Treasury and a net release of general provisions following a review of the associated estimation techniques.

The net profit, after income allocations of €360 million approved by the Bank's Board of Governors (2014: €155 million), resulted in reserves of €8.4 billion at the end of 2015, up from €7.9 billion at the end of 2014.

The EBRD continues to enjoy a AAA rating, reaffirmed by all three major rating agencies in 2015.



## Bank operations

### Operational results

Annual Bank investment<sup>5</sup> amounted to €9.4 billion<sup>6</sup> in 2015, comprising 381 investment operations<sup>7</sup> and activity in 65 trade finance agreements under the 2015 trade facilitation programme (2014: €8.9 billion, 377 investment operations and 80 trade finance agreements).

The EBRD invested in 35 countries in 2015 with investment by region as follows: €1.9 billion in Turkey; €1.7 billion in eastern Europe and the Caucasus; €1.5 billion in southern and eastern Mediterranean; €1.4 billion in Central Asia; close to €1.3 billion in south-eastern Europe; €1.2 billion in central Europe and the Baltic states; and €0.4 billion in Cyprus and Greece combined. In addition the Bank supported three existing operations in Russia with €0.1 billion of investment.

The EBRD continued to support key economic sectors in line with its operational strategy. In 2015 annual Bank investment in the financial sector reached close to €3.0 billion, with priority given to financing small and medium-sized enterprises (SMEs). A further €2.6 billion was invested in the energy sector, €2.1 billion in the diversified corporate sectors and €1.8 billion in the infrastructure sector.

The Bank's portfolio of investment operations (including undisbursed commitments) increased from €38.7 billion in 2014 to €41.6 billion by the end of 2015 with finance provided through new investment operations significantly exceeding reflows from existing investment operations and cancellations of unutilised amounts.

Gross disbursements reached €6.5 billion in 2015, equivalent to the 2014 level. Loan repayments of €4.4 billion (2014: €4.7 billion) and equity divestments of €1.0 billion (2014: €1.2 billion) resulted in operating assets<sup>8</sup> of €28.6 billion at end 2015, up from €27.2 billion at end 2014. Operating assets comprised €22.5 billion of disbursed outstanding loans (2014: €21.0 billion) and €6.1 billion of disbursed outstanding equity investments at historic cost (2014: €6.2 billion) at 31 December 2015.

The Bank's projects included additional non-EBRD finance of approximately €21.8 billion in 2015 (2014: €13.9 billion). Of this, the Bank directly mobilised €2.3 billion of investment from co-financiers, principally through €1.6 billion of syndicated loans using the Bank's A/B loan structure (2014: €0.9 billion) with the balance representing arranged finance. In addition, the Bank's activities remained strongly supported by donor funding, including the Special Funds programme and the technical cooperation funds. These broad-based results reflect an ongoing commitment to the transition of countries in the EBRD region as they build and strengthen open market economies.

<sup>5</sup> Commitments made by the Bank in the year to finance investment operations, including to restructured operations, less cancellations or sales of such commitments with the same year.

<sup>6</sup> As region/sector amounts are individually reported to 1 decimal point, the sum of these amounts may create a rounding difference with the portfolio total.

<sup>7</sup> Investment operations refers to the Bank's loans and equity portfolios at cost together with undrawn commitments.

<sup>8</sup> Operating assets are the total amounts disbursed less reflows. They do not include accounting fair value adjustments or the deferral of fees associated with the origination of amortised cost assets.

### Financial performance

Banking operations recorded a net gain of €809 million<sup>9</sup> for 2015 (2014: loss of €614 million), with the improved performance primarily due to the return to profitability of its equity portfolio. Inclusive of dividend income the equity portfolio contributed a profit of €279 million compared with a loss of €639 million in 2014.

Banking's result also benefitted from a revision to the Bank's methodology for estimating unidentified impairment provisions<sup>10</sup> which resulted in a one-off release of €329 million in provisions which, combined with provision charges, returned an overall net release of €120 million for the year (2014: net charge of €440 million).

The loan book continued to generate strong net interest income, returning €827 million against €772 million in 2014.

## Treasury operations

### Portfolio

The value of assets under Treasury management at 31 December 2015 was €23.8 billion (2014: €22.5 billion). The size of Treasury's balance sheet is primarily driven by the requirements of the Bank's internal liquidity policies while fluctuations in foreign exchange rates, in particular the euro against the United States dollar, also has an impact on stated figures.

### Financial performance

After allowing for the impact of hedge accounting adjustments, Treasury returned a loss of €7 million (2014: a profit of €46 million). For performance measurement purposes, Treasury is internally evaluated on its performance excluding hedge accounting, which is considered an accounting technicality.<sup>11</sup>

Treasury's operating profit for 2015 – before hedge accounting adjustments – was €164 million (2014: €80 million). Treasury's strong performance is primarily driven by the generation of net interest income and the mark-to-market of derivatives used to manage interest rate and currency risks in the Bank's balance sheet.

## Capital

The Bank's authorised share capital is €30.0 billion (2014: €30.0 billion). At 31 December 2015, subscribed capital was €29.7 billion (2014: €29.7 billion). Paid-in capital was €6.2 billion at 31 December 2015 (2014: €6.2 billion), of which €12 million was overdue (2014: €11 million).<sup>12</sup>

The calculation of capital for gearing purposes under the Agreement Establishing the Bank is explained under the Capital Management section of this report on page 49.

<sup>9</sup> See note 2 on page 55 for further detail.

<sup>10</sup> See Accounting Policies Section C on page 24 for more details.

<sup>11</sup> See note 9 to the financial statements on page 58 for a full explanation.

<sup>12</sup> The increase in paid-in capital overdue during 2015 is solely attributable to the weakening of the euro versus the United States dollar.

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## Reserves

The Bank's reserves increased from €7.9 billion at the end of 2014 to €8.4 billion at the end of 2015.

## Expenses

General administrative expenses for 2015, inclusive of depreciation and amortisation, were €431 million (2014: €355 million). The increase reflects the weakening of the euro versus the pound sterling which is the currency in which expenses are predominantly incurred. The pound sterling component of this figure was £332 million (2014: £300 million).

## Outlook for 2016

The Bank expects its net realised profit before impairment to remain relatively stable. However geopolitical uncertainty in the Bank's region of operations is likely to continue to contribute to volatility in the Bank's earnings. This volatility will typically be hardest felt in the valuations of the Bank's equity portfolio and the level of provisioning against its Banking loan book.



# Key financial indicators 2011-15

Key financial indicators are presented for the Bank over the last five years. These ratios are influenced by the growth in portfolio and annual Bank investment over 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 a high degree of volatility due, in particular, to movements in the valuations of share investments. Excluding these movements – together with unrealised fair value movements on Banking loans also measured at fair value – the Bank has continued to grow its members' equity despite overall difficult market conditions achieving an average return on equity of 5.7 per cent over the last five years (2010-2014: an average of 6.3 per cent). The Bank's non-performing loan ratio increased marginally to 5.9 per cent at 31 December 2015 from 5.6 per cent a year earlier.

In terms of cost efficiency, the cost-to-income ratio has increased to 31 per cent in 2015 compared with 28 per cent a year earlier. This mainly reflects the increase in general administrative expenditure which was adversely affected by the weakening of the euro against the pound sterling, the currency in which the Bank's expenses are predominately incurred (see notes to financial statements on page 59).

Leverage – debt divided by members' equity – has remained relatively stable at 2.5 times at 31 December 2015 (2014: 2.5 times).

The Bank's capital strength is illustrated by the level of members' equity, which represented 26.5 per cent of total assets at 31 December 2015 (2014: 26.9 per cent), including Treasury assets with an average risk rating between AA and AA- with an average maturity of 1.3 years. Members' equity represented 55.8 per cent of Banking assets ('development related exposure') at 31 December 2015 (2014: 57.6 per cent).

The Bank's capital strength is further underpinned by its AAA rating with a stable outlook affirmed by all three major rating agencies in 2015.

	2015	2014	2013	2012	2011
<b>Financial performance</b>					
1. Return on members' equity – net profit basis	5.6%	(3.8%)	7.2%	7.8%	0.4%
2. Return on members' equity – realised after provisions	4.9%	3.1%	8.1%	7.0%	5.1%
<b>Efficiency</b>					
3. Cost-to-income ratio	31.2%	27.7%	22.8%	21.6%	25.2%
<b>Portfolio quality</b>					
4. Non-performing loans ratio	5.9%	5.6%	3.3%	3.4%	2.6%
5. Average rating of Treasury liquid assets	2.2	2.3	2.3	2.3	2.2
6. Average maturity of Treasury liquid assets (tenor)	1.3	1.5	1.2	1.0	1.3
<b>Liquidity and leverage</b>					
7. Liquid assets/undisbursed Banking investments plus one-year debt service	92.5%	103.1%	93.5%	85.0%	88.0%
8. Debt/members' equity: leverage ratio	252.8%	250.6%	209.7%	250.3%	241.4%
<b>Capital strength</b>					
9. Members' equity/total assets	26.5%	26.9%	30.3%	27.3%	28.0%
10. Members' equity/Banking assets	55.8%	57.6%	58.6%	54.9%	54.0%

## Explanatory notes on ratios above

- (Total closing members' equity minus total opening members' equity) divided by total opening members' equity. The total closing members' equity is before net income allocations accounted for during the year.
- (Total closing members' equity minus total opening members' equity) divided by total opening members' equity. The unrealised Banking fair value reserves are excluded from both the total closing and opening members' equity. The total closing members' equity is also adjusted for net income allocations accounted for during the year.
- 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.
- Represents the average credit rating weighted by Treasury liquid assets for 2015 to 2012, based on the Bank's internal rating scale. The rating methodology for covered bonds changed in 2015, improving the ratio from 2.4 to 2.2 as disclosed within the Risk Management: credit risk section of this report on page 34. For 2011 the average credit rating was weighted by peak future exposure.
- 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 (ABS) 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 net book value of Banking assets.

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# Additional reporting and disclosures

## Corporate governance

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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 2015 is detailed in the closing pages 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 on the overall management of the Bank in 2015

Management Committees	Chair	Purpose of the Committee	Meeting frequency
<b>Executive Committee</b>	President	Advises on all aspects of Bank strategy, the budget and day-to-day management falling within the competence of the President, with the exception of matters that fall within the competence of other management committees, as defined in their terms of reference.	Fortnightly
<b>Operations Committee</b>	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
<b>Strategy and Policy Committee</b>	Vice President, Policy & Partnerships	Primarily focuses on transition strategy and policy work: country, sector and thematic strategies and related policies, policy products and policy-related research.	Fortnightly
<b>Risk Committee</b>	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 (for example stress testing), approves risk policies and risk reports and considers new Banking/ Treasury products.	Fortnightly
<b>Asset and Liability Committee</b>	Vice President and Chief Financial Officer	Considers all matters of significance in the areas of liquidity policy and management, funding and other Treasury activities, including monitoring business plan implementation, limit compliance and hedging strategy implementation.	Quarterly
<b>Equity Committee</b>	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
<b>Crisis Management Team</b>	Vice President and Chief Administrative 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
<b>Information Technology Governance Committee</b>	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
<b>Procurement Complaints Committee</b>	Deputy General Counsel, Corporate	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 of the Corporate Procurement Policy. Reviews procurement and related matters referred to it by the Executive Committee.	As necessary

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## EBRD Codes of Conduct

The EBRD has a Code of Conduct for Officials of the Board of Directors and a separate Code of Conduct for Bank Personnel, which, respectively, articulate the values, duties and ethical standards the Bank expects of its Board officials and staff. These Codes were last revised, with approval of the Bank's Board of Governors, in February 2012. The Codes of Conduct can be obtained at [www.ebrd.com/integrity-and-compliance.html](http://www.ebrd.com/integrity-and-compliance.html)

## Compliance

The EBRD's Office of the Chief Compliance Officer (OCCO) has been established as a function that is independent of the Bank's operational departments. It is headed by a Chief Compliance Officer (CCO) who reports directly to the President, and to the Audit Committee, quarterly or as necessary. Any decision to remove the CCO (other than for misconduct) shall be taken by the President in accordance with guidance given by the Board of Directors in an Executive Session.

OCCO's mission is to protect the integrity and reputation of the Bank, to promote ethical standards of behaviour and to strengthen the Bank's accountability and transparency. OCCO assists in identifying, assessing, and monitoring integrity risks arising from failure to comply with the Bank's standards and policies, and contributes, in an independent manner, to the Bank's effective management of such risks. OCCO is also responsible for the development and maintenance of the policies and standards it enforces. The EBRD's Integrity Risks Policy and Terms of Reference for OCCO, last revised in June 2014, and available at [www.ebrd.com/downloads/integrity/integrityriskpol.pdf](http://www.ebrd.com/downloads/integrity/integrityriskpol.pdf) sets out, for the benefit of the Bank's stakeholders, the manner in which OCCO helps the Bank to protect its integrity and reputation and to manage integrity risks related to clients and personal conduct related risks.

Financial and integrity due diligence are integrated into the Bank's normal approval of new business and in the monitoring of its existing operations. OCCO provides independent expert advice to management on significant integrity concerns and assesses whether the potential risk is 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 and, where possible, mitigated.

OCCO is further responsible for investigating allegations of staff misconduct as well as allegations of 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), most recently revised to reflect, among other things, the change in the Bank's approach to handling complaints of inappropriate behaviour and the division of responsibility between the CCO as fact-finder and the Managing Director, Human Resources as decision-maker. 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 misconduct on the part of Board officials on the one hand, and on the part of the President, Vice Presidents, Chief Evaluator and the CCO on the other, are dealt with in accordance with the provisions of the Code of Conduct for EBRD Board Officials or the Code of Conduct for EBRD Personnel, respectively.

Allegations of fraud and corruption in relation to activities and projects financed from the Bank's ordinary capital resources (including the purchase of goods, works or services for the Bank) or from Special Funds resources, or from cooperation funds administered by the Bank, are investigated under the Bank's Enforcement Policy and Procedures (EPPs).

The EPPs were significantly revised in 2015. The revisions include the creation of a two-tier decision-making process, the introduction of a settlement process and streamlining the procedures for referring matters to national authorities. In addition, the revised EPPs introduced two new sanctionable practices, namely obstruction and misuse of Bank resources. The EPPs also describe the process by which the Bank applies sanctions imposed by other multilateral development banks pursuant to the Agreement for the Mutual Enforcement of Debarment Decisions. In 2015 the Bank cross-debarred 48 corporations and 20 individuals following debarment decisions issued by the African Development Bank, the Asian Development Bank, the Inter-American Development Bank and the World Bank Group.

In addition, during the course of 2015, a debarment decision was issued pursuant to enforcement proceedings instituted under the EPPs against Gama Power Systems Engineering and Contracting Inc. for a period of one year expiring on 19 July 2016. Details of the individuals, entities and sanctions are posted at [www.ebrd.com/ineligible-entities.html](http://www.ebrd.com/ineligible-entities.html).

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 mechanism also has a problem solving function which can serve to restore dialogue between the project sponsor and the affected members of community. The Project Complaint Mechanism (PCM) is administered by a dedicated PCM Officer; following competitive recruitment, a new PCM Officer was appointed by the President in the spring of 2015 for a five-year term. The role of the CCO, as the head of the Office in which the PCM is located, is limited to ensuring that the PCM Officer carries out the PCM functions and administrative responsibilities according to the PCM rules of procedure. Information about the PCM and registered complaints can be found at [www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism.html](http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism.html).

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 and can be found at [www.ebrd.com/integrity-and-compliance.html](http://www.ebrd.com/integrity-and-compliance.html).

## 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 2015* 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 (2013). 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 and operational risks

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

## External auditor

The external auditor is appointed by the Board of Directors, on the recommendation of the President. In 2014 the Board approved an extension of the term of appointment from four to five years with a maximum of two consecutive terms. Deloitte LLP (UK) completed its first four-year term in 2014 and was re-appointed for the five-year period 2015 - 19.

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 an IFI, to meet the following principles:

- 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 principles, 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

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.

Staff on fixed-term or regular contracts, as well as most of the Board of Directors,<sup>13</sup> 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.

<sup>13</sup> Some Directors and Alternates are paid directly by their constituency and do not participate in the Bank's retirement plans and/or other benefits.

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 (FSP) 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 the FSP). 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.

### 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 gross salaries paid, from which internal tax is deducted, for each of these positions is as follows:

	2015 £ 000	2015 € 000	2014 £ 000	2014 € 000
President	347	481	341	424
First Vice President and Chief Operating Officer	318	441	310	385
Vice President and Chief Financial Officer	290	402	283	351
Vice President and Chief Risk Officer	290	402	283	351
Vice President and Chief Administrative Officer	290	402	283	351
Vice President, Policy <sup>14</sup>	283	392	260	323

### 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:

	2015 £ 000	2015 € 000	2014 £ 000	2014 € 000
Director	146	202	143	178
Alternate Director	121	168	118	147

### Senior management

Key management personnel comprise: members of the Bank's Executive Committee; Managing Directors and the Director of the President's Office. This group, excluding the President and Vice Presidents (for whom information is given above), consists of 36 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 2015 (2014: 22 per cent).

