European Bank
for Reconstruction and Development

FINANCIAL REPORT 2019

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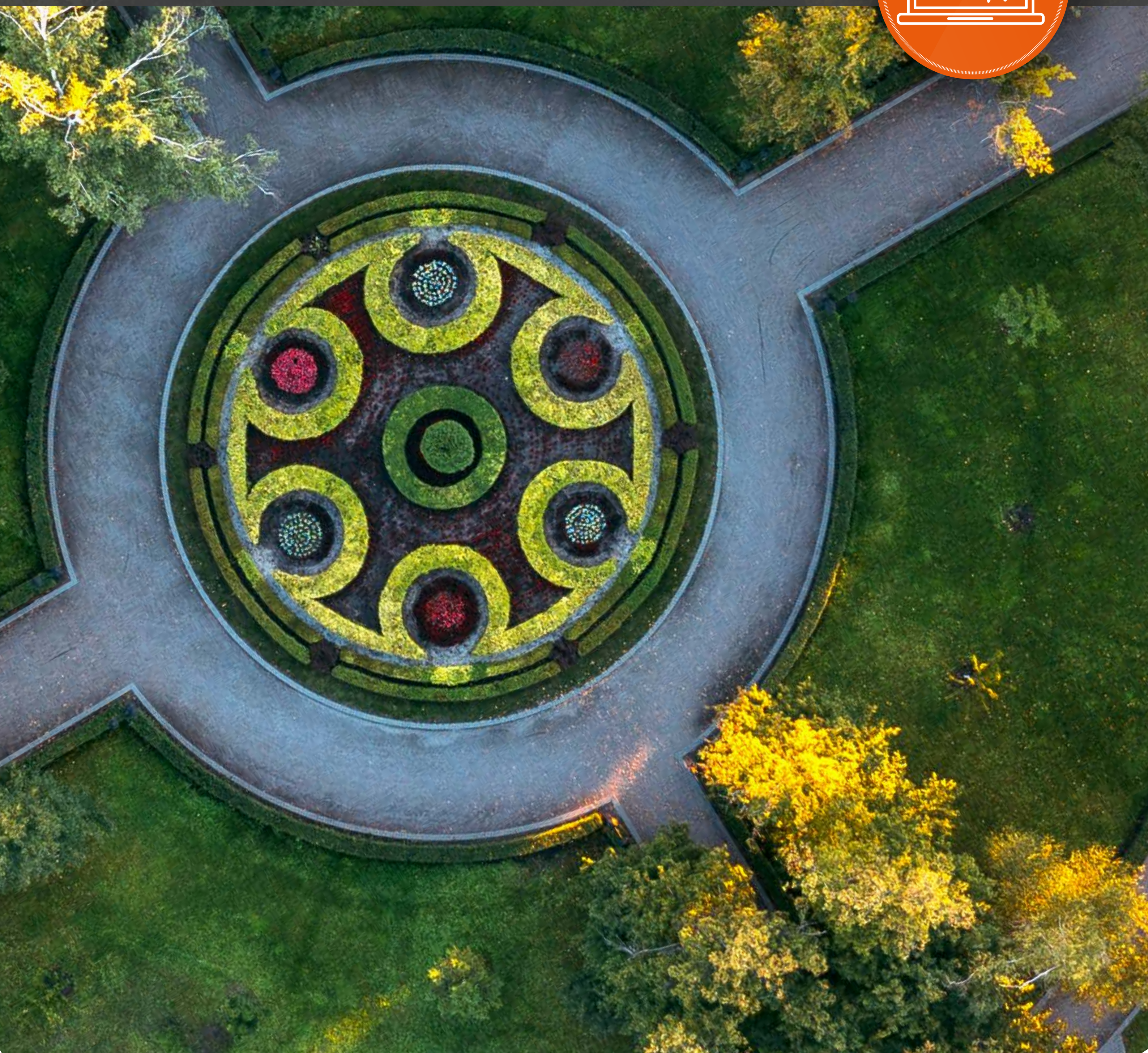

The *Financial Report 2019* includes the approved and audited financial statements required to be submitted under Article 27 of the Agreement Establishing the European Bank for Reconstruction and Development and Section 13 of its By-Laws.