	2015 £ 000	2015 € 000	2014 £ 000	2014 € 000
Minimum	97	134	90	112
Median	180	250	178	221
Maximum	220	305	216	268
No. in group	36	36	34	34

<sup>14</sup> Role changed hands on 12 January 2015.



# Income statement

These financial statements have been approved for issue by the Board of Directors on 24 February 2016.

		Year to 31 December 2015 € million	Year to 31 December 2014 € million
<b>For the year ended 31 December 2015</b>			
Interest and similar income			
From Banking loans		1,127	1,043
From fixed-income debt securities and other interest		81	109
Interest expense and similar charges		(139)	(90)
Net interest expense on derivatives		(170)	(199)
<b>Net interest income</b>	3	899	863
Net fee and commission income	4	28	14
Dividend income		82	109
Net gains/(losses) from share investments at fair value through profit or loss	5	197	(748)
Net (losses)/gains from loans at fair value through profit or loss	6	(44)	3
Net gains from loans at amortised cost		3	7
Net gains from Treasury assets held at amortised cost	7	4	7
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	8	114	4
Fair value movement on non-qualifying and ineffective hedges	9	(171)	(34)
Impairment provisions on Banking loan investments	10	120	(440)
Impairment provisions on guarantees		1	2
General administrative expenses	11	(401)	(329)
Depreciation and amortisation	20,21	(30)	(26)
<b>Net profit/(loss) for the year from continuing operations</b>		802	(568)
Transfers of net income approved by the Board of Governors	26	(360)	(155)
<b>Net profit/(loss) after transfers of net income approved by the Board of Governors</b>		442	(723)
Attributable to:			
<b>Equity holders</b>		442	(723)

Pages 18 to 76 are an integral part of these financial statements.

Highlights

Financial results

Additional reporting

Financial statements

External financial reporting

Independent auditor's report



# Statement of comprehensive income

	Year to 31 December 2015 € million	Year to 31 December 2014 € million
<b>For the year ended 31 December 2015</b>		
<b>Net profit/(loss) after transfers of net income approved by the Board of Governors</b>	442	(723)
<b>Other comprehensive expense</b>		
1. Items that will not be reclassified subsequently to profit or loss		
Share investments designated as fair value through other comprehensive expense	(7)	(1)
Actuarial losses on defined benefit scheme	(6)	(5)
Cash flow hedges	-	(4)
2. Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	-	-
<b>Total comprehensive income/(loss)</b>	429	(733)
Attributable to:		
<b>Equity holders</b>	429	(733)

Pages 18 to 76 are an integral part of these financial statements.

# Balance sheet

At 31 December 2015	Note	31 December 2015 € million	31 December 2014 € million
<b>Assets</b>			
Placements with and advances to credit institutions	12	11,724	10,612
Debt securities	13		
At fair value through profit or loss		747	106
At amortised cost		11,329	11,688
		12,076	11,794
Collateralised placements	14	13	57
		23,813	22,463
Other financial assets	15		
Derivative financial instruments		4,596	4,978
Other financial assets		335	345
		4,931	5,323
<b>Loan investments</b>			
<i>Banking portfolio:</i>			
Loans at amortised cost	16	21,817	20,358
Less: Provisions for impairment	10	(1,083)	(1,209)
Loans at fair value through profit or loss	17	339	338
		21,073	19,487
<b>Share investments</b>			
<i>Banking portfolio:</i>			
At fair value through profit or loss	18	5,033	5,069
<i>Treasury portfolio:</i>			
Share investments at fair value through other comprehensive income	19	63	62
		5,096	5,131
Intangible assets	20	63	43
Property, technology and office equipment	21	50	40
<b>Total assets</b>		<b>55,026</b>	<b>52,487</b>
<b>Liabilities</b>			
Borrowings			
Amounts owed to credit institutions and other third parties	22	2,590	2,534
Debts evidenced by certificates	23	34,280	32,922
		36,870	35,456
Other financial liabilities	24		
Derivative financial instruments		2,993	2,430
Other financial liabilities		577	452
		3,570	2,882
<b>Total liabilities</b>		<b>40,440</b>	<b>38,338</b>
<b>Members' equity attributable to equity holders</b>			
Paid-in capital	25	6,202	6,202
Reserves and retained earnings	26	8,384	7,947
<b>Total members' equity</b>		<b>14,586</b>	<b>14,149</b>
<b>Total liabilities and members' equity</b>		<b>55,026</b>	<b>52,487</b>
<b>Memorandum items</b>			
Undrawn commitments	27	12,959	11,531

Pages 18 to 76 are an integral part of these financial statements.

Highlights

Financial results

Additional reporting

Financial statements

External financial reporting

Independent auditor's report

# Statement of changes in equity

<b>For the year ended 31 December 2015</b>	<b>Subscribed capital € million</b>	<b>Callable capital € million</b>	<b>Fair value through other comprehensive income reserve € million</b>	<b>Cash flow reserves € million</b>	<b>Actuarial remeasurement € million</b>	<b>Retained earnings € million</b>	<b>Total equity € million</b>
At 31 December 2013	29,673	(23,471)	15	4	(3)	8,658	14,876
Total comprehensive loss for the year	-	-	(1)	(4)	(5)	(723)	(733)
Internal tax for the year	-	-	-	-	-	6	6
Capital subscriptions	1	(1)	-	-	-	-	-
<b>At 31 December 2014</b>	<b>29,674</b>	<b>(23,472)</b>	<b>14</b>	<b>-</b>	<b>(8)</b>	<b>7,941</b>	<b>14,149</b>
Total comprehensive income for the year	-	-	(7)	-	(6)	442	429
Internal tax for the year	-	-	-	-	-	8	8
<b>At 31 December 2015</b>	<b>29,674</b>	<b>(23,472)</b>	<b>7</b>	<b>-</b>	<b>(14)</b>	<b>8,391</b>	<b>14,586</b>

Refer to note 26 “Reserves and retained earnings” for a further explanation of the Bank’s reserves.

Pages 18 to 76 are an integral part of these financial statements.

# Statement of cash flows

		Year to 31 December 2015	Year to 31 December 2014
For the year ended 31 December 2015	€ million	€ million	€ million
<b>Cash flows from operating activities</b>			
Net profit/(loss) for the year	442		(723)
Adjustments for:			
Unwinding of the discount relating to impaired identified assets	(30)		(13)
Interest income	(1,178)		(1,139)
Interest expenses and similar charges	309		289
Net deferral of fees and direct costs	98		96
Dividend income	(82)		(109)
Internal tax	7		6
Realised gains on share investments and equity derivatives	(250)		(281)
Unrealised losses on share investments and equity derivatives at fair value through profit or loss	53		1,029
Unrealised losses/(gains) from loans at fair value through profit or loss	44		(3)
Realised gains on Banking loans	(3)		(7)
Realised gains on Treasury investments	(4)		(7)
Fair value movement on hedges	165		34
Unrealised fair value movement	(262)		287
Foreign exchange gains	(1)		-
Depreciation and amortisation	30		26
Loss on disposal of property, technology and office equipment	2		-
Gross provisions charge for Banking loan losses and guarantees	(121)		438
Movement in net income allocations payable	115		-
Adjusted net profit	(666)		(77)
Interest income received	1,056		1,015
Interest expenses and similar charges paid	(276)		(266)
Dividend income received	80		89
(Increase)/decrease in operating assets:			
Prepaid expenses	25		(22)
Proceeds from repayments of Banking loans	6,818		7,406
Funds advanced for Banking loans	(7,743)		(8,250)
Proceeds from sale of Banking share investments and equity derivatives	1,361		1,507
Funds advanced for Banking share investments	(1,082)		(1,052)
Net placements to credit institutions	86		122
Net proceeds from settlement of derivatives	1,633		747
Increase in operating liabilities:			
Accrued expenses	94		22
<b>Net cash from operating activities</b>		1,386	1,241
<b>Cash flows used in investing activities</b>			
Proceeds from debt securities at amortised cost	12,721		15,541
Purchases of debt securities at amortised cost	(12,622)		(14,468)
Proceeds from sale of debt securities held at fair value through profit or loss	1,334		223
Purchases of debt securities held at fair value through profit or loss	(1,026)		(208)
Purchases of intangible assets, property, technology and office equipment	(61)		(26)
<b>Net cash from investing activities</b>		346	1,062
<b>Cash flows from financing activities</b>			
Issue of debts evidenced by certificates	15,454		9,484
Redemption of debts evidenced by certificates	(16,088)		(9,499)
<b>Net cash used in financing activities</b>		(634)	(15)
<b>Net increase in cash and cash equivalents</b>		1,098	2,288
<b>Cash and cash equivalents at beginning of the year</b>		6,435	4,147
<b>Cash and cash equivalents at 31 December<sup>15</sup></b>		7,533	6,435

Cash and cash equivalents are amounts with less than three months to maturity from the date of the transactions, which are available for use at short notice and are subject to insignificant risk of change in value. Within the 31 December 2015 balance is €12 million restricted for technical assistance to be provided to member countries in the southern and eastern Mediterranean (SEMED) region (2014: €14 million).

Pages 18 to 76 are an integral part of these financial statements.

<sup>15</sup> See note 12 on page 60 for total amounts in 'placements with and advances to credit institutions'.

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# 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

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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” on page 21 within the Accounting Policies section. The financial statements have been prepared on a going concern basis. The going concern assessment was made by the Bank’s Board of Directors when approving the Bank’s ‘Strategy Implementation Plan 2016 – 2018’ in December 2015, which analysed the Bank’s liquidity position. The assessment was re-confirmed by the President and VP & CFO on 24 February 2016, 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 judgement in the process of applying the Bank’s policies. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in “Critical accounting estimates and judgements” on page 24 within the section for Accounting Policies.

### **New and amended IFRS mandatorily effective for the current reporting period**

There are no new or amended standards effective for the current reporting period.

### **IFRS not yet mandatorily effective but adopted early**

IFRS 9: ‘Financial Instruments’ is the IASB’s replacement project for IAS 39. The Standard has developed in phases and was completed in July 2014 with a mandatory application date for annual reporting periods beginning on or after 1 January 2018. The Bank adopted the first phase ‘recognition and measurement of financial assets’ (November 2009) in its 2010 financial statements.

See the accounting policy for financial assets on page 20 for more details.

## IFRS not yet mandatorily 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	<p>Classification and measurement of financial liabilities (October 2010).</p> <p>Hedge accounting (November 2013).</p> <p>Impairment methodology and introduction of 'fair value through other comprehensive income' measurement category for financial assets represented by simple debt instruments (July 2014).</p> <p>IFRS 9 to be adopted in its entirety for annual reporting periods beginning on or after 1 January 2018.</p>	The Bank has yet to assess the potential impact of adopting this standard.
Amendments to: IFRS 10: Consolidation Financial Statements and IAS 28: Investments in Associates and Joint Ventures	<p>Provides guidance for the accounting for the loss of control of a subsidiary as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method.</p> <p>Effective for annual reporting periods beginning on or after a date to be determined by the IASB.</p>	The Bank has yet to assess the potential impact of adopting this standard.
Amendments to: IFRS 11: Joint Arrangements	<p>Provides guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.</p> <p>Effective for annual reporting periods beginning on or after 1 January 2016.</p>	The Bank considers that this amendment has no applicability to its existing operations.
IFRS 15: Revenue from Contracts with Customers	<p>Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.</p> <p>Effective for annual reporting periods beginning on or after 1 January 2018.</p>	The Bank has yet to assess the potential impact of adopting this standard.
IFRS 16: Leases	<p>Sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, that is, the customer ('lessee') and the supplier ('lessor').</p> <p>Effective for annual reporting periods beginning on or after 1 January 2019.</p>	The Bank has yet to assess the potential impact of adopting this standard.
Amendments to: IAS 1: Presentation of Financial Statements	<p>Various amendments to improve presentation and disclosure under IAS 1.</p> <p>Effective for annual reporting periods beginning on or after 1 January 2016.</p>	The Bank considers that this standard will have minimal impact on the presentation of its financial statements and the disclosures therein.
Amendments to: IAS 7: Statement of Cash Flows	<p>An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.</p> <p>Effective for annual reporting periods beginning on or after 1 January 2017.</p>	This is a disclosure requirement only which the Bank will comply with in 2017.
Amendments to: IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets	<p>Clarification of acceptable methods of depreciation and amortisation.</p> <p>Effective for annual reporting periods beginning on or after 1 January 2016.</p>	The Bank considers that this standard will have minimal impact on its depreciation and amortisation policies.

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## B. Significant accounting policies

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### 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 that 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.

The Bank also accounts for a small number of strategic equity investments<sup>16</sup> at fair value through other comprehensive income with no recycling of such fair value gains or losses 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.

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<sup>16</sup> See note 19 to the financial statements on page 62.



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 that 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'.

### Contingent liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

### Derivative financial instruments and hedge accounting

The Bank primarily makes use of derivatives for four 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;
- (iii) to provide potential exit strategies for its unlisted equity investments through negotiated put options;
- (iv) through currency swaps, to manage funding requirements for the Bank's loan portfolio.

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.

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### Cash flow hedges

The Bank has engaged in cash flow hedges, principally to minimise the exchange rate risk associated with the fact that its administrative expenses are incurred in the pound sterling. The amount and timing of such hedges fluctuates in line with the Bank's view on opportune moments to execute the hedges. The movement in the fair value of cash flow hedges is recognised directly in reserves until such time as the relevant expenditure is incurred. In December 2015 the Bank purchased in the spot foreign exchange market the pound sterling figure for the 2016 budget. The revaluation of this figure between the date of acquisition and the 31 December 2015 is recognised in this year's income statement within the heading 'fair value movement on non-qualifying and ineffective hedges'. In 2016 the difference between the euro-equivalent value of the pound sterling expenses which will be incurred and the euro-equivalent value of the pound sterling pre-acquired at 31 December 2015 will be reflected as part of the euro-equivalent expenses for the year.

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

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

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 general provision). The methodology used for assessing such impairment is based on a risk-rated approach, with the methodology applied for all sovereign risk assets taking into account the Bank's preferred creditor status afforded by its members. The Bank's methodology calculates impairment on an incurred loss basis.<sup>17</sup> Impairment is deducted from the asset categories on the balance sheet.

The Bank additionally makes transfers within its reserves to maintain a separate loan loss reserve to supplement 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.

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<sup>17</sup> See 'Loss emergence period' on page 25 under 'Critical accounting estimates and judgements'.

## Foreign currencies

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

Foreign currency transactions are initially translated into the 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 euros.

## 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	Between one and 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 its UK headquarters and its resident offices 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. 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 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 that 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.

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## 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.

The defined benefit cost charged to the income statement represents 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 'other comprehensive income'. The net defined benefit or liability recognised on the balance sheet is equal to the actual surplus or deficit of the defined benefit plan.

## 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.

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## 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 outlined below.

### 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 18 on page 62. 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 within the Accounting Policies section of the report and further explained under credit risk within the Risk Management section of the report.

Portfolio provisions for the unidentified impairment of non-sovereign loan investments at 31 December 2015 were €252 million (2014: €538 million).

During 2015 the Bank carried out a review of its loss parameters underpinning estimates of unidentified impairment, with the aim of better reflecting the Bank's loss experience. This review resulted in a reduction in the level of portfolio provisions. The key revisions to these estimates were:

## Probability of default<sup>18</sup>

- In determining the probabilities of default for each risk rating, the relative weighting applied to the Bank's own experience was increased to 67 per cent with a 33 per cent weighting to external data, which marks a change to the equal weighting applied in 2014. The external benchmark data is based on emerging markets data to more appropriately reflect the Bank's assets (with global default data previously being used).

## Loss given default

- The approach taken to assign loss given defaults has been simplified, with an overall reduction in the level of average loss given default. Internal recoveries experience did not support the existing more granular approach and a decision was taken to apply values aligned to those used within the regulatory capital framework. For non-sovereign exposures, fixed values are assigned based on the seniority of the facility.

As an illustration, if these changes to loss parameter estimates had been applied at 31 December 2014, the portfolio provisions for the unidentified impairment of non-sovereign loan investments would have reduced by €283 million from €538 million to €255 million. Of the €283 million reduction, approximately €196 million would have resulted from changes to probability of default estimates and €87 million would have resulted from changes to loss given default estimates. The total reduction, as a result of these changes, in portfolio provisions (including sovereign loan investments) as at 31 December 2014 would have been €290 million. These changes were implemented in 2015 which resulted in a reduction of €329 million in total portfolio provisions. No estimate of the effect these changes may have on future periods has been undertaken on the grounds of impracticability.

In addition, the sensitivity of portfolio provisions at 31 December 2015 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 ratings within the Bank's probability of default rating scale, this would result in a reduction of €208 million (2014: €446 million) in portfolio provisions on non-sovereign loans.
- Conversely, if all non-sovereign loan investments were downgraded by three 'notches' or detailed ratings within the Bank's probability of default rating scale this would result in a charge to the income statement of €447 million (2014: €826 million) in relation to portfolio provisions for non-sovereign loans.

## 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 2015 general provisioning methodology applies a 67 per cent weighting to the Bank's own experience and a 33 per cent weighting to external data. A +/- 10 percentage points change in the weighting assigned to the Bank's own experience would lead to a change in portfolio provisions of +/- €24 million (2014: €60 million).

## 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 €186 million (2014: €388 million).

## Loss given default rates

- A change in loss given default rates of 10 percentage points would lead to a change in portfolio provisions of +/- €55 million (2014: €83 million).

## Sovereign ratings

- Portfolio provisions for the unidentified impairment of sovereign loan investments at 31 December 2015 amounted to €32 million (2014: €40 million). If all sovereign loans were downgraded by three 'notches' or detailed ratings within the Bank's probability of default rating scale this would result in a total charge to income statement of €63 million (2014: €77 million). Similarly, if the portfolio were upgraded this would result in a release to the income statement of €27 million (2014: €32 million).

With respect to specific provisions, an increase or decrease of 10 percentage points on the current provision cover level would have an impact of +/- €125 million (2014: €117 million).

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.

<sup>18</sup> See table showing probability of default ratings used by the Bank in the Credit Risk section under 'Risk Management' on page 28.



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# Risk management

## Financial risks

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### Risk governance

The Bank's overall framework for identification and management of risks is underpinned by independent "second line of defence"<sup>19</sup> control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Social Department, Finance Department, Evaluations Department and other relevant units. An Internal Audit Department acts as "third line of defence" and independently assesses the effectiveness of the processes within the first and second lines of defence. The Vice President Risk and Chief Risk Officer (VP & CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on Risk Management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Risk Committee is chaired by the VP & CRO.

The Managing Director Risk Management reports to the VP & CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the Risk Management policies to facilitate Banking and Treasury operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- Provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied; and
- Support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

### Risks in 2016

Below is a summary of current top and emerging risks identified by the Bank. These are risks that, if they were to crystallise, have the potential to negatively affect the Bank in its mission to carry out its mandate and which would cause a material deterioration in its portfolio. These risks therefore provide a background to understanding the changes in the Bank's risk profile and exposures and are closely monitored by management.

- Material deterioration in global economic outlook driven by slowdown in China and leading to persistent weakening of commodity prices and substantial decline in international trade.
- Prolonged recession in Russia and spill-over effects on Commonwealth of Independent States (CIS). Partly driven by a sustained period of low commodity prices, this would result in further deterioration of economic and fiscal performance in several CIS countries, particularly those heavily reliant on oil exports (for example Kazakhstan and Azerbaijan).
- Fragile macro-financial situation in Ukraine, including the ongoing conflict in the country, its direct impact on the economic performance of the country, cross-border economic linkages, as well as the access to capital for future investments.
- Potential capital outflow from Turkey, driven by domestic political vulnerabilities, escalation of regional conflicts, as well as monetary policy changes in developed markets and shifts in overall sentiment towards emerging markets.
- Radicalisation and threat of terrorist activity in Middle East and beyond, with direct impact on tourism revenues and growth outlooks, as well as indirect effects related to refugee flow, deteriorating investors' sentiment and increasing fiscal pressures.

In carrying out its mission, the Bank is exposed to financial risks through both its Banking and Treasury activities. This is principally credit, market, operational and liquidity risks.

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<sup>19</sup> With the Banking Vice-Presidency being the "first line of defence" in identifying and managing risks related to Banking debt and equity operations and Treasury department being the "first line of defence" in identifying and managing risks related to Treasury exposure.

## 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 arises from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, a particular type of instrument or an individual transaction.

The Bank is exposed to credit risk in both its Banking and Treasury activities, as Banking 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 on the balance sheet, inclusive of the undrawn commitments related to loans and guarantees (see note 27 on page 71).

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

#### Underlying principles and procedures

The Board of Directors approves a document that defines the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board for approval.

#### Individual projects

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President Banking and its membership comprises senior managers of the Bank, including the VP & CRO and the Managing Director Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It 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 Equity Committee acts as the 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.

Risk Management 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. It also reviews the fair value of equity investments.

#### Portfolio level review

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

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and country level (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

#### EBRD internal ratings

##### *Probability of default (PD)*

The Bank assigns its internal risk ratings to all counterparties, including borrowers, investee companies, guarantors, put counterparties and sovereigns in the Banking and Treasury portfolios. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned 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 sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.



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	Risk class 5
	5.0	BB		
	5.3	BB-		
6	5.7	B+	Weak	Risk class 6
	6.0	B		
	6.3	B-		
7	6.7	CCC+	Special attention	Classified
	7.0	CCC		
	7.3	CCC-/CC/C		
8	8.0	D	Non-performing	

#### Loss given default (LGD)

The Bank assigns loss given default percentages on a scale of 0 to 100 determined by the seniority of the instrument in which the Bank invested.

#### Non-performing loans (NPL)

##### NPL definition

An asset is designated as non-performing when either the borrower is more than 90 days past due on payment to any material creditor, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

##### Provisioning methodology

A specific provision is raised on all NPLs accounted for at amortised cost. The provision represents the amount of anticipated loss, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

##### General portfolio provisions

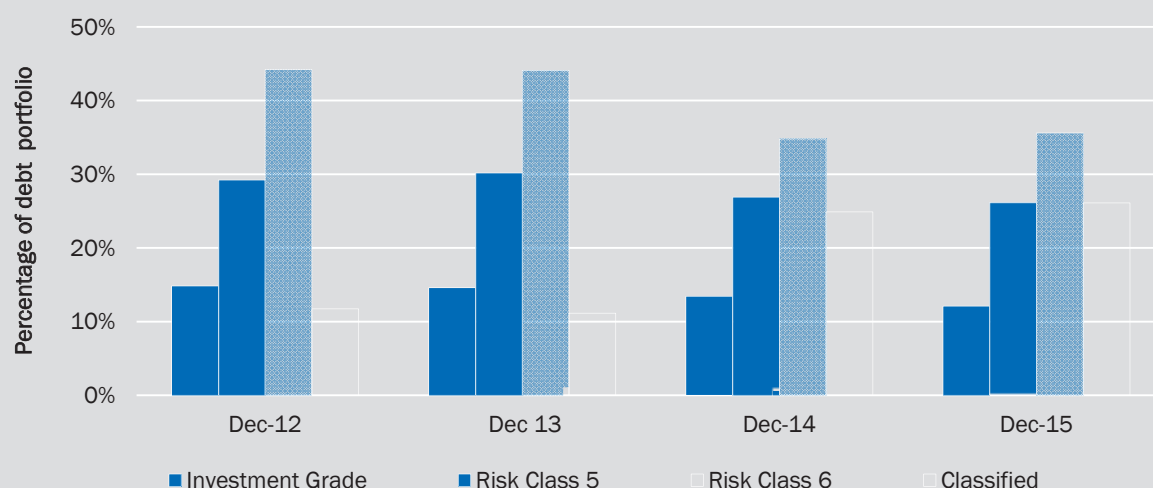
In the performing portfolio, provisions are held against losses incurred but not identified at the balance sheet date. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority and the Exposure at Default (EAD). EAD is calculated based on outstanding operating assets and the expected disbursement of committed but not yet drawn amounts.

#### Credit risk in the Banking portfolio: 2015

Total Banking loan exposure (operating assets including fair value adjustments but before provisions) increased during the year from €20.7 billion at 31 December 2014 to €22.2 billion at 31 December 2015. The total signed Banking loan portfolio and guarantees increased from €30.6 billion at 31 December 2014 to €33.4 billion at 31 December 2015.

The average credit profile of the portfolio deteriorated in 2015 as the weighted average probability of default (WAPD) rating worsened slightly to 5.81 (2014: 5.78). Classified assets (those risk rated 6.7 to 8.0) increased from 24.9 to 26.1 per cent and the absolute level now stands at €8.8 billion (2014: €7.7 billion). This performance largely reflected a deterioration in the economic and political environment since the end of 2014 in the countries where the Bank invests, most notably in Ukraine and Russia.

### Credit risk in the Banking portfolio 2015



NPLs<sup>20</sup> still remain low relative to the average portfolio risk rating, amounting to €1.3 billion or 5.9 per cent of operating assets at year-end 2015 (2014: €1.2 billion or 5.6 per cent). Distressed restructured loans<sup>21</sup> were also relatively low, comprising an additional €516 million or 2.3 per cent of operating assets at year-end 2015 (2014: €568 million or 2.7 per cent). Net write-offs amounted to €60 million in 2015 (2014: €76 million). Write-offs are typically relatively low as the Bank benefits from its strong liquidity and capitalisation to work out distressed loans.

Specific provisions continued to increase in 2015, reflecting the deteriorating macro-financial environment in the countries in which the Bank invests, particularly in Ukraine, Russia and Mongolia which in turn affected the quality of the Bank's portfolio.

Movement in NPLs <sup>22</sup>	2015 € million	2014 € million
Opening balance	1,183	663
Repayments	(216)	(141)
Write-offs	(60)	(76)
New impaired assets	330	679
Other movements	79	58
Closing balance	1,316	1,183

<sup>20</sup> NPLs include impaired loans at amortised cost of €1.2 billion (2014: €1.2 billion) and loans at fair value through profit or loss with an original cost of €69 million (2014: €14 million).

<sup>21</sup> 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 likely have become an impaired loan.

<sup>22</sup> Includes loans at fair value which have no associated specific provisions.

	2015 € million	2014 € million
<b>Movement in specific provisions<sup>23</sup></b>		
Opening balance	631	382
Provision cover	54%	58%
New/increased specific provisions	266	368
Provisions release – repayments	(54)	(19)
Provisions release – restructuring	-	(25)
Provisions release – write-offs	(39)	(73)
Provisions release – loans sold	(20)	(16)
Release against amounts recovered from guarantees	(3)	-
Foreign exchange movement	45	27
Unwinding discount <sup>24</sup>	(27)	(13)
Closing balance	799	631
Provision cover	64%	54%

### 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	11	-	-	11	0.1	-	-	11	-
3: Strong	416	-	-	416	1.9	-	-	416	-
4: Good	2,503	-	-	2,503	11.5	(2)	-	2,501	0.1
5: Fair	6,630	-	-	6,630	30.4	(11)	-	6,619	0.2
6: Weak	7,206	15	-	7,221	33.0	(66)	-	7,155	0.9
7: Special attention	3,774	14	-	3,788	17.4	(205)	-	3,583	5.4
8: Non-performing <sup>25</sup>	-	-	1,248	1,248	5.7	-	(799)	449	64.1
<b>At 31 December 2015</b>	<b>20,540</b>	<b>29</b>	<b>1,248</b>	<b>21,817</b>	<b>100</b>	<b>(284)</b>	<b>(799)</b>	<b>20,734</b>	

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	88	-	-	88	0.4	-	-	88	-
3: Strong	333	-	-	333	1.6	-	-	333	-
4: Good	2,764	-	-	2,764	13.6	(10)	-	2,754	0.4
5: Fair	6,536	-	-	6,536	32.1	(24)	-	6,512	0.4
6: Weak	6,473	42	-	6,515	32.0	(139)	-	6,376	2.1
7: Special attention	2,940	13	-	2,953	14.5	(405)	-	2,548	13.7
8: Non-performing	-	-	1,169	1,169	5.8	-	(631)	538	54.0
<b>At 31 December 2014</b>	<b>19,134</b>	<b>55</b>	<b>1,169</b>	<b>20,358</b>	<b>100.0</b>	<b>(578)</b>	<b>(631)</b>	<b>19,149</b>	

<sup>23</sup> Does not include fair value adjustments on impaired assets carried at fair value.

<sup>24</sup> Reduction in specific provisions due to interest income recognised.

<sup>25</sup> The ratio of amortised cost impaired loans disclosed here is based on the exposure represented on the balance sheet rather than operating assets. Total NPLs including fair value loans were 5.9 per cent of operating assets.

At the end of 2015, €29 million of loans were past due but not impaired. Loans amounting to €20 million were outstanding for less than 30 days while loans amounting to €9 million were outstanding for more than 30 days but less than 90 days (2014: €55 million, all of which were outstanding for less than 30 days).

At 31 December 2015 the Bank had security arrangements in place for €6.9 billion of its loan operating assets (2014: €6.4 billion). It also benefited from guarantees and risk-sharing facilities provided by Special Funds (see note 31 on page 74: Related Parties) which provided credit enhancement of approximately €66 million at the year-end (2014: €88 million).

### 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 2015 € million	Fair value 2014 € million
5: Fair	135	138
6: Weak	124	66
7: Special attention	64	131
8: Non-performing	16	3
<b>At 31 December</b>	<b>339</b>	<b>338</b>

### Undrawn loan commitments and guarantees

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

Risk rating category	Undrawn loan commitments 2015 € million	Guarantees 2015 € million	Undrawn loan commitments 2014 € million	Guarantees 2014 € million
2: Very strong	-	-	53	-
3: Strong	37	-	21	-
4: Good	1,044	-	843	-
5: Fair	2,001	21	1,472	44
6: Weak	4,312	237	3,790	270
7: Special attention	3,088	298	2,923	309
8: Non-performing	147	20	128	5
<b>At 31 December</b>	<b>10,629</b>	<b>576</b>	<b>9,230</b>	<b>628</b>

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

## 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. In 2015 Turkey became the largest country exposure. Yet the Bank is generally well diversified by country apart from its concentration in Turkey, Russia and Ukraine which account for 18.8, 12.4 and 11.3 per cent of loans drawn down respectively (as shown below) and 14.7, 9.4 and 14.4 per cent of the Bank's total loans including undrawn respectively. However, by the nature of the regional focus of the Bank's business model, some groups of countries in which the Bank operates are highly correlated.

	Loans 2015 € million	Undrawn loan commitments and guarantees 2015 € million	Total 2015 € million	Loans 2014 € million	Undrawn loan commitments and guarantees 2014 € million	Total 2014 € million
Albania	225	209	434	267	211	478
Armenia	189	72	261	203	70	273
Azerbaijan	567	470	1,037	489	332	821
Belarus	434	55	489	479	100	579
Bosnia and Herzegovina	583	301	884	588	264	852
Bulgaria	584	102	686	756	114	870
Croatia	751	217	968	766	192	958
Cyprus	-	13	13	-	-	-
Czech Republic	5	-	5	26	-	26
Egypt	627	839	1,466	166	535	701
Estonia	59	40	99	40	24	64
Former Yugoslav Republic of Macedonia	240	596	836	254	500	754
Georgia	397	184	581	324	226	550
Greece	49	-	49	-	-	-
Hungary	272	55	327	288	60	348
Jordan	228	207	435	101	179	280
Kazakhstan	1,370	657	2,027	1,164	532	1,696
Kosovo	16	90	106	19	42	61
Kyrgyz Republic	138	95	233	156	98	254
Latvia	90	23	113	74	43	117
Lithuania	22	-	22	59	-	59
Moldova	142	304	446	147	260	407
Mongolia	488	416	904	370	183	553
Montenegro	171	228	399	164	169	333
Morocco	228	418	646	233	113	346
Poland	1,584	561	2,145	1,405	468	1,873
Romania	1,326	243	1,569	1,345	523	1,868
Russia	2,753	381	3,134	3,497	507	4,004
Serbia	1,064	1,071	2,135	1,012	1,065	2,077
Slovak Republic	387	18	405	417	53	470
Slovenia	173	6	179	168	-	168
Tajikistan	98	237	335	50	116	166
Tunisia	178	38	216	96	71	167
Turkey	4,163	758	4,921	2,911	802	3,713
Turkmenistan	34	8	42	38	4	42
Ukraine	2,505	2,293	4,798	2,594	2,002	4,596
Uzbekistan	16	-	16	30	-	30
<b>At 31 December</b>	<b>22,156</b>	<b>11,205</b>	<b>33,361</b>	<b>20,696</b>	<b>9,858</b>	<b>30,554</b>

## 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 depository credit (banks) constituting a material sector concentration.

	Loans 2015 € million	Undrawn loan commitments and guarantees 2015 € million	Total 2015 € million	Loans 2014 € million	Undrawn loan commitments and guarantees 2014 € million	Total 2014 € million
Agribusiness	2,268	504	2,772	2,181	435	2,616
Depository credit (banks)	5,023	933	5,956	4,942	1,120	6,062
Information and communication technologies	295	21	316	230	31	261
Insurance, pension, mutual funds	55	2	57	58	1	59
Leasing finance	374	126	500	332	134	466
Manufacturing and services	2,486	319	2,805	2,375	341	2,716
Municipal and environmental infrastructure	1,323	998	2,321	1,093	1,036	2,129
Natural resources	1,814	883	2,697	1,498	486	1,984
Non-depository credit (non-bank)	498	52	550	462	8	470
Power and energy	2,804	797	3,601	2,439	1,040	3,479
Property and tourism	292	230	522	370	199	569
Transport	1,889	734	2,623	1,796	532	2,328
Non-sovereign	19,121	5,599	24,720	17,776	5,363	23,139
Sovereign	3,035	5,606	8,641	2,920	4,495	7,415
<b>At 31 December</b>	<b>22,156</b>	<b>11,205</b>	<b>33,361</b>	<b>20,696</b>	<b>9,858</b>	<b>30,554</b>

## Concentration by counterparty

Maximum exposure (after risk transfers) to a non-sovereign economic group was €687 million at year-end 2015 (2014: €647 million). The Bank has a maximum nominal as well as risk-based non-sovereign Banking counterparty exposure limits.