The EBRD is a multilateral bank that promotes the development of the private sector and entrepreneurial initiative in 38 economies across three continents. The Bank is owned by 69 countries as well as the EU and the EIB. EBRD investments are aimed at making the economies in its regions competitive, well-governed, green, inclusive, resilient and integrated.

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Contents

Highlights

The EBRD recorded a net profit from continuing operations of €1.4 billion, an increase from the €340 million profit recorded for 2018. Of this total profit, the largest contributory factor was equity gains of €1.1 billion, significantly ahead of the €28 million gain from equities in 2018. While some of these gains were due to unrealised factors, realised profits of €819 million also increased from the €606 million realised gains recorded in 2018, with realised equity gains being the main driver.

The improved performance of the Bank's equities was predominantly driven by improving conditions across equity markets in the economies in which the Bank invests together with, to a lesser extent, an increase in the value of some of the underlying currencies of such investments (primarily the Russian rouble).

In addition, the provisioning charge of €22 million was a significant reduction from the €192 million recorded in 2018 as the overall level of provisioning did not materially change and the proportion of non-performing loans fell to 4.5 per cent from 4.7 per cent in 2018.

Allowing for income allocations of €117 million and movements recorded in the statement of other comprehensive income, the Bank's reserves increased by €1.5 billion to €11.6 billion at the end of 2019. The EBRD continues to be rated AAA with a stable outlook, and was reaffirmed as such by all three major rating agencies in 2019.

Financial results 2015-19

€ million	2019	2018	2017	2016	2015
Net profit before transfers of net income approved by the Board of Governors	1,432	340	772	992	802
Transfers of net income approved by the Board of Governors	(117)	(130)	(180)	(181)	(360)
Net profit after transfers of net income approved by the Board of Governors	1,315	210	592	811	442
Realised profit before impairment[1]	819	606	634	649	949
Paid-in capital	6,217	6,215	6,211	6,207	6,202
Reserves and retained earnings	11,613	10,068	9,961	9,351	8,504
Total members' equity	17,830	16,283	16,172	15,558	14,706

Operational results 2015-19

	2019	2018	2017	2016	2015
Number of projects[2]	452	395	412	378	381
Annual Bank Investment[3] (€ million)	10,092	9,547	9,670	9,390	9,378
Annual mobilised investment[4] (€ million)	1,262	1,467	1,054	1,693	2,336
of which private direct mobilisation	460	1,059	669	1,401	2,138
Total project value[5] (€ million)	34,884	32,570	38,439	25,470	30,303

[1] Realised profit before impairment is before unrealised fair value adjustments to share investments, provisions, loan write-offs, other unrealised amounts and net income allocations.
[2] The number of projects to which the Bank made commitments in the year.
[3] 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.
[4] Annual mobilised investment is the volume of commitments from entities other than the Bank made available to the client due to the Bank's direct involvement in mobilising external financing during the year.
[5] 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.

The Bank engages primarily in Banking and Treasury activities. Banking activities represent investments in projects that, in accordance with the Agreement Establishing the Bank, are made for the purpose of assisting the economies in which the Bank invests in their transition to open, market economies whilst fostering sustainable and inclusive growth and 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.

Banking operations

Operational results

Annual Bank Investment amounted to €10.1 billion[6] in 2019, comprising 452 investment operations and activity in 81 trade finance agreements under the Trade Facilitation Programme (2018: €9.5 billion, 395 investment operations and 71 trade finance agreements).

The EBRD invested in 38 economies in 2019 with investment by region as follows: €2.1 billion in eastern Europe and the Caucasus; €1.8 billion in the southern and eastern Mediterranean (SEMED); €1.7 billion in south-eastern Europe; €1.5 billion in central Europe and the Baltic states; €1.4 billion in central Asia; €1.0 billion in Turkey; and €0.6 billion in Cyprus and Greece combined.