## Credit risk in Treasury: Management

Key risk parameters for funding, cash management, asset and liability management and liquidity risk appetite are approved by the Board of Directors and articulated in the Treasury Authority and Liquidity Policy (TALP). The TALP is the document by which the Board of Directors delegates authority to the VP & CFO to manage and the VP & CRO to identify, measure, monitor and mitigate the Bank's Treasury exposures. The TALP covers all aspects of Treasury activities 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) are approved by the VP & CFO and the VP & CRO to regulate operational aspects of Treasury risk-taking and the related risk management processes and procedures.

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 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 the Audit Committee.

The T&TRMG state the minimum rating and maximum tenor by type of eligible counterparty and set the maximum credit limits per rating. The internal credit rating scale is the same as that used for Banking exposure. The actual credit limit and/or tenor approved for individual counterparties by Risk Management may be smaller or shorter than the ceilings defined in the T&TRMG, 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).<sup>26</sup>

<sup>26</sup> 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.

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.

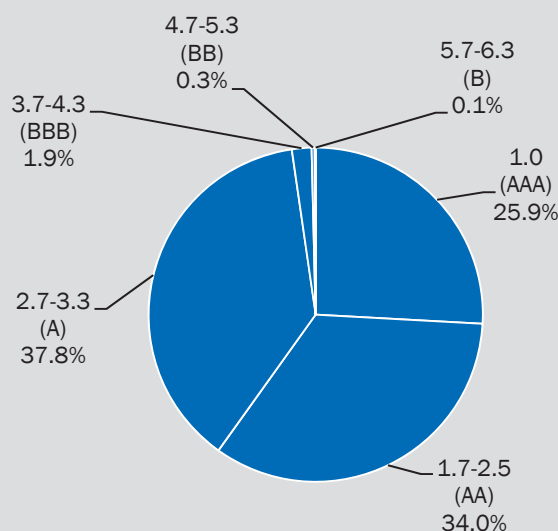
### Credit risk in Treasury: Treasury liquid assets

The carrying value of Treasury's liquid assets stood at €23.8 billion at 31 December 2015 (2014: €22.5 billion).<sup>27</sup>

The internal ratings of Treasury's counterparties and sovereign exposures are reviewed at least annually and adjusted as appropriate. In addition in 2015 the rating methodology relating to a specific portfolio, namely covered bonds, was updated. Overall the WAPD rating, weighted by the carrying value of Treasury's liquid assets, deteriorated slightly to 2.36 at 31 December 2015 (2014: 2.28) on a like-for-like basis and moved to 2.23 after the methodology updates.<sup>28</sup>

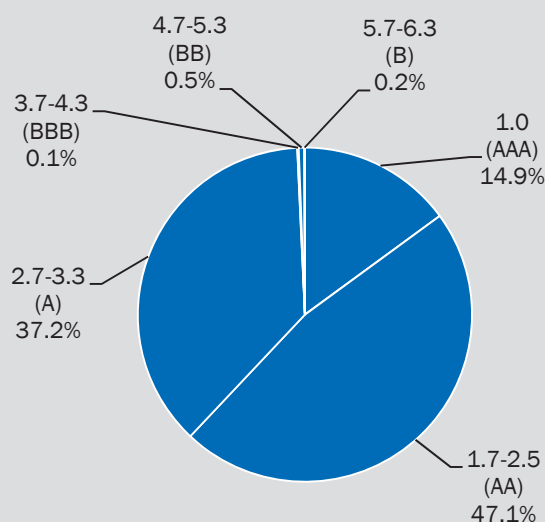
#### Credit quality of Treasury's liquid assets<sup>29</sup>

31 December 2015



#### Credit quality of Treasury's liquid assets<sup>30</sup>

31 December 2014



### 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	2015 € million	2014 € million
1-3: Excellent to strong	11,260	10,580
4: Good	422	-
5-6: Fair to weak	42	32
7-8: Special attention to non-performing	-	-
<b>At 31 December</b>	<b>11,724</b>	<b>10,612</b>

At 31 December 2015 there were no placements with and advances to credit institutions that were past due or impaired (2014: €nil).

<sup>27</sup> Treasury liquid assets consist of placements with and advances to credit institutions, debt securities and collateralised placements.

<sup>28</sup> The comparable WAPD for 2014 has been estimated at 2.10.

<sup>29</sup> The small proportion of Treasury liquid assets held with an internal risk rating of below 3.3 is solely held with counterparties approved for local currency activities in the countries where the Bank invests.

<sup>30</sup> The 2014 chart has not been re-stated to reflect the impact of any update in rating methodology implemented in 2015.



#### 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.

<b>Risk rating category</b>	<b>2015 € million</b>	<b>2014 € million</b>
1-3: Excellent to strong	668	11
4: Good	26	18
5-6: Fair to weak	53	77
7-8: Special attention to non-performing	-	-
<b>At 31 December</b>	<b>747</b>	<b>106</b>

There were no debt securities at fair value past due in 2015 (2014: €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.

<b>Risk rating category</b>	<b>2015 € million</b>	<b>2014 € million</b>
1-3: Excellent to strong	11,329	11,653
4: Good	-	12
5-6: Fair to weak	-	23
7-8: Special attention to non-performing	-	-
<b>At 31 December</b>	<b>11,329</b>	<b>11,688</b>

There were no debt securities at amortised cost past due in 2015 (2014: €nil).

#### Collateralised placements

Collateralised placements of €13 million (2014: €57 million) were all internally risk rated 1-3: excellent to strong, with none that were past due or impaired (2014: €nil).

#### Treasury potential future exposure

In addition to Treasury's liquid assets there are other products such as OTC swaps and forward contracts that are included within Treasury's overall PFE. PFE calculations show the future exposure throughout the life of a transaction or, in the case of collateralised portfolios, over the appropriate unwind periods. This is particularly important for Treasury's repo/reverse repo activity and hedging products such as OTC swaps and forwards. Calculation of PFE reduces counterparty exposures through standard risk mitigations such as netting and collateral, which enables Risk Management to see a comprehensive exposure profile of all Treasury products (including liquid assets) against a specific counterparty limit on a daily basis.

Treasury PFE stood at €20.6 billion at 31 December 2015 (2014: €18.8 billion).

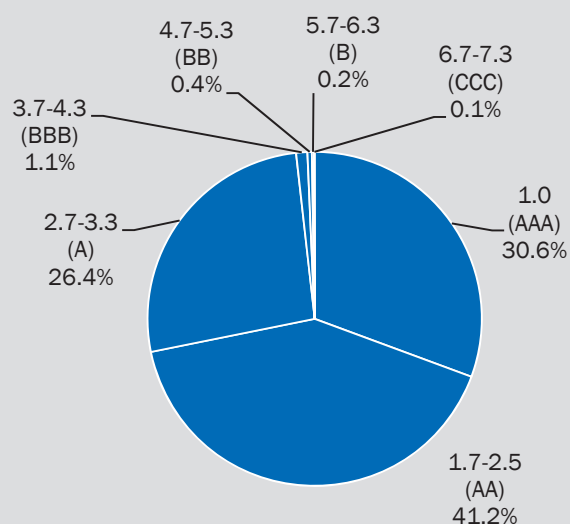
Treasury maintained a high quality average credit risk profile during 2015 by investing liquidity in AAA sovereign and other highly rated assets. However the WAPD rating, weighted by PFE exposures, deteriorated slightly to 2.22 at 31 December 2015 (2014: 2.17) on a like-for-like basis, or moved to 2.08 taking into account the rating methodology update.<sup>31</sup>

<sup>31</sup> The comparable WAPD for 2014 has been estimated at 1.95. Risk Management updated its rating methodology relating to covered bonds in late 2015 which had an impact on the ratings of around €2.0 billion of debt securities.

A very low proportion of Treasury exposures was below investment grade quality,<sup>32</sup> amounting to 0.7 per cent at 31 December 2015 (2014: 1.0 per cent). This comprised a small pool of local currency liquidity assets held with counterparties from the countries in which the Bank invests together with several financial sector bonds.

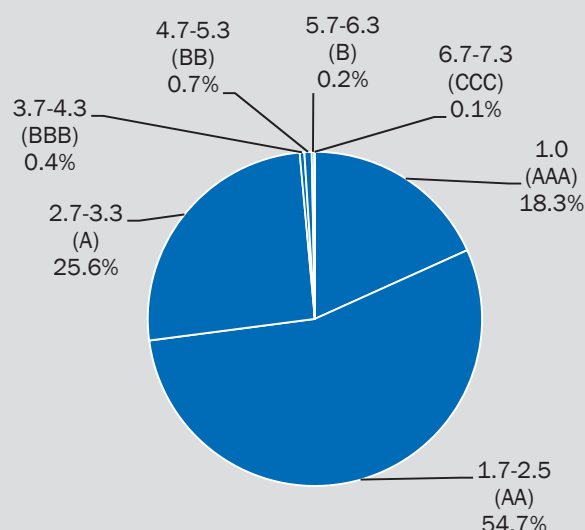
#### Credit quality of Treasury PFE<sup>33</sup>

31 December 2015



#### Credit quality of Treasury PFE<sup>34</sup>

31 December 2014



There were no impaired assets in the Treasury portfolio at 31 December 2015 (2014: €nil).

#### Derivatives

The Bank makes use of derivatives for different purposes within both its Banking portfolio and its Treasury activities. 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, Banking has a small number of currency swaps that are fully hedged and have been entered into with clients to assist them in the management of their market risks. Within Treasury, 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 (within the tight market risk limits described on page 44), while the transactions through which the Bank funds itself in capital markets are typically swapped into floating-rate debt with derivatives.

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.

<sup>32</sup> BB+/Ba1/BB+ level or worse.

<sup>33</sup> The small proportion of Treasury assets held with an internal risk rating of below 3.3 is solely held with counterparties approved for local currency activities in the countries where the Bank invests.

<sup>34</sup> The 2014 chart has not been re-stated to reflect the impact of the update in rating methodology.

The table below shows the fair value of the Bank's derivative financial assets and liabilities at 31 December 2015 and 31 December 2014.

	Assets 2015 € million	Liabilities 2015 € million	Total 2015 € million	Assets 2014 € million	Liabilities 2014 € million	Total 2014 € million
<b>Portfolio derivatives not designated as hedges</b>						
<b>OTC foreign currency products</b>						
Currency swaps	856	(52)	804	904	(70)	834
Spot and forward currency transactions	114	(139)	(25)	379	(80)	299
	970	(191)	779	1,283	(150)	1,133
<b>OTC interest rate products</b>						
Interest rate swaps	65	(166)	(101)	76	(209)	(133)
<b>Banking derivatives</b>						
Fair value of equity derivatives held in relation to the Banking portfolio	489	(77)	412	506	(81)	425
<b>Total portfolio derivatives not designated as hedges and Banking derivatives</b>	1,524	(434)	1,090	1,865	(440)	1,425
<b>Derivatives held for hedging</b>						
<b>Derivatives designated as fair value hedges</b>						
Interest rate swaps	1,510	(222)	1,288	1,548	(330)	1,218
Cross currency interest rate swaps	1,562	(2,203)	(641)	1,565	(1,471)	94
Embedded derivatives <sup>35</sup>	-	(134)	(134)	-	(189)	(189)
<b>Total derivatives held for hedging</b>	3,072	(2,559)	513	3,113	(1,990)	1,123
<b>Total derivatives at 31 December</b>	4,596	(2,993)	1,603	4,978	(2,430)	2,548

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	2015 € million	2014 € million
1-3: Excellent to strong	4,065	4,513
4: Good	223	116
5-6: Fair to weak	250	297
7-8: Special attention to non-performing	58	52
<b>At 31 December</b>	<b>4,596</b>	<b>4,978</b>

There were no derivative financial assets past due in 2015 (2014: €nil).

In order to manage credit risk in OTC derivative transactions,<sup>36</sup> 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 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 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 counterparty credit risk by holding collateral against exposures to derivative counterparties.

<sup>35</sup> Where a financial liability held at amortised cost contains an embedded derivative which is of a different economic character to the host instrument, and the liability does not qualify for hedge accounting, that embedded derivative is bifurcated and measured at fair value through the income statement. All such derivatives bifurcated by the Bank are embedded in Debts Evidenced by Certificates.

<sup>36</sup> This does not include negotiated options associated with share investments.

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 2015 this exposure stood at €2.4 billion (2014: €3.1 billion). Against this, the Bank held collateral of €2.4 billion (2014: €2.8 billion), reducing its net credit exposure to €nil (2014: €0.3 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 2015 € million	Sold or repledged 2015 € million	Held collateral 2014 € million	Sold or repledged 2014 € million
<b>Collateral held as security</b>				
<b>Derivative financial instruments</b>				
High grade government securities	990	-	1,393	-
Cash	1,384	1,384	1,434	1,434
Reverse sale and repurchase transactions	4,887	-	4,293	-
<b>At 31 December</b>	<b>7,261</b>	<b>1,384</b>	<b>7,120</b>	<b>1,434</b>

The term "collateralised placements" in the Bank's balance sheet is used to describe the economic substance of the transactions comprising 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 2015, the Bank held €13 million (2014: €57 million) of collateralised placements.

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

	Recognised derivative assets 2015 € million	Recognised derivative liabilities 2015 € million	Net position 2015 € million	Collateral held 2015 € million
<b>Subject to a master netting agreement</b>				
Net derivative assets by counterparty	3,140	(728)	2,412	2,348
Net derivative liabilities by counterparty	844	(2,053)	(1,209)	26
	3,984	(2,781)	1,203	2,374
<b>No master netting agreement</b>				
Other derivatives	123	-	123	-
Embedded derivatives	-	(135)	(135)	-
Equity derivatives	489	(77)	412	-
	612	(212)	400	-
<b>At 31 December</b>	<b>4,596</b>	<b>(2,993)</b>	<b>1,603</b>	<b>2,374</b>

	Recognised derivative assets 2014 € million	Recognised derivative liabilities 2014 € million	Net position 2014 € million	Collateral held 2014 € million
<b>Subject to a master netting agreement</b>				
Net derivative assets by counterparty	3,604	(720)	2,884	2,819
Net derivative liabilities by counterparty	838	(1,440)	(602)	8
	4,442	(2,160)	2,282	2,827
<b>No master netting agreement</b>				
Other derivatives	30	-	30	-
Embedded derivatives	-	(189)	(189)	-
Equity derivatives	506	(81)	425	-
	536	(270)	266	-
<b>At 31 December</b>	4,978	(2,430)	2,548	2,827

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. At 31 December 2015, the amount of collateral held in relation to total return swaps was €nil (2014: €nil).

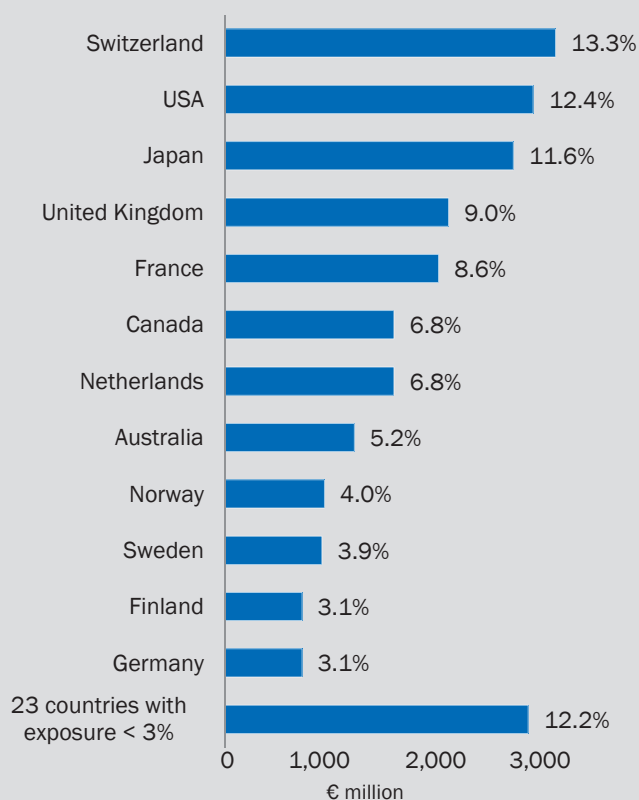
## Credit risk in Treasury: Concentration

### Concentration by country

At the end of 2015, Treasury credit risk exposure was spread across the following countries.