The EBRD continued to support key economic sectors in line with its operational strategy. In 2019, Annual Bank Investment in the financial sector reached €3.4 billion, with the majority of financing directed via partner banks to small and medium-sized enterprises, to projects supporting environmental sustainability, to facilitating international trade and to projects developing capital markets. A further €3.9 billion was invested in the infrastructure sector and €2.9 billion in the diversified corporate sectors.

The Bank's portfolio of investment operations[7] (including undisbursed commitments) increased from €43.3 billion in 2018 to €44.6 billion by the end of 2019. In addition to the strong level of new investments, the Bank's portfolio, which is reported in euros, was impacted by the strengthening of the US dollar during 2019 (€/$1.15 at end-2018 compared with €/$1.12 at end-2019) resulting in an increase in the euro value of the Bank's US dollar denominated assets.

Gross disbursements reached €7.2 billion in 2019, in line with the €7.2 billion disbursed in 2018. Loan repayments of €4.8 billion (2018: €5.0 billion) and equity divestments of €1.0 billion (2018: €0.7 billion) resulted in operating assets[8] of €31.8 billion at end-2019, up from €30.2 billion at end-2018 reflecting the level of disbursements in 2019 and the variation in the €/$ exchange rate.

Operating assets comprised €27.1 billion of disbursed outstanding loans (2018: €24.8 billion) and €4.7 billion of disbursed outstanding equity investments at historic cost (2018: €5.4 billion) at 31 December 2019.

In addition to Annual Bank Investment, annual mobilised investment reached €1.3 billion, comprising €0.5 billion of direct mobilisation from the private sector, principally through syndicated loans and a further €0.5 billion of unfunded risk participations the Bank attracted on its own projects. In addition, the Bank mobilised €0.3 billion from public sector sources.

Total external financing (finance directly mobilised by the EBRD plus additional investment attracted by projects the Bank invested in) on signed EBRD projects reached €25.1 billion in 2019 compared with €24.3 billion in 2018, largely reflecting an increase in private non-bank financing.

The Bank's activities in 2019 remained strongly supported by donor funding, including the Special Funds, the Cooperation Funds and the Trust Funds to support the economic development of the West Bank and Gaza. These broad-based results reflect an ongoing commitment to the transition of members of the EBRD region as they build and strengthen sustainable, inclusive, open market economies.

Financial performance

Banking operations recorded a net gain of €1.5 billion[9] for 2019, compared with the gain of €0.2 billion for 2018. The Banking profit for the year is primarily attributable to €1.1 billion in gains from equity investments and €0.8 billion of net interest and fee income, offset by €0.4 billion of expenses and depreciation. In comparison to 2018, gains from equity investments increased by €1.1 billion, and provisioning charges fell by €0.2 billion, there being no significant provisioning charge in 2019. The contributions from both share investments and provisioning are expected to continue to show significant variability from year to year, given the volatility of markets in which the Bank invests.

Treasury operations

Portfolio

The value of assets under Treasury management at 31 December 2019 was €32.0 billion (2018: €29.0 billion) and borrowings were €47.5 billion (2018: €42.8 billion). The size of Treasury's balance sheet is primarily driven by the requirements of the Bank's internal liquidity policies. The Bank increased the size of Treasury's balance sheet during 2019 in order to maintain a high level of liquidity. The 2019 funding programme was completed as planned with the Bank raising medium- and long-term debt of €9.9 billion (2018: €8.7 billion).

[6] As region/sector amounts and disbursements/repayments are individually reported to one decimal point, the sum of these amounts may create a rounding difference with the Annual Bank Investment total.
[7] The Bank's loans and equity investments at cost together with undrawn commitments.
[8] Operating assets are the total amounts disbursed less reflows. They do not include accounting fair value adjustments or effective interest rate adjustments associated with amortised cost assets.
[9] See note 2 on page 55 for further detail.

Financial performance

Before allowing for the impact of hedge accounting adjustments, Treasury returned a profit of €140 million in 2019 compared with the €96 million gain in 2018. Treasury's performance is internally evaluated before the impact of non-qualifying and ineffective hedges, which is considered not to have economic substance.[10] After allowing for hedge accounting adjustments Treasury's operating loss for 2019 was €95 million (2018: €117 million profit). Treasury's performance is primarily driven by the generation of net interest income and the mark-to-market valuations 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, of which subscribed capital amounts to €29.8 billion and paid-in capital €6.2 billion. This is materially unchanged from 31 December 2018.

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.

Reserves

The Bank's reserves increased by €1.5 billion to €11.6 billion at the end of 2019.

Expenses

General administrative expenses for 2019, inclusive of depreciation and amortisation, were €435 million (2018: €420 million). The pound sterling equivalent of this figure was £388 million (2018: £371 million).

Outlook for 2020

This document was approved for issue by the Board of Directors on 7 April 2020. At this point it was clear that the Bank's outlook for 2020 might be heavily influenced by the impact on the global economy of the Covid-19 pandemic.

The main elements contributing to volatility in the Bank's net earnings are the valuations of its equity portfolio and the level of provisioning against its loan book. The economic impact of the crisis is expected to result in substantial losses for the Bank in 2020 due to both downward pressure on the Bank's equity valuations and a sizeable increase in loan provisioning.

Nevertheless the Bank expects its capital strength and liquidity to remain ample to support its operations throughout 2020 and beyond.

[10] See note 9 on page 58 for a more detailed explanation.

Key financial indicators 2015-19

Key financial indicators are presented for the Bank over the last five years. These ratios are influenced by the growth in Banking and Treasury portfolios 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 mandated objectives, while underlying ratios remain at prudent levels broadly consistent with the upper quartile among multilateral development banks in terms of capital strength and cost efficiency.[11]

The Bank's profits and reserves show volatility due, in particular, to movements in the valuations of share investments. Excluding these, and other unrealised movements, the Bank continues to grow its members' equity, achieving a 4.7 per cent return in 2019, and an average return on equity of 4.4 per cent over the last five years (2014-18: an average of 4.0 per cent). The Bank's non-performing loan ratio decreased to 4.5 per cent at 31 December 2019 from 4.7 per cent a year earlier.

In terms of cost efficiency, the cost-to-income ratio has decreased by almost half from 44.1 per cent in 2018 to 23.0 per cent in 2019. This mainly reflects significantly higher profit, in particular from share investments. The Bank monitors this metric on a five-year rolling average basis due to the high degree of volatility in the income from share investments. The 2019 five-year rolling average was 32.6 per cent (2018: 41.9 per cent).

Leverage – debt divided by members' equity – has increased to 266.4 per cent at 31 December 2019 (2018: 263.2 per cent), mainly attributable to growth in the stock of debt in order to maintain an adequate level of liquidity.

The Bank's capital strength is illustrated by the level of members' equity, which represented 26.2 per cent of total assets at 31 December 2019 (2018: 26.4 per cent), including Treasury assets which have an average risk rating between AA and AA- with an average maturity of 1.5 years (2018: 1.6 years). Members' equity represented 57.5 per cent of Banking assets (development-related exposure) at 31 December 2019 (2018: 57.6 per cent). The Bank's capital strength and strong liquidity position is further reflected in its AAA rating with a stable outlook affirmed by all three major rating agencies in 2019.

	2019	2018	2017	2016	2015
Financial performance					
1: Return on members' equity – net profit basis	10.2%	1.5%	5.1%	7.0%	6.5%
2: Return on members' equity – realised after provisions	4.7%	1.9%	4.8%	4.7%	5.7%
Efficiency					
3: Cost-to-income ratio	23.0%	44.1%	35.3%	30.7%	38.8%
Portfolio quality					
4: Non-performing loans ratio	4.5%	4.7%	3.9%	5.5%	5.9%
5: Average rating of Treasury liquid assets	2.4	2.3	2.3	2.3	2.2
6: Average maturity of Treasury liquid assets (tenor in years)	1.5	1.6	1.4	1.3	1.3
Liquidity and leverage					
7: Liquid assets/undisbursed Banking investments plus one-year debt service	94.9%	96.5%	91.6%	91.4%	92.5%
8: Debt/members' equity: leverage ratio	266.4%	263.2%	233.7%	244.5%	250.9%
Capital strength					
9: Members' equity/total assets	26.2%	26.4%	28.8%	27.6%	26.7%
10: Members' equity/Banking assets	57.5%	57.6%	60.0%	56.4%	56.3%