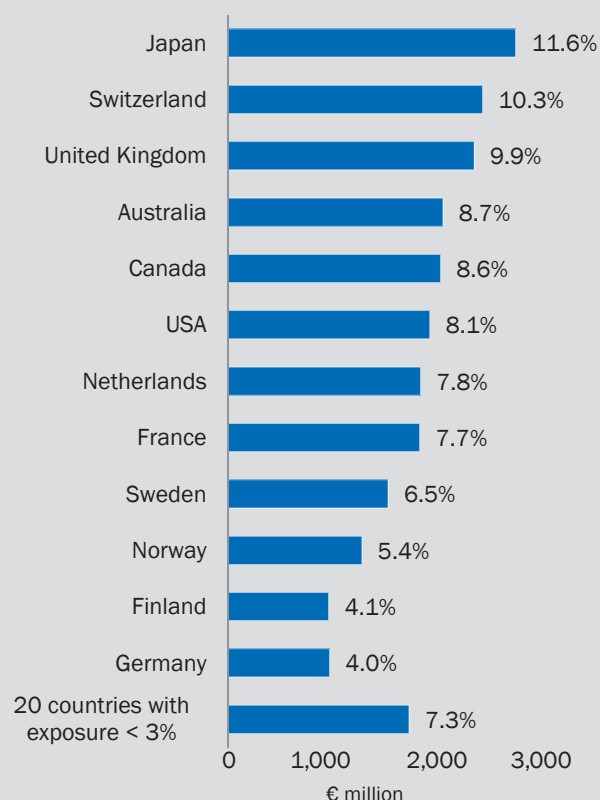
#### Concentration of Treasury peak exposure by country/region

31 December 2015



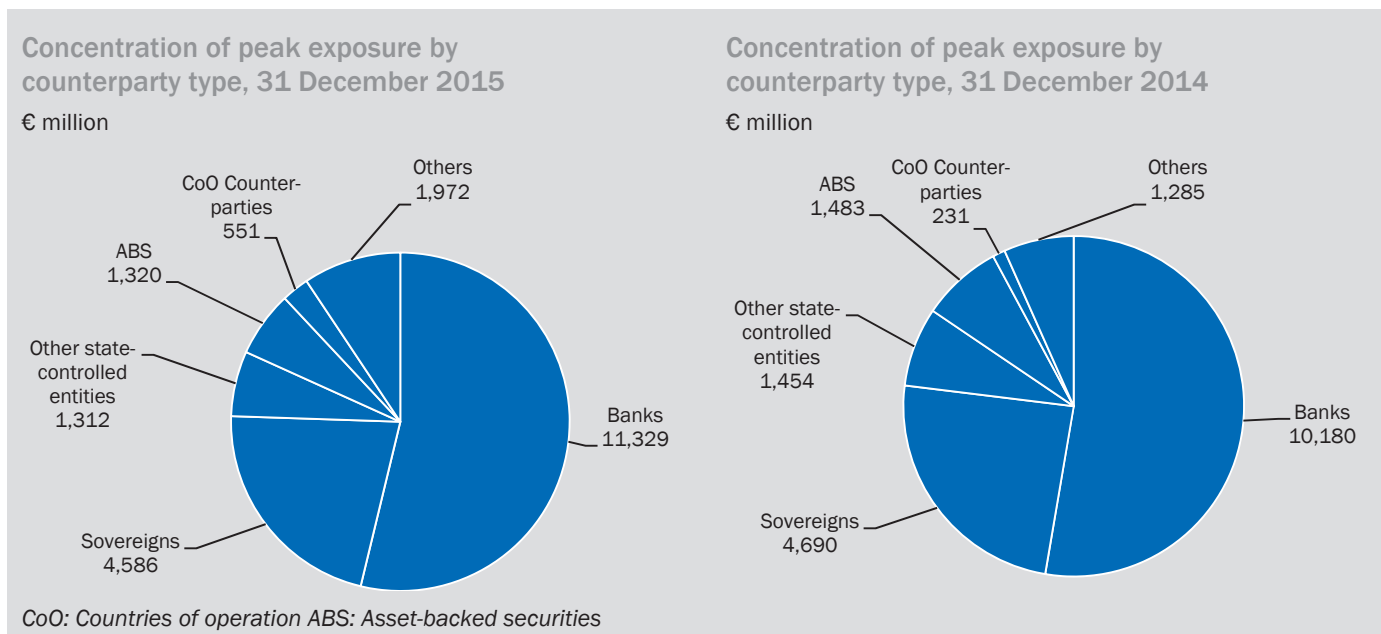
#### Concentration of Treasury peak exposure by country/region

31 December 2014



### Concentration by counterparty type

The Bank continues to be largely exposed to banks in the Treasury portfolio which accounted for 54 per cent of the portfolio peak exposure (2014: 53 per cent). Direct sovereign exposure<sup>37</sup> slightly decreased to 22 per cent (2014: 24 per cent), while exposure to counterparties in the countries in which the Bank invests increased to 2.6 per cent (2014: 1.2 per cent) on a PFE basis.



## 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.

### 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 the euro the foreign exchange risk is hedged by Treasury. 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.

The EBRD takes a long-term view of its equity investments, and therefore accepts the short-term volatilities in value arising from exchange rate risk and price risk.

<sup>37</sup> Indirect exposure is not included – that is, where the Bank holds government securities as collateral.



### Foreign exchange risk

The Bank is subject to foreign exchange risks as it invests in equities that are denominated in currencies other than the euro. Accordingly, the value of the equity investments may be affected favourably or unfavourably by fluctuations in currency rates. The table below indicates the currencies to which the Bank had significant exposure on its equity investments at 31 December 2015.<sup>38</sup> The sensitivity analysis summarises the total effect of a reasonably possible movement of the currency rate<sup>39</sup> against the euro on equity fair value and on profit or loss with all other variables held constant.

### 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
Euro	-	1,646	-
Polish zloty	5.1	437	22
Romanian leu	1.2	312	4
Russian rouble	17.3	843	146
Turkish lira	12.5	332	41
Ukrainian hryvnia	23.6	89	21
United States dollar	6.4	899	58
Other non-euro	10.1	475	48
<b>At 31 December 2015</b>	<b>-</b>	<b>5,033</b>	<b>340</b>

	5-year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Croatian kuna	1.0	377	4
Euro	-	1,401	-
Polish zloty	5.8	494	29
Romanian leu	1.2	357	4
Russian rouble	16.4	663	109
Turkish lira	11.0	197	22
United States dollar	5.7	1,048	60
Other non-euro	7.2	532	38
<b>At 31 December 2014</b>	<b>-</b>	<b>5,069</b>	<b>266</b>

The average movement in exchange rate for the “other non-euro” consists of the weighted average movement in the exchange rates listed in the same table.

<sup>38</sup> The table reflects the currency in which shares are denominated.

<sup>39</sup> Based on a five-year rolling average movement in the exchange rate.

### Equity price risk

Equity price risk is the risk of unfavourable changes in the fair values of equities as the result of changes in the levels of equity indices and the value of individual shares. 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, for both listed and unlisted equity investments. The table below summarises the potential impact on the Bank's net profit from a reasonably possible change in equity indices.<sup>40</sup>

### 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
Cyprus	CYSMMAPA Index	36.2	79	29
Greece	GREK Index	26.9	265	71
Hungary	CHTX Index	19.6	80	16
Kazakhstan	KASE Index	12.9	76	10
Poland	WIG Index	13.0	479	62
Romania	BET Index	14.5	323	47
Russia	MICEX Index	11.5	1,050	120
Serbia	BELEX15 Index	11.6	100	12
Turkey	XU100 Index	26.2	386	101
Ukraine	PFTS Index	31.8	124	39
Regional and other	Weighted average	17.1	2,071	354
<b>At 31 December 2015</b>		-	5,033	861

		5-year rolling average movement in benchmark index %	Fair value € million	Impact on net profit € million
Croatia	CROBEX Index	5.7	377	22
Kazakhstan	KASE Index	11.7	134	16
Poland	WIG Index	14.8	528	78
Romania	BET Index	15.6	367	57
Russia	MICEX Index	10.9	1,128	123
Serbia	BELEX15 Index	11.3	100	11
Turkey	XU100 Index	27.9	242	68
Ukraine	PFTS Index	38.2	74	28
Regional and other	Weighted average	13.7	2,119	290
<b>At 31 December 2014</b>		-	5,069	693

The average movement in benchmark index for "regional and other" is made up of the weighted average movement in benchmark indices of the countries listed in the same table.

### Commodity risk in the Banking portfolio

The Bank is exposed to commodity risk through some of its investments and due to the significant importance of commodities in a number of the countries in which it invests. The aggregate direct exposure to oil and gas extraction, metal ore mining and coal mining (and related support activities) amounts to 5.9 per cent (2014: 3.7 per cent) of the overall banking portfolio. Although the share of this portfolio is still a small percentage of the total, the potential overall risk can be 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 incorporates oil price movements into its stress testing exercises.

<sup>40</sup> Based on a five-year rolling average movement in the relevant equity market indices.

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## Market risk in the Treasury portfolio

### Interest rate and foreign exchange risk

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 Liability Management desk in Treasury.

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 interest is fixed on a financial instrument indicates the extent to which it is exposed to interest rate risk. 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.

The Bank measures its exposure to market risk and monitors limit compliance daily. The main market risk limits in the Bank are based on eVaR computed at a 95 per cent confidence level over a one-day trading horizon. eVaR is defined as the average potential loss above a certain threshold (for example 95 per cent) that could be incurred due to adverse fluctuations in interest rates and foreign exchange rates. The Bank's overall eVaR limit, laid down in the Board-approved TALP, was increased during the year due to increased rouble-US dollar basis spread volatility. The limit remains low compared with the Bank's capital (less than 0.5 per cent of capital).

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. For enhanced comparability across institutions however, numbers disclosed in this financial report show VaR-based measures scaled up to a 99 per cent confidence level over a 10-trading-day horizon. The VaR methodology considers the three-month swap curve as the main interest rate risk factor and the other factors as basis spread risk factors (for example six-month Libor vs. three-month Libor tenor basis spreads and Government asset swap spreads).

The total VaR of the Bank's Treasury portfolio, including basis spread risks, stood at €34.5 million at 31 December 2015 (2014: €25.0 million) with an average VaR over the year of €37.7 million (2014: €13.3 million). Year on year, the total VaR was higher due to the euro Government bond spread risk and the increased spread volatility. The increase in the average VaR in 2015 was driven primarily by the increase in the rouble-US dollar basis spread volatility, to which Treasury is exposed as it utilises cross-currency basis swaps for rouble funding. Secondly, from the end of the first quarter, the sovereign debt which is actively managed and the VaR increased due to the euro Government bond spread risk and the increased spread volatility. The second half of the year saw a decrease in the VaR level mainly due to the lower rouble-US dollar basis spread volatility. The average VaR remained in the range of €26.0 million to €50.3 million (2014: €10.0 million to €25.0 million) during the year.

Interest rate option exposure remained modest throughout the year with option VaR at €1.0 million at year-end (2014: €1.2 million), having peaked at €5.4 million during the year (2014: €4.5 million during the year). The specific contribution from foreign exchange risk to the overall VaR stood at €1.4 million at year-end (2014: €0.4 million). As in previous years, this contribution was small throughout 2015 and never exceeded €5.0 million (2014: €2.0 million).

VaR and eVaR measures remain limited by their 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 VaR and eVaR 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; and
- stress tests covering the entire Treasury portfolio based on historical scenarios.

### Equity price risk

The Bank has direct exposure to equity risk of €63 million at 31 December 2015 through two Treasury share investments<sup>41</sup> (2014: €62 million). 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.

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<sup>41</sup> See note 19 to the financial statements on page 62.

## C. 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 consideration of 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
- the Bank's Enforcement Policies and Procedures
- the information security framework
- the Procurement Policies and Rules.

Responsibility for developing the operational risk framework and for monitoring its implementation resides within the Risk Management 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 Bank's current operational risk framework includes an agreed definition; 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, 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.

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## D. Liquidity risk

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### Liquidity risk management process

The Bank's liquidity policies are reviewed 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 AAA credit rating.

The Board of Directors approved a revised liquidity policy during the year and the Bank's medium term liquidity requirements are based on satisfying each of the following three minimum constraints:

- net Treasury liquid assets must be at least 75 per cent of the next two years' projected net cash requirements, without recourse to accessing funding markets;
- the Bank's liquidity must be consistent with being considered as a strong positive factor under rating agency methodologies. These methodologies include applying haircuts to the Bank's liquid assets, assessing the level of debt due within one year and considering undrawn commitments. This provides an external view of liquidity coverage under stressed circumstances; and
- the Bank must be able to meet its obligations for at least 12 months under an extreme stress scenario. This internally generated scenario considers a combination of events that could detrimentally impact the Bank's liquidity position.

For the purposes of the net cash requirements coverage ratio above, all assets managed within the Treasury portfolio are considered to be liquid assets while 'net' treasury liquid assets represent gross treasury assets net of short-term debt.<sup>42</sup>

The Bank typically holds liquidity above its minimum policy levels to allow flexibility in the execution of its borrowing programme. The Bank exceeded the minimum requirements under the new liquidity policy at 31 December 2015 and consistently exceeded the prevailing liquidity policy requirements throughout the year. The average weighted maturity of assets managed by Treasury at 31 December 2015 was 1.3 years (2014: 1.5 years).

The Bank's short-term liquidity policy is based on the principles of the Liquidity Coverage Ratio within the Basel III reform package. The policy requires that the ratio of maturing 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. The minimum ratios under the Bank's policy have been exceeded at 31 December 2015 and consistently throughout the year.<sup>43</sup>

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 2015 the Bank raised €4.2 billion of medium- to long-term debt with an average tenor of 4.8 years (2014: €5.2 billion and 4.2 years). The Bank's AAA credit rating with a stable outlook was affirmed by the three major rating agencies in the second half of 2015.

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

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<sup>42</sup> For this ratio, short-term debt is debt with a fixed or optional 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.

<sup>43</sup> The liquidity policy prevailing prior to November 2015 also took into account eligible liquid assets that did not mature in the period, after applying haircuts to those assets.

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

Financial liabilities at 31 December 2015	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
<b>Non-derivative cash flows</b>						
Amounts owed to credit institutions	(2,441)	(152)	-	-	-	(2,593)
Debts evidenced by certificates	(1,326)	(4,659)	(10,331)	(14,011)	(14,132)	(44,459)
Other financial liabilities	(11)	(6)	(212)	(44)	(11)	(284)
<b>At 31 December 2015</b>	<b>(3,778)</b>	<b>(4,817)</b>	<b>(10,543)</b>	<b>(14,055)</b>	<b>(14,143)</b>	<b>(47,336)</b>
<b>Trading derivative cash flows</b>						
Net settling interest rate derivatives	(3)	(4)	(31)	(54)	(77)	(169)
Gross settling interest rate derivatives – outflow	(59)	(29)	(751)	(644)	(657)	(2,140)
Gross settling interest rate derivatives – inflow	52	14	745	630	655	2,096
Foreign exchange derivatives – outflow	(2,344)	(3,978)	(850)	-	-	(7,172)
Foreign exchange derivatives – inflow	2,311	3,911	814	-	-	7,036
Credit derivatives	-	-	-	-	-	-
<b>At 31 December 2015</b>	<b>(43)</b>	<b>(86)</b>	<b>(73)</b>	<b>(68)</b>	<b>(79)</b>	<b>(349)</b>
<b>Hedging derivative cash flows</b>						
Net settling interest rate derivatives	(4)	5	(93)	(63)	(36)	(191)
Gross settling interest rate derivatives – outflow	(392)	(797)	(1,528)	(3,729)	(2,730)	(9,176)
Gross settling interest rate derivatives – inflow	265	708	1,029	3,120	2,303	7,425
<b>At 31 December 2015</b>	<b>(131)</b>	<b>(84)</b>	<b>(592)</b>	<b>(672)</b>	<b>(463)</b>	<b>(1,942)</b>
<b>Total financial liabilities at 31 December 2015</b>	<b>(3,952)</b>	<b>(4,987)</b>	<b>(11,208)</b>	<b>(14,795)</b>	<b>(14,685)</b>	<b>(49,627)</b>
<b>Other financial instruments</b>						
Undrawn commitments						
Financial institutions	(2,641)	-	-	-	-	(2,641)
Non-financial institutions	(10,318)	-	-	-	-	(10,318)
<b>At 31 December 2015</b>	<b>(12,959)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,959)</b>

Highlights

Financial results

Additional reporting

Financial statements

External financial reporting

Independent auditor's report

Financial liabilities at 31 December 2014	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
<b>Non-derivative cash flows</b>						
Amounts owed to credit institutions	(2,403)	(133)	-	-	-	(2,536)
Debts evidenced by certificates	(2,031)	(779)	(5,902)	(13,564)	(16,596)	(38,872)
Other financial liabilities	(6)	(15)	(96)	(39)	-	(156)
<b>At 31 December 2014</b>	<b>(4,440)</b>	<b>(927)</b>	<b>(5,998)</b>	<b>(13,603)</b>	<b>(16,596)</b>	<b>(41,564)</b>
<b>Trading derivative cash flows</b>						
Net settling interest rate derivatives	(6)	(8)	(50)	(56)	(99)	(219)
Gross settling interest rate derivatives – outflow	(335)	(100)	(554)	(1,185)	(289)	(2,463)
Gross settling interest rate derivatives – inflow	309	75	544	1,188	260	2,376
Foreign exchange derivatives – outflow	(57)	(510)	(502)	-	-	(1,069)
Foreign exchange derivatives – inflow	56	478	457	-	-	991
Credit derivatives	-	-	-	(1)	-	(1)
<b>At 31 December 2014</b>	<b>(33)</b>	<b>(65)</b>	<b>(105)</b>	<b>(54)</b>	<b>(128)</b>	<b>(385)</b>
<b>Hedging derivative cash flows</b>						
Net settling interest rate derivatives	(8)	1	(35)	(185)	(131)	(358)
Gross settling interest rate derivatives – outflow	(57)	(131)	(1,747)	(3,523)	(3,047)	(8,505)
Gross settling interest rate derivatives – inflow	68	160	1,532	2,903	2,755	7,418
<b>At 31 December 2014</b>	<b>3</b>	<b>30</b>	<b>(250)</b>	<b>(805)</b>	<b>(423)</b>	<b>(1,445)</b>
<b>Total financial liabilities at 31 December 2014</b>	<b>(4,470)</b>	<b>(962)</b>	<b>(6,353)</b>	<b>(14,462)</b>	<b>(17,147)</b>	<b>(43,394)</b>
<b>Other financial instruments</b>						
Undrawn commitments						
Financial institutions	(2,654)	-	-	-	-	(2,654)
Non-financial institutions	(8,877)	-	-	-	-	(8,877)
<b>At 31 December 2014</b>	<b>(11,531)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,531)</b>



## E. 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. The callable shares were issued subject to redemption in accordance with the terms of Resolution No. 128. At 31 December 2015, €8.9 billion of the callable capital increase had been subscribed (2014: €8.9 billion).

At the May 2015 Annual Meeting the Board of Governors reviewed the capital stock of the Bank pursuant to Article 5.3 of the Agreement and resolved that the projected capital stock is appropriate for the 2016-2020 period, in the context of the approval of the Bank's Strategic and Capital Framework 2016-2020. The Board of Governors further resolved that no callable capital shares would be redeemed and that the redemption and cancellation provisions in Resolution No. 128 be removed. Finally, the Board of Governors resolved that the adequacy of the Bank's capital would next be reviewed at the 2020 Annual Meeting (Resolutions No. 181, 182 and 183).

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 (including callable capital), the unrestricted general reserves, loan loss reserve, special reserve and adjustments for general loan impairment provisions on Banking exposures and unrealised equity losses. Reflecting a change in interpretation in 2015, specific provisions are not included in the statutory capital base. The capital base for these purposes amounted to €39.2 billion<sup>44</sup> at 31 December 2015 after 2015 net income allocation decisions (2014: €39.2 billion).

The Bank interprets the gearing ratio on a 'disbursed Banking assets' or 'operating assets' basis. To ensure consistency with the statutory capital base, specific provisions are deducted from total operating assets for the purposes of the ratio.<sup>45</sup> At 31 December 2015, the Bank's gearing ratio on an aggregated basis was 71 per cent (2014: 69 per cent). 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. No capital utilisation limits were breached during the year (2014: 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 Capital Adequacy Policy (previously named the Economic Capital Policy).

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

One of the main objectives of the Capital Adequacy 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 and reserves.

At 31 December 2015 the ratio of required capital to available capital was 80 per cent (2014: 80 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 2015, the ratio of members' equity to total assets was 27 per cent (2014: 27 per cent) and the ratio of members' equity to Banking assets was 56 per cent (2014: 58 per cent).

<sup>44</sup> Deductions are made to exclude revaluation reserves related to Banking assets (as operating assets are considered at cost).

<sup>45</sup> This reflects a change in the interpretation of the ratio in 2015. Previously specific provisions were included in the capital base and the operating assets exposure was prior to the impact of specific provisions.

## F. Fair value of financial assets and liabilities

### Classification and fair value of financial assets and liabilities

	Carrying amount € million	Fair value € million
<b>Financial assets at 31 December 2015</b>		
<b>Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:</b>		
– Debt securities	747	747
– Derivative financial instruments	4,596	4,596
– Banking loans at fair value through profit or loss	339	339
– Banking portfolio: Share investments at fair value through profit or loss	5,033	5,033
– Treasury portfolio: Share investments at fair value through other comprehensive income	63	63
	10,778	10,778
<b>Financial assets measured at amortised cost:<sup>46</sup></b>		
– Placements with and advances to credit institutions	11,724	11,724
– Debt securities	11,329	11,301
– Collateralised placements	13	13
– Other financial assets	335	335
– Banking loan investments at amortised cost	20,734	21,363
	44,135	44,736
<b>Total</b>	<b>54,913</b>	<b>55,514</b>

<sup>46</sup> With the exception of debt securities and loan investments, the fair value for the other amortised cost assets approximates to their carrying value due to the short-dated nature of these assets.

	Carrying amount € million	Fair value € million
<b>Financial assets at 31 December 2014</b>		
<b>Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:</b>		
- Debt securities	106	106
- Derivative financial instruments	4,978	4,978
- Banking loans at fair value through profit or loss	338	338
- Banking portfolio: Share investments at fair value through profit or loss	5,069	5,069
- Treasury portfolio: Share investments at fair value through other comprehensive income	62	62
	10,553	10,553
<b>Financial assets measured at amortised cost:</b>		
- Placements with and advances to credit institutions	10,612	10,612
- Debt securities	11,688	11,713
- Collateralised placements	57	58
- Other financial assets	345	345
- Banking loan investments at amortised cost	19,149	20,153
	41,851	42,881
<b>Total</b>	<b>52,404</b>	<b>53,434</b>

	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
<b>Financial liabilities at 31 December 2015</b>						
Amounts owed to credit institutions	-	-	-	(2,590)	(2,590)	(2,590)
Debts evidenced by certificates	-	-	-	(34,280)	(34,280)	(34,191)
Derivative financial instruments	(357)	(77)	(2,559)	-	(2,993)	(2,993)
Other financial liabilities	-	-	-	(577)	(577)	(577)
<b>Total financial liabilities</b>	<b>(357)</b>	<b>(77)</b>	<b>(2,559)</b>	<b>(37,447)</b>	<b>(40,440)</b>	<b>(40,351)</b>

	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
<b>Financial liabilities at 31 December 2014</b>						
Amounts owed to credit institutions	-	-	-	(2,534)	(2,534)	(2,534)
Debts evidenced by certificates	-	-	-	(32,922)	(32,922)	(32,818)
Derivative financial instruments	(359)	(81)	(1,990)	-	(2,430)	(2,430)
Other financial liabilities	-	-	-	(452)	(452)	(452)
<b>Total financial liabilities</b>	<b>(359)</b>	<b>(81)</b>	<b>(1,990)</b>	<b>(35,908)</b>	<b>(38,338)</b>	<b>(38,234)</b>

IFRS 13 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 SuperDerivatives 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.

At 31 December 2015, the Bank's balance sheet approximates to fair value in all financial asset and liability categories, with the exception of loan investments at amortised cost.

The amortised cost instruments held within placements with and advances to credit institutions, other financial assets, amounts owed to credit institutions, and other financial liabilities are all deemed to have amortised cost values approximating their fair value, being primarily simple, short-term instruments. They are classified as having Level 2 inputs as the Bank's assessment of their fair value is based on the observable market valuation of similar assets and liabilities.

Amortised cost debt securities are valued using Level 2 inputs. The basis of their fair value 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.

The Bank's collateralised placements are valued using discounted cash flows and are therefore based on Level 3 inputs.

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 using Level 3 inputs 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 borrowings raised through the issuance of commercial paper and bonds.<sup>47</sup> The fair value of the Bank's issued bonds is determined using discounted cash flow models and therefore relies on Level 3 inputs. Due to the short-tenor nature of commercial paper, amortised cost approximates fair value. The fair value of the Bank's issued commercial paper is determined based on the observable market valuation of similar assets and liabilities and therefore relies on Level 2 inputs.

The table below provides information at 31 December 2015 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 2015				
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	747	-	747
Derivative financial instruments	-	4,098	498	4,596
Banking loans	-	-	339	339
Share investments (Banking portfolio)	1,819	-	3,214	5,033
Share investments (Treasury portfolio)	-	63	-	63
<b>Total financial assets at fair value</b>	<b>1,819</b>	<b>4,908</b>	<b>4,051</b>	<b>10,778</b>
Derivative financial instruments	-	(2,915)	(78)	(2,993)
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>(2,915)</b>	<b>(78)</b>	<b>(2,993)</b>

At 31 December 2014				
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	106	-	106
Derivative financial instruments	-	4,463	515	4,978
Banking loans	-	-	338	338
Share investments (Banking portfolio)	1,682	-	3,387	5,069
Share investments (Treasury portfolio)	-	62	-	62
<b>Total financial assets at fair value</b>	<b>1,682</b>	<b>4,631</b>	<b>4,240</b>	<b>10,553</b>
Derivative financial instruments	-	(2,348)	(82)	(2,430)
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>(2,348)</b>	<b>(82)</b>	<b>(2,430)</b>

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

<sup>47</sup> 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 2015.

**Level 3 financial assets and financial liabilities**  
**Year ended 31 December 2015**

	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 2014	-	515	338	3,387	4,240	(82)	(82)
Total gains/(losses) for the year ended 31 December 2015 in:							
Net profit/(loss)	-	14	(44)	(174)	(204)	4	4
Purchases/issues	-	62	61	693	816	-	-
Sales/settlements	-	(93)	(44)	(626)	(763)	-	-
Reclassification	-	-	28	(28)	-	-	-
Transfers out of Level 3	-	-	-	(38)	(38)	-	-
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>498</b>	<b>339</b>	<b>3,214</b>	<b>4,051</b>	<b>(78)</b>	<b>(78)</b>
<b>Total gains/(losses) for the period included in net profit from assets and liabilities held at 31 December 2015</b>	<b>-</b>	<b>24</b>	<b>45</b>	<b>(46)</b>	<b>23</b>	<b>7</b>	<b>7</b>

**Level 3 financial assets and financial liabilities**  
**Year ended 31 December 2014**

	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 2013	-	320	223	5,182	5,725	(97)	(97)
Total gains/(losses) for the year ended 31 December 2014 in:							
Net profit/(loss)	-	215	(58)	(1,047)	(890)	15	15
Purchases/issues	-	-	248	594	842	-	-
Sales/settlements	-	(20)	(72)	(624)	(716)	-	-
Write-offs	-	-	(3)	-	(3)	-	-
Transfers in to Level 3	-	-	-	(718)	(718)	-	-
<b>Balance at 31 December 2014</b>	<b>-</b>	<b>515</b>	<b>338</b>	<b>3,387</b>	<b>4,240</b>	<b>(82)</b>	<b>(82)</b>
<b>Total gains/(losses) for the period included in net profit for assets and liabilities held at 31 December 2014</b>	<b>-</b>	<b>305</b>	<b>(58)</b>	<b>(910)</b>	<b>(663)</b>	<b>(1)</b>	<b>(1)</b>

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 2015, the main valuation models/techniques<sup>48</sup> 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 2015		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
Treasury derivative financial instruments	DCF models	8	-	(1)
Banking loans	DCF and option pricing models	339	10	(16)
Banking share investments & associated derivatives <sup>49</sup>	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models	3,626	610	(528)
<b>At 31 December</b>		<b>3,973</b>	<b>620</b>	<b>(545)</b>

Main valuation models/techniques		Impact on net profit in 2014		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
Treasury derivative financial instruments	DCF models	8	-	(1)
Banking loans	DCF and option pricing models	338	16	(16)
Banking share investments & associated derivatives	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models	3,812	850	(554)
<b>At 31 December</b>		<b>4,158</b>	<b>866</b>	<b>(571)</b>

### Treasury debt securities and derivative financial instruments

The Bank's derivative instruments held within the Treasury portfolio are valued through DCF 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 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 NAV multiples, EBITDA multiples and 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).

<sup>48</sup> NAV = net asset value; EBITDA = earnings before interest, tax, depreciation and amortisation; DCF = discounted cash flow.

<sup>49</sup> 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 2015, the Bank's members comprised 64 countries, together with the European Union 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. 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 2015 and 31 December 2014 is as follows:

	Banking 2015 € million	Treasury 2015 € million	Aggregated 2015 € million	Banking 2014 € million	Treasury 2014 € million	Aggregated 2014 € million
Interest income	1,127	81	1,208	1,043	109	1,152
Other income/(expense)	266	118	384	(615)	11	(604)
<b>Total segment revenue</b>	<b>1,393</b>	<b>199</b>	<b>1,592</b>	<b>428</b>	<b>120</b>	<b>548</b>
Less interest expense and similar charges <sup>50</sup>	(301)	161	(140)	(299)	178	(121)
Net interest expense on derivatives	-	(170)	(170)	-	(199)	(199)
Allocation of the return on capital	1	-	1	28	3	31
Less general administrative expenses	(377)	(24)	(401)	(309)	(20)	(329)
Less depreciation and amortisation	(28)	(2)	(30)	(24)	(2)	(26)
<b>Segment result before provisions and hedges</b>	<b>688</b>	<b>164</b>	<b>852</b>	<b>(176)</b>	<b>80</b>	<b>(96)</b>
Fair value movement on non-qualifying and ineffective hedges	-	(171)	(171)	-	(34)	(34)
Provisions for impairment of loan investments and guarantees	121	-	121	(438)	-	(438)
<b>Net profit/(loss) for the year</b>	<b>809</b>	<b>(7)</b>	<b>802</b>	<b>(614)</b>	<b>46</b>	<b>(568)</b>
Transfers of net income approved by the Board of Governors			(360)			(155)
<b>Net profit/(loss) after transfers approved by the Board of Governors</b>			<b>442</b>			<b>(723)</b>
<b>Segment assets</b>						
<b>Total assets</b>	<b>26,880</b>	<b>28,146</b>	<b>55,026</b>	<b>25,367</b>	<b>27,120</b>	<b>52,487</b>
<b>Segment liabilities</b>						
<b>Total liabilities</b>	<b>360</b>	<b>40,080</b>	<b>40,440</b>	<b>254</b>	<b>38,084</b>	<b>38,338</b>

<sup>50</sup> 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.



## Segment revenues – Geographic

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

	Segment revenue 2015 € million	Segment revenue 2014 € million
Advanced countries <sup>51</sup>	207	175
Early/Intermediate countries <sup>52</sup>	527	443
Russia	503	(313)
SEMED	43	12
Turkey	113	111
OECD <sup>53</sup>	199	120
<b>Total</b>	<b>1,592</b>	<b>548</b>

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

## 3. Net interest income

	2015 € million	2014 € million
<b>Interest and similar income</b>		
Banking loans at amortised cost	1,127	1,043
Debt securities	54	64
Collateralised placements	-	1
Reverse repurchase agreements	1	5
Cash and short-term funds	26	39
<b>Interest and similar income</b>	<b>1,208</b>	<b>1,152</b>
<b>Interest expense and similar charges</b>		
Debts evidenced by certificates	(111)	(83)
Amounts owed to credit institutions	(27)	(6)
Other	(1)	(1)
<b>Interest expense and similar charges</b>	<b>(139)</b>	<b>(90)</b>
<b>Net interest expense on derivatives</b>	<b>(170)</b>	<b>(199)</b>
<b>Net interest income</b>	<b>899</b>	<b>863</b>

Interest income accrued on impaired financial assets during 2015 was €30 million (2014: €13 million).<sup>54</sup>

<sup>51</sup> Advanced countries are Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.

<sup>52</sup> Early/Intermediate countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Cyprus, Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Mongolia, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

<sup>53</sup> Other member countries of the Organisation for Economic Co-operation and Development which are not classed as Advanced or Early/Intermediate.  
[www.oecd.org/about/membersandpartners/](http://www.oecd.org/about/membersandpartners/)

<sup>54</sup> This interest income equates to the unwinding of the discount on expected future cash flows from impaired financial assets.

## 4. Net fee and commission income

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

	2015 € million	2014 € million
Trade finance fees	14	9
Syndication and agency fees	11	3
Administration fees	4	3
Prepayment fees	3	3
Front end and commitment charges	-	1
Other	(1)	1
Equity fees	(3)	(6)
<b>Net fee and commission income</b>	<b>28</b>	<b>14</b>

Front-end and commitment fees of €104 million (2014: €101 million) received in 2015, together with related direct costs of €6 million (2014: €5 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 2015, €160 million (2014: €140 million) of previously deferred fees and direct costs were recognised in interest income.

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

	2015 € million	2014 € million
Net realised gains from share investments and equity related derivatives	250	281
Net unrealised losses from share investments and equity related derivatives	(53)	(1,029)
<b>Net gains/(losses) from share investments at fair value through profit or loss</b>	<b>197</b>	<b>(748)</b>

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.

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

	2015 € million	2014 € million
Loan write-off	(1)	(3)
Net unrealised (losses)/gains from changes in fair value	(43)	7
Net unrealised foreign exchange losses	-	(1)
<b>Net (losses)/gains from loans at fair value through profit or loss</b>	<b>(44)</b>	<b>3</b>

## 7. Net gains from Treasury assets held at amortised cost

	2015 € million	2014 € million
Net realised gains from debt securities at amortised cost	4	7
<b>Net gains from Treasury assets held at amortised cost</b>	<b>4</b>	<b>7</b>

During the year the Bank sold €1.1 billion of debt securities held at amortised cost (2014: €3.1 billion).

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

	2015 € million	2014 € million
Debt buy-backs and termination of related derivatives	8	5
Balance sheet management	99	(1)
Internally managed dealing portfolio designated at fair value	7	-
<b>Net gains from Treasury activities at fair value through profit or loss</b>	<b>114</b>	<b>4</b>

Treasury balance sheet management activities are primarily concerned with the management of market and currency risks across the Bank's balance sheet together with short-term liquidity management. The financial performance of these activities is affected by the currency basis spreads used in the valuation of swaps through which Treasury funds the Bank's rouble-denominated loan portfolio. These swaps are used for funding purposes and so will be held to maturity, therefore any unrealised valuation losses or gains caused by the volatility in currency basis spreads will reverse over time. A €24 million gain was recognised in 2015 relating to these spreads (2014: €57 million loss).