Explanatory notes on ratios above

1. (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 and capital subscriptions accounted for during the year.
2. (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 and capital subscriptions accounted for during the year.
3. Total administrative expenses (including depreciation and amortisation) divided by total operating income before provisions for impairment but including all fair value movements on both Banking and Treasury investments.
4. Total non-performing loans as a percentage of total loan operating assets before provisions and fair value adjustments.
5. Represents the average credit rating weighted by Treasury liquid assets based on the Bank's internal rating scale on page 29.
6. 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.
7. 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. From 2016, debt redemptions have been based on expected rather than contractual maturity.
8. Total borrowings divided by total members' equity.
9. Total members' equity (adjusted for paid-in capital receivable) divided by total assets.
10. Total members' equity (adjusted for paid-in capital receivable) divided by total net book value of Banking assets.

[11] Based on the 2018 audited financial results across multilateral development banks.

Additional reporting and disclosures

Corporate governance

The Bank 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 71 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
- 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 President

The President is elected by the Board of Governors. The President 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 during 2019.

Management committees	Chair	Purpose of the Committee	Meeting frequency
Executive Committee	President	Advises the President on all aspects of bank-wide strategic significance, with the exception of matters that fall within the competence of other management committees, as defined in their terms of reference.	Fortnightly
Operations Committee	First Vice President and Head of Client Services	Considers matters related to the Bank's investment operations.	Weekly
Strategy and Policy Committee	Vice President, Policy and Partnerships	Considers matters that fall within the overall responsibility of the Vice President, Policy and Partnerships; and certain matters falling within the responsibility of the Chief Economist. It focuses primarily on transition, strategy and policy work: country, sector and thematic strategies and policy-related research.	Fortnightly
Risk Committee	Vice President, Risk and Compliance and Chief Risk Officer	Considers matters that fall within the responsibility of the Vice President, Risk and Compliance, Chief Risk Officer, such as 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
Asset and Liability Committee	Senior Vice President, Chief Financial Officer and Chief Operating Officer	Considers matters that fall within the overall accountability of the Senior Vice President, Chief Financial Officer and Chief Operating Officer in their capacity of supervising Treasury activities and liquidity management at the Bank: areas of liquidity policy and management, funding and other Treasury activities, including monitoring business plan implementation, limit compliance and hedging strategy implementation.	Quarterly
Equity Committee	First Vice President and Head of Client Services	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
Crisis Management Team	Vice President, Risk and Compliance and Chief Risk 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
Information Technology Governance Committee	Vice President, Human Resources, Corporate Services 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
Procurement Complaints Committee	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 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

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 functionally to the President and has full and free access to the Chair of the Audit Committee. 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 on 16 November 2016, and available at www.ebrd.com[12] 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.

As part of its standard-setting role, OCCO is responsible for developing and recommending the policies, rules, procedures and processes governing the ethical behaviour of Board Officials, management and staff of the Bank; for establishing the standards of integrity that the Bank expects of its clients, project sponsors and other counterparties; and for ensuring that policies, rules, procedures and processes are effectively communicated and implemented. Its objective is to ensure that the internal standards of integrity at the EBRD are in line with international best practice, creating a demonstration effect in the economies where the Bank invests.

[12] www.ebrd.com/documents/occo/ebrds-integrity-risk-policy-and-the-terms-of-reference-for-the-office-of-the-chief-compliance-officer.pdf

The EBRD's Code of Conduct for Officials of the Board of Directors of the EBRD and Code of Conduct for EBRD Personnel (the Codes) are the Bank's core ethical policies that allow it to assess, and mitigate, personal conduct-related risks. The Codes are approved by the Bank's Board of Governors and represent and articulate the values, duties, obligations and ethical standards that the EBRD expects of its Board Officials and staff members. The Codes set out the types of acts or omissions that may be considered to amount to misconduct and the procedures to be followed with respect to investigating and, where appropriate, sanctioning such unethical behaviour. The Codes each provide for their own review no later than five years from the date on which the relevant Code became effective. The Codes, and related Guidance Notes, were last substantively revised in 2018 and came into effect on 23 May 2018. The revised Codes can be found at: www.ebrd.com/integrity-and-compliance.html.