The profit deriving from the Bank's debt buyback activities is unpredictable as it typically occurs through the Bank responding to investors looking to exit private placement holdings of the Bank's debt.

In 2015 Treasury decided to create a high quality Sovereign bond portfolio to be actively managed as part of its liquidity management strategy. The income from this portfolio is recognised at fair value through profit or loss.

## 9. Fair value movement on non-qualifying and ineffective hedges

The hedging practices and accounting treatment are disclosed under "Derivative financial instruments and hedge accounting" on page 21 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 the 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 €166 million, comprising losses of €740 million on the derivative hedging instruments and gains of €574 million on the hedged items (2014: a loss of €22 million comprising gains of €882 million on the derivative hedging instruments and losses of €904 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 €1 million (2014: loss of €12 million).

The combined effect of all the hedging activities described above was a loss of €165 million for the year (2014: loss of €34 million).

### Cash flow hedges

The Bank hedges on an annual basis to minimise the exchange rate risk associated with incurring administrative expenses in the pound sterling. In 2015 a €6 million loss was recognised as ineffectiveness in the income statement arising from cash flow hedges (2014: nil).

## 10. Provisions for impairment of Banking loan investments at amortised cost

	2015 € million	2014 € million
<b>Release/(charge) for the year</b>		
Portfolio provisions for unidentified impairment of loan investments <sup>55</sup>		
Non-sovereign loan investments	329	(94)
Sovereign loan investments	8	(22)
Specific provisions for identified impairment of loan investments <sup>56</sup>	(209)	(324)
Associated hedging costs <sup>57</sup>	(8)	-
<b>Provisions for impairment of Banking loan investments at amortised cost</b>	<b>120</b>	<b>(440)</b>

	2015 € million	2014 € million
<b>Movement in provisions</b>		
At 1 January	(1,209)	(817)
Release/(charge) for the year to the income statement <sup>58</sup>	128	(440)
Loans sold	20	16
Unwinding of the discount relating to identified impairment of assets	27	13
Foreign exchange adjustments	(89)	(54)
Release against amounts written off	40	73
<b>At 31 December</b>	<b>(1,083)</b>	<b>(1,209)</b>
<b>Analysed between</b>		
Portfolio provisions for unidentified impairment of loan investments:		
Non-sovereign loan investments	(252)	(538)
Sovereign loan investments	(32)	(40)
Specific provisions for identified impairment of loan investments	(799)	(631)
<b>At 31 December</b>	<b>(1,083)</b>	<b>(1,209)</b>

## 11. General administrative expenses

	2015 € million	2014 € million
Personnel costs	(292)	(241)
Overhead expenses	(115)	(93)
General administrative expenses	(407)	(334)
Release of deferral of direct costs related to loan origination and commitment maintenance	6	5
<b>Net general administrative expenses</b>	<b>(401)</b>	<b>(329)</b>

The Bank's expenses are predominantly incurred in the pound sterling. The pound sterling equivalent of the Bank's general administrative expenses, excluding depreciation and amortisation, totalled £308 million (2014: £279 million).

Direct costs of €6 million (2014: €5 million) relating to loan origination in 2015 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.

<sup>55</sup> The net release of general provisions on sovereign and non-sovereign loan investments during the year of €337 million includes a one-off release of €329 million due to a change in estimation techniques, as highlighted on page 25 of these financial statements.

<sup>56</sup> Comprised of €266 million of new provisions against €57 million of released provisions (2014: €368 million against €44 million respectively).

<sup>57</sup> Provisions raised in the non-euro currencies create foreign exchange exposures which Treasury hedges. To the extent these hedges are transacted at different rates to the rates applied by the Bank's accounting system to translate the provisions into the euro equivalent amounts, the difference is recognised as part of the overall provision charge in the income statement.

<sup>58</sup> Excludes provisions for guarantees which are recorded in other assets.

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

	2015 € 000	2014 € 000
<b>Audit and assurance services</b>		
Services as auditor of the Bank	(345)	(304)
Internal controls framework assurance	(164)	(145)
Retirement plan audit	(28)	(25)
Tax recovery audit	(13)	(12)
<b>Audit and assurance services</b>	<b>(550)</b>	<b>(486)</b>

## 12. Placements with and advances to credit institutions

	2015 € million	2014 € million
<b>Analysed between</b>		
Cash and cash equivalents	7,533	6,435
Other current placements and advances	4,191	4,177
<b>At 31 December</b>	<b>11,724</b>	<b>10,612</b>

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".

## 13. Debt securities

	2015 € million	2014 € million
Debt securities at fair value through profit or loss	747	106
Debt securities at amortised cost	11,329	11,688
<b>At 31 December</b>	<b>12,076</b>	<b>11,794</b>
<b>Analysed between</b>		
Current	5,178	4,226
Non-current	6,898	7,568
<b>At 31 December</b>	<b>12,076</b>	<b>11,794</b>

There were no impairment losses relating to debt securities in 2015 (2014: €nil).

## 14. Collateralised placements

The collateralised placement held at the end of 2015 was current (2014: all collateralised placements were non-current).

## 15. Other financial assets

	2015 € million	2014 € million
Fair value of derivatives designated as fair value hedges	3,072	3,113
Fair value of portfolio derivatives not designated as hedges	1,035	1,359
Fair value of derivatives held in relation to the banking portfolio	489	506
Interest receivable	231	238
Paid-in capital receivable	12	11
Other	92	96
<b>At 31 December</b>	<b>4,931</b>	<b>5,323</b>
<b>Analysed between</b>		
Current	1,334	1,593
Non-current	3,597	3,730
<b>At 31 December</b>	<b>4,931</b>	<b>5,323</b>

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 2015, net gains of €88 million were deferred (2014: €26 million).

## 16. Banking loan investments at amortised cost

	2015 Sovereign loans € million	2015 Non-sovereign loans € million	2015 Total loans € million	2014 Sovereign loans € million	2014 Non-sovereign loans € million	2014 Total loans € million
<b>At 1 January</b>	<b>2,920</b>	<b>17,438</b>	<b>20,358</b>	<b>2,801</b>	<b>16,657</b>	<b>19,458</b>
Movement in fair value revaluation <sup>59</sup>	-	(14)	(14)	-	17	17
Disbursements	519	7,163	7,682	485	7,517	8,002
Repayments and prepayments	(485)	(6,289)	(6,774)	(455)	(6,879)	(7,334)
Foreign exchange movements	71	496	567	83	165	248
Movement in net deferral of front end fees and related direct costs	8	49	57	6	34	40
Written off	-	(59)	(59)	-	(73)	(73)
<b>At 31 December</b>	<b>3,033</b>	<b>18,784</b>	<b>21,817</b>	<b>2,920</b>	<b>17,438</b>	<b>20,358</b>
Impairment at 31 December	(32)	(1,051)	(1,083)	(40)	(1,169)	(1,209)
<b>Total net of impairment at 31 December</b>	<b>3,001</b>	<b>17,733</b>	<b>20,734</b>	<b>2,880</b>	<b>16,269</b>	<b>19,149</b>
<b>Analysed between</b>						
Current			2,899			3,123
Non-current			17,835			16,026
<b>Total net of impairment at 31 December</b>	<b>3,001</b>	<b>17,733</b>	<b>20,734</b>	<b>2,880</b>	<b>16,269</b>	<b>19,149</b>

At 31 December 2015 the Bank categorised 85 loan investments at amortised cost as impaired, with operating assets totalling €1.2 billion (2014: 86 loans totalling €1.2 billion).

<sup>59</sup> This movement in fair value relates to a hedge adjustment to fixed rate loans which qualify for hedge accounting for interest rate risk.

## 17. Banking loan investments at fair value through profit or loss

	2015 € million	2014 € million
<b>Non-sovereign loans</b>		
At 1 January	338	223
Movement in fair value revaluation	(44)	9
Disbursements	61	248
Repayments and prepayments	(44)	(72)
Foreign exchange movements	-	(67)
Reclassification from Equity to FVTPL	28	-
Written off	-	(3)
<b>At 31 December</b>	<b>339</b>	<b>338</b>
<b>Analysed between</b>		
Current	36	34
Non-current	303	304
<b>At 31 December</b>	<b>339</b>	<b>338</b>

## 18. Share investments at fair value through profit or loss

	2015 Fair value Unlisted € million	2015 Fair value Listed € million	2015 Fair value Total € million	2014 Fair value Unlisted € million	2014 Fair value Listed € million	2014 Fair value Total € million
<b>Outstanding disbursements</b>						
At 1 January	4,120	2,065	6,185	4,410	1,949	6,359
Transfer between unlisted and listed	(77)	77	-	(296)	296	-
Disbursements	665	417	1,082	615	437	1,052
Disposals	(466)	(593)	(1,059)	(605)	(617)	(1,222)
Reclassification	(28)	-	(28)	-	-	-
Written off	(52)	-	(52)	(4)	-	(4)
<b>At 31 December</b>	<b>4,162</b>	<b>1,966</b>	<b>6,128</b>	<b>4,120</b>	<b>2,065</b>	<b>6,185</b>
<b>Fair value adjustment</b>						
At 1 January	(1,165)	49	(1,116)	228	(97)	131
Transfer between unlisted and listed	39	(39)	-	(431)	431	-
Movement in fair value revaluation	58	(37)	21	(962)	(285)	(1,247)
<b>At 31 December</b>	<b>(1,068)</b>	<b>(27)</b>	<b>(1,095)</b>	<b>(1,165)</b>	<b>49</b>	<b>(1,116)</b>
<b>Fair value at 31 December</b>	<b>3,094</b>	<b>1,939</b>	<b>5,033</b>	<b>2,955</b>	<b>2,114</b>	<b>5,069</b>

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 2015 (venture capital associates), is detailed under note 31, "Related parties" on page 74.

## 19. Treasury share investments at fair value through other comprehensive income

Treasury holds two strategic share investments for the purposes of accessing hedging and risk management products in the currencies of underdeveloped markets. These are in the Currency Exchange Fund N.V. and the Frontier Clearing Fund. The Bank also has a purely nominal shareholding in SWIFT as membership is required to participate in this international payments system.

	2015 € million	2014 € million
<b>Share investment designated at fair value through other comprehensive income</b>		
The Currency Exchange Fund N.V.	55	62
The Frontier Clearing Fund	8	-
SWIFT	-	-
<b>At 31 December</b>	<b>63</b>	<b>62</b>

No dividend income was received on these share investments during 2015 (2014: €2 million).



## 20. Intangible assets

	Computer software development costs 2015 € million	Computer software development costs 2014 € million
<b>Cost</b>		
At 1 January	216	195
Additions	38	21
Disposals	(152)	-
<b>At 31 December</b>	<b>102</b>	<b>216</b>
<b>Amortisation</b>		
At 1 January	(173)	(156)
Charge	(18)	(17)
Disposals	152	-
<b>At 31 December</b>	<b>(39)</b>	<b>(173)</b>
<b>Net book value at 31 December</b>	<b>63</b>	<b>43</b>

## 21. Property, technology and office equipment

	Property 2015 € million	Property under construction 2015 € million	Technology and office equipment 2015 € million	Total 2015 € million	Property 2014 € million	Property under construction 2014 € million	Technology and office equipment 2014 € million	Total 2014 € million
<b>Cost</b>								
At 1 January	67	2	16	85	54	8	21	83
Additions	8	13	3	24	3	-	2	5
Transfers	-	-	-	-	11	(6)	(5)	-
Disposals	(10)	-	(1)	(11)	(1)	-	(2)	(3)
<b>At 31 December</b>	<b>65</b>	<b>15</b>	<b>18</b>	<b>98</b>	<b>67</b>	<b>2</b>	<b>16</b>	<b>85</b>
<b>Depreciation</b>								
At 1 January	(33)	-	(12)	(45)	(27)	-	(12)	(39)
Charge	(10)	-	(2)	(12)	(7)	-	(2)	(9)
Transfers	-	-	-	-	-	-	-	-
Disposals	8	-	1	9	1	-	2	3
<b>At 31 December</b>	<b>(35)</b>	<b>-</b>	<b>(13)</b>	<b>(48)</b>	<b>(33)</b>	<b>-</b>	<b>(12)</b>	<b>(45)</b>
<b>Net book value at 31 December</b>	<b>30</b>	<b>15</b>	<b>5</b>	<b>50</b>	<b>34</b>	<b>2</b>	<b>4</b>	<b>40</b>

## 22. Borrowings

	2015 € million	2014 € million
<b>Amounts owed to credit institutions and other third parties</b>		
Amounts owed to credit institutions	(264)	(210)
Amounts held as collateral	(1,387)	(1,434)
Amounts managed on behalf of third parties <sup>60</sup>	(939)	(890)
<b>At 31 December</b>	<b>(2,590)</b>	<b>(2,534)</b>
<b>Of which current:</b>	<b>(2,590)</b>	<b>(2,534)</b>

<sup>60</sup> See note 32 on page 75 for details of third parties.

## 23. 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 2015 € million	Currency after swap 2015 € million	Bond denominations 2014 € million	Currency after swap 2014 € million
Armenian dram	(4)	-	(3)	-
Australian dollar	(763)	-	(1,425)	-
Canadian dollar	(32)	-	(67)	-
Euro	(3,255)	(4,477)	(3,851)	(8,286)
Georgian lari	(29)	(29)	(22)	-
Japanese yen	(1,307)	-	(1,423)	-
Mexican peso	(140)	-	(60)	-
New Turkish lira	(1,236)	-	(1,456)	-
New Zealand dollar	(14)	-	(14)	-
Norwegian krone	(97)	-	(133)	-
Pound sterling	(3,650)	(2,727)	(3,497)	(2,479)
Romanian leu	(59)	(22)	(61)	(4)
Russian rouble	(544)	(233)	(403)	(119)
Slovak koruna	(43)	-	(42)	-
South African rand	(287)	-	(434)	-
Swiss franc	(1)	-	(1)	-
United States dollar	(22,819)	(26,792)	(20,030)	(22,034)
<b>At 31 December</b>	<b>(34,280)</b>	<b>(34,280)</b>	<b>(32,922)</b>	<b>(32,922)</b>

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.

Analysed between	2015 € million	2014 € million
Current	(8,714)	(8,094)
Non-current	(25,566)	(24,828)
<b>Debts evidenced by certificates at 31 December</b>	<b>(34,280)</b>	<b>(32,922)</b>

During the year the Bank redeemed €0.5 billion of bonds and medium-term notes prior to maturity (2014: €1.3 billion), generating a net gain of €8 million (2014: €5 million).

## 24. Other financial liabilities

	2015 € million	2014 € million
Fair value of derivatives designated as fair value hedges	(2,559)	(1,990)
Fair value of portfolio derivatives not designated as hedges	(357)	(359)
Fair value of other derivatives held in relation to the banking portfolio	(77)	(81)
Interest payable	(283)	(250)
Other	(294)	(202)
<b>At 31 December</b>	<b>(3,570)</b>	<b>(2,882)</b>

	2015 € million	2014 € million
<b>Analysed between</b>		
Current	(1,625)	(1,001)
Non-current	(1,945)	(1,881)
<b>At 31 December</b>	<b>(3,570)</b>	<b>(2,882)</b>

## 25. Subscribed capital

	2015 Number of shares	2015 Total € million	2014 Number of shares	2014 Total € million
Authorised shared capital	3,000,000	30,000	3,000,000	30,000
<b>of which</b>				
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	986,325	9,862	986,325	9,862
Subscribed capital	2,967,435	29,674	2,967,435	29,674
Unsubscribed capital	32,565	326	32,565	326
<b>At 31 December</b>	<b>3,000,000</b>	<b>30,000</b>	<b>3,000,000</b>	<b>30,000</b>

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. These shares were originally subject to redemption in accordance with the terms of Resolution No. 128, but such provisions were removed under the terms of Resolution No. 183 approved by the Board of Governors at the 2015 Annual Meeting. 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.

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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 2015					
Members	Total shares (number)	Resulting votes <sup>61</sup> (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	17	13	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	70	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	2,781	30	24	6
Mongolia	299	299	3	2	1

<sup>61</sup> The voting power of members who have failed to pay any part of the amount due in respect of their obligations in relation to paid-in shares has been adjusted down by a percentage corresponding to the percentage which the unpaid amount due bears to the total amount of paid-in shares subscribed to by that member. Consequently the overall number of exercisable votes is lower than the total amount of subscribed shares.

## Statement of capital subscriptions

At 31 December 2015	Total shares (number)	Resulting votes (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Montenegro	599	599	6	5	1
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
Russia	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	3,001	2,376	625
Uzbekistan	4,412	4,134	44	31	13
<b>Capital subscribed by members</b>	<b>2,967,435</b>	<b>2,963,811</b>	<b>29,674</b>	<b>23,472</b>	<b>6,202</b>

## 26. Reserves and retained earnings

	2015 € million	2014 € million
<b>Special reserve</b>		
At 1 January	306	306
<b>At 31 December</b>	<b>306</b>	<b>306</b>
<b>Loan loss reserve</b>		
At 1 January	738	730
Transferred from retained earnings	421	8
<b>At 31 December</b>	<b>1,159</b>	<b>738</b>
<b>Net income allocation</b>		
At 1 January	1,952	619
Transferred (to)/from retained earnings	(1,582)	1,488
Distributions	(360)	(155)
<b>At 31 December</b>	<b>10</b>	<b>1,952</b>
<b>General reserve – other reserve</b>		
<b>Revaluation reserve</b>		
At 1 January	14	15
Net losses arising on revaluation of share investments at fair value through other comprehensive income	(7)	(1)
<b>At 31 December</b>	<b>7</b>	<b>14</b>
<b>Hedging reserve – cash flow hedges</b>		
At 1 January	-	4
Gains from changes in fair value of hedges recognised in equity	-	9
Gains reclassified to general administrative expenses	-	(13)
<b>At 31 December</b>	<b>-</b>	<b>-</b>
<b>Other</b>		
At 1 January	211	205
Internal tax for the year	8	6
<b>At 31 December</b>	<b>219</b>	<b>211</b>
<b>General reserve – other reserve at 31 December</b>	<b>226</b>	<b>225</b>
<b>General reserve – retained earnings</b>		
At 1 January	4,726	6,795
Net profit/(loss) before transfers of net income approved by the Board of Governors	802	(568)
Transferred to loan loss reserve	(421)	(8)
Transferred from/(to) net income allocation	1,582	(1,488)
Actuarial losses on defined benefit scheme	(6)	(5)
<b>General reserve retained earnings at 31 December</b>	<b>6,683</b>	<b>4,726</b>
<b>Total reserves and retained earnings at 31 December</b>	<b>8,384</b>	<b>7,947</b>



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 for the foreseeable future the size of the special reserve was adequate.

In 2005, the Bank created a **loan loss reserve** (LLR) 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. During 2015, the Board of Directors approved an additional one-off reallocation of €660 million to the LLR following the change in the estimates used for calculating unidentified impairment losses. This amount was based on the release to the income statement of €329 million<sup>62</sup> and the corresponding release to the LLR due to the changes in estimated lifetime portfolio losses. The impact of this one-off reallocation, together with the normal movements recognised in the year, resulted in the LLR increasing by a net total of €421 million in 2015.

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 €109 million (2014: €101 million).

The **hedging reserve** includes foreign exchange revaluation amounts on designated hedging instruments held by the Bank for the purposes of hedging its estimated future pound sterling operating expenditure. At 31 December 2015 there were no qualifying designated hedging instruments.

	2015 € million	2014 € million
<b>Reserves and retained earnings</b>		
Special reserve	306	306
Loan loss reserve	1,159	738
Net income allocation	10	1,952
Contingent liability <sup>63</sup>	81	330
Unrealised gains	955	1,445
<b>Total restricted reserves</b>	<b>2,511</b>	<b>4,771</b>
Unrestricted general reserves	5,873	3,176
<b>At 31 December</b>	<b>8,384</b>	<b>7,947</b>

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 (2014: €3.0 billion).

The SEMED Investment Special Fund (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 30 October 2015 the Fund's remaining resources were transferred back to the Bank following the granting of recipient country status to Egypt and the Fund was terminated. 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 2015 €230 million of the contingent liability of €330 million set aside in restricted reserves at 31 December 2014 was activated and transferred in relation to the New Safe Confinement Project in Chernobyl. The remaining €100 million contingent liability was reduced to €81 million at 31 December 2015 (as explained in note 30). In addition, the Board of Governors approved a transfer of €130 million of net income to be allocated to the EBRD Shareholder Special Fund. These amounts were reflected in the 2015 income statement, underneath net profit for the year from continuing operations.

<sup>62</sup> These adjustments to estimates are described in the Critical accounting estimates and judgements section of the report.

<sup>63</sup> See note 30 on page 74 for detail on the contingent liability.

## 27. Undrawn commitments and guarantees

Analysis by instrument	2015 € million	2014 € million
<b>Undrawn commitments</b>		
Loans	10,629	9,230
Share investments	1,754	1,673
<b>At 31 December</b>	<b>12,383</b>	<b>10,903</b>
<b>Guarantees</b>		
Trade finance guarantees <sup>64</sup>	451	500
Other guarantees <sup>65</sup>	125	128
<b>At 31 December</b>	<b>576</b>	<b>628</b>
<b>Undrawn commitments and guarantees at 31 December</b>	<b>12,959</b>	<b>11,531</b>

## 28. Operating lease commitments

The Bank leases its Headquarters building in London and some of its Resident Office buildings in the countries 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	2015 € million	2014 € million
Not later than one year	35	32
Later than one year and not later than five years	119	114
Later than five years	45	66
<b>At 31 December</b>	<b>199</b>	<b>212</b>
Expenditure incurred in the current year	32	28

The Bank had entered into sub-lease arrangements for two floors of its Headquarters building, which expired on 22 January 2015.

Receivable	2015 € million	2014 € million
Not later than one year	-	-
<b>At 31 December</b>	<b>-</b>	<b>-</b>
Income received in the current year	-	5

<sup>64</sup> 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.

<sup>65</sup> Other guarantees include unfunded full or partial risk participations.

## 29. 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 2015 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.

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 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 (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 that invest in gilts rather than corporate bonds. To mitigate against market risk the RPIC meets quarterly with the FSP's investment adviser 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 (DBO), 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:

	2015 € million	2014 € million
Fair value of plan assets	390	359
Present value of the defined benefit obligation	(403)	(359)
<b>Net defined benefit liability at 31 December</b>	<b>(13)</b>	<b>-</b>
Movement in the net defined benefit liability (included in "Other liabilities"):		
At 1 January	-	-
Contributions paid <sup>66</sup>	31	35
Total expense as below	(38)	(30)
Remeasurement effects recognised in other comprehensive income	(6)	(5)
<b>At 31 December</b>	<b>(13)</b>	<b>-</b>
The amounts recognised in the income statement are as follows:		
Current service cost	(38)	(31)
Net finance income	-	1
<b>Total included in staff costs</b>	<b>(38)</b>	<b>(30)</b>

<sup>66</sup> Contributions for 2016 are expected to be €34 million.

Principal actuarial assumptions used:

	2015	2014
Discount rate	3.50%	3.20%
Expected return on plan assets	3.50%	3.20%
Price inflation	2.75%	2.75%
Future salary increases	3.75%	3.75%
Weighted average duration of the defined benefit obligation	11 years	11 years

Sensitivity analysis on the key actuarial assumptions:

	Assumption	Sensitivity	(Decrease)/ Increase in DBO € million
Discount rate	3.50%	+/- 0.5% pa	(20)/22
Price inflation	2.75%	+/- 0.25% pa	10/(10)

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.

	2015 Listed € million	2015 Unlisted € million	2015 Total € million	2014 Listed € million	2014 Unlisted € million	2014 Total € million
<b>Plan asset allocation</b>						
Equities	185	39	224	163	35	198
Index-linked bonds	130	-	130	128	-	128
Commodities	-	16	16	-	13	13
Other	-	20	20	-	14	14
Cash	-	-	-	-	6	6
<b>Total</b>	<b>315</b>	<b>75</b>	<b>390</b>	<b>291</b>	<b>68</b>	<b>359</b>

	2015 € million	2014 € million
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
<b>Present value of defined benefit obligation at 1 January</b>	<b>(359)</b>	<b>(289)</b>
Service cost	(38)	(31)
Interest cost	(12)	(13)
Effect of exchange rate movement	(20)	(20)
Actuarial gain/(loss) arising due to changes in assumptions <sup>67</sup>	13	(14)
Benefits paid	13	8
<b>Present value of defined benefit obligation at 31 December</b>	<b>(403)</b>	<b>(359)</b>

	2015 € million	2014 € million
<b>Changes in the fair value of plan assets are as follows:</b>		
<b>Present value of plan assets at 1 January</b>	<b>359</b>	<b>289</b>
Interest income on plan assets	12	14
Return on assets greater/(less) than discount rate	(19)	9
Effect of exchange rate movement	20	20
Contributions paid	31	35
Benefits paid	(13)	(8)
<b>Present value of plan assets at 31 December</b>	<b>390</b>	<b>359</b>

<sup>67</sup> All actuarial losses relate to changes in financial assumptions.

Experience gains and losses	2015 € million	2014 € million
Defined benefit obligation	(403)	(359)
Plan assets	390	359
(Deficit)/surplus	(13)	-
Experience gains/(losses) on plan assets:		
Amount	-	2
Percentage of the present value of the plan assets	(0.1%)	0.6%
Actual return less expected return on plan assets:		
Amount	(19)	8
Percentage of the present value of the plan assets	(4.9%)	2.3%

### Defined contribution scheme

The charge recognised under the MPP was €19 million (2014: €16 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 was €3 million (2014: €4 million).

## 30. Contingent liability

On 28 November 2014, the Board of Governors adopted Resolution No. 175 *Net Income Reallocation for the New Safe Confinement Project in Chernobyl*. The resolution pledged net income to State Specialised Enterprise Chernobyl NPP (SSE ChNPP) of up to €450 million in order to help resolve a €615 million shortfall in the finances of the Chernobyl Shelter Fund (CSF). Of this €450 million, €120 million was transferred to SSE ChNPP in 2014 and a further €230 million was transferred in 2015. These amounts were recognised in the Income Statement in 2014 and 2015 respectively.

Up to €100 million will be reallocated to SSE ChNPP from the Bank’s net income by 30 June 2016 (or such later date that the Board of Directors may determine, on or before that date), subject to receipts by CSF from donors other than G7 countries and the European Commission falling below €100 million. This represents a contingent liability to the Bank, dependent on CSF’s receipt of additional commitments from other donors. As at 31 December 2015, CSF had received commitments from other donors totalling €19 million, reducing the Bank’s contingent liability to €81 million.

It is highly unlikely that any amounts reallocated to SSE ChNPP would subsequently be reimbursed to the Bank.

## 31. Related parties

The Bank has the following related parties:

### Key management personnel

Key management personnel comprise: members of the Bank’s Executive Committee, Managing Directors and the Director of the President’s Office.

In pound sterling terms, salaries and other benefits paid to key management personnel in 2015 amounted to £14 million (2014: £12 million). This comprises salary and employee benefits of £11 million (2014: £10 million) and post-employment benefits of £3 million (2014: £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 2015, according to the 2014<sup>68</sup> 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 €33.1 billion (2014: €34.7 billion) and total liabilities of €24.5 billion (2014: €26.2 billion). For the year ended 31 December 2015, these associates had income of €5.1 billion (2014: €6.7 billion) and made a net loss before tax of €1.0 billion (2014: net profit before tax of €784 million).

In addition, as at 31 December 2015, the Bank had outstanding €45 million (2014: €152 million) of financing to these companies on which it had received €1 million (2014: €16 million) of interest income during the year.

There were no venture capital associates deemed material to the Bank as at 31 December 2015.

<sup>68</sup> The 2014 financial statements are the most recent available.

## 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 2015 the Bank administered 18 Special Funds (2014: 18 Funds) with aggregate pledged contributions amounting to €1.6 billion (2014: €1.3 billion).<sup>69</sup>

The Bank acts as manager and administrator of the Special Funds for which it receives management and cost recovery fees. In 2015 these fees amounted to €3.6 million (2014: €1.4 million) of which €2.3 million was payable at 31 December 2015 (2014: €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 2015 (2014: €0.1 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 2015 the Bank had €2.0 million such exposure (2014: €1.3 million).

Audit fees payable to the Bank's auditor for the 2015 audits of the Special Funds totalled €0.1 million (2014: €0.1 million).

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

## 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.

	2015 Cumulative contributions pledged € million	2015 Cumulative contributions received € million	2015 Cumulative disbursements € million	2015 Cumulative No. of Funds	2014 Cumulative contributions pledged € million	2014 Cumulative contributions received € million	2014 Cumulative disbursements € million	2014 Cumulative No. of Funds
Technical Cooperation	2,919	2,515	1,606	431	2,629	2,280	1,505	406
Carbon	231	147	102	3	231	147	102	3
<b>Total</b>	<b>3,150</b>	<b>2,662</b>	<b>1,708</b>	<b>434</b>	<b>2,860</b>	<b>2,427</b>	<b>1,607</b>	<b>409</b>

### 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 EU 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 EU, 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 IFIs 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.

<sup>69</sup> This excludes the SEMED Investment Special Fund. See note 33 on page 76 for an explanation of this fund.

In 2013 the European Commission requested the Bank to set up a multi-lateral fund for financing of the projects dealing with the uranium mining legacy in Central Asia. In May 2015, the Bank's Board of Directors approved the Rules of the Environmental Remediation Account (ERA) and the role of the Bank as fund manager.

The table below provides a summary of these funds.

	<b>2015 Contributions pledged € million</b>	<b>2015 No. of contributors</b>	<b>2014 Contributions pledged € million</b>	<b>2014 No. of contributors</b>
Nuclear Safety Account	368	17	368	17
Chernobyl Shelter Fund	1,451	28	1,354	26
Ignalina IDSF	779	16	770	16
Kozloduy IDSF	962	11	883	11
Bohunice IDSF	654	9	623	9
NDEP <sup>70</sup>	353	12	352	12
Environmental Remediation Account	16	1	-	-

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

Audit fees payable to the Bank's auditor for the 2015 audits of these funds were €0.5 million (2014: €0.5 million).

### 33. Results from ordinary operations

The SEMED ISF, established in 2012, was terminated in October 2015 following the graduation of Egypt to recipient membership status of the Bank. While all operations undertaken by the SEMED ISF have always been recognised as part of the Bank's financial results for IFRS reporting purposes, because of the distinction between "ordinary operations" and "special operations" contained within the 'Agreement Establishing the Bank', the Bank has formerly disclosed an income statement and balance sheet for "ordinary operations" only within its financial report. With the termination of the SEMED ISF during the year, this disclosure is no longer considered useful or relevant. However a final set of financial statements will be separately prepared and audited for the Fund itself.

### 34. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements.

Since that date, observable movements in the value of the Bank's listed equities in 2016 have resulted in a decline of approximately €260 million while movements in the exchange rates of the Russian rouble, Turkish lira and Ukrainian hryvnia have reduced the fair value of the Bank's unlisted equity investments and associated derivatives by approximately €100 million. These losses of €360 million will be recognised in the 2016 financial statements.

At 24 February 2016 there had been no other material events after the reporting period to disclose.

On 24 February 2016 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be submitted for approval to the Annual Meeting of the Board of Governors to be held on 11-12 May 2016.

<sup>70</sup> The NDEP includes a nuclear and non-nuclear window.



# 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 2015. 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 presentation and measurement 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.

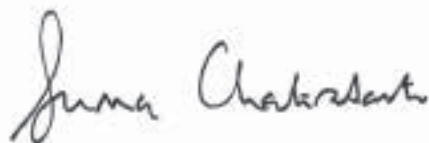
There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statements. 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 2015. Management's assessment includes the Special Funds and other fund agreements referred to in notes 31 and 32 of the *Financial Report 2015*, 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 (2013 framework). Based upon this assessment, management asserts that at 31 December 2015 the Bank maintained effective internal controls over its financial reporting as contained in the *Financial Report 2015*.

The Bank's external auditor has provided an audit opinion on the fair presentation of the financial statements presented within the *Financial Report 2015*. 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 78.



**Suma Chakrabarti**  
President



**András Simor**  
Vice President and Chief Financial Officer

European Bank for Reconstruction and Development  
London  
24 February 2016

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# Report of the independent auditor

## To the Governors of the European Bank for Reconstruction and Development

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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 2015*, 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 (2013 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 2015* 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 (2013 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  
24 February 2016



# 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 2015 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 risk management disclosures, the accounting policies and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards 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 judgement, 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 2015 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 2015* 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 2015* 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  
24 February 2016



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# Notes

**Controller's office**

Nigel Kerby  
Terry Cullen  
Gordon Jones

**Editorial production**

Lucy Plaskett  
Jane Ross  
Natasha Treloar

**Design and print management**

Daniel Kelly

**European Bank for Reconstruction and Development**

One Exchange Square  
London EC2A 2JN  
United Kingdom  
Switchboard/central contact  
Tel: +44 20 7338 6000  
Fax: +44 20 7338 6100

**Information requests**

For information requests and general enquiries,  
please use the form at [www.ebrd.com/inforequest](http://www.ebrd.com/inforequest)

**Project enquiries**

Tel: +44 20 7338 7168  
Fax: +44 20 7338 7380  
Email: [projectenquiries@ebrd.com](mailto:projectenquiries@ebrd.com)

**EBRD publications**

Tel: +44 20 7338 7553  
Fax: +44 20 7338 6102  
Email: [pubsdesk@ebrd.com](mailto:pubsdesk@ebrd.com)

**Website**

[www.ebrd.com](http://www.ebrd.com)

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Park Communications is an EMAS-certified company and its Environmental Management System is certified to ISO 14001.



670 Financial Report 2015 (E/2,000)

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## FINANCIAL REPORT 2015



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](mailto:pubsdesk@ebrd.com)



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