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 in question during the investigative and disciplinary processes and provide safeguards for the subject of the investigation. Allegations of misconduct on the part of Board Officials, the President, Vice Presidents, Chief Evaluator and the CCO are dealt with in accordance with the provisions of the Codes. 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 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 and further updated in October 2017. While the updates in 2017 were largely non-substantive, the 2015 revisions included 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. Details of the individuals, entities and sanctions are posted at 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 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 members of the affected community. The Project Complaint Mechanism (PCM) is administered by a dedicated PCM Officer. 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. In 2019, the Board of Directors approved the new Project Accountability Policy (PAP), creating a new accountability mechanism to replace the PCM Rules of Procedure. The revised accountability mechanism vests decision-making in relation to complaints with the Head of the Independent Project Accountability Mechanism (IPAM Head) and the IPAM Head reports directly to the Board, with no reporting line to the CCO. The PAP will take effect in 2020, once the IPAM Head is appointed.

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. It can be found at 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 2019* 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 Senior Vice President, Chief Financial Officer and Chief Operating Officer 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 on page 27.

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 completed its first four-year term in 2014 and was re-appointed for the five-year period 2015-19. In 2019 the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's next external auditor for the five-year period 2020-24 following the completion of Deloitte's second term.

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 the service is approved by the Audit Committee. However, the external auditor can provide consultancy services paid for by Cooperation Funds relating to client projects; such incidences are reported annually to the Audit Committee.

Reward policy

The Bank has designed a market-oriented staff reward policy, within the constraints of the Bank's status as an international financial institution (IFI), with the following principles that reward should:

- be competitively positioned in order to attract and retain high calibre employees from a wide range of our regions
- promote a culture where consistent high performance and behaviours that reflect EBRD values and competencies are recognised and rewarded
- facilitate mobility in support of business objectives and continued staff development
- deliver a high-quality package of benefits on a global basis which provides an appropriate level of security and is relevant to a diverse employee base
- engage with employees through an open and transparent total reward process.

To help meet these principles, the Bank uses market comparators to evaluate its staff compensation and aims to ensure that salary and performance-based compensation awards are 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,[13] the President and Vice Presidents, are covered by medical insurance, life insurance and participate in the Bank's retirement plans. Certain staff hired from abroad may be eligible for some allowances to assist with costs related to their relocation.

There are two retirement plans in operation. The Money Purchase Plan is a defined contribution plan to which both the Bank and staff contribute, with Plan members making individual investment decisions. The Final Salary Plan (FSP) is a defined benefit plan, 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 the operation of the plans is monitored by a Retirement Plan Committee, a Retirement Plan Administration Committee and a Retirement Plan Investment Committee.

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

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 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:

	2019 £ 000	2019 € 000	2018 £ 000	2018 € 000
President	374	427	364	412
First Vice President and Head of Client Services Group	343	391	334	378
Senior Vice President, Chief Financial Officer and Chief Operating Officer[14]	328	374	319	361
Vice President, Risk and Compliance and Chief Risk Officer[15]	313	357	305	345
Vice President, Banking	313	357	305	345
Vice President, Human Resources, Corporate Services and Chief Administrative Officer	313	357	305	345
Vice President, Policy and Partnerships	313	357	305	345

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 constituency 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:

	2019 £ 000	2019 € 000	2018 £ 000	2018 € 000
Director	158	180	154	174
Alternate Director	131	149	128	145

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 35 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 eligible members of this group was 17 per cent of annual gross salaries in 2019 (2018: 21 per cent).

	2019 £ 000	2019 € 000	2018 £ 000	2018 € 000
Minimum	124	141	124	140
Median	192	219	180	204
Maximum	291	332	283	320
No. in group[16]	35	35	32	32

[14] Change of personnel on 16 May 2019. Position vacant as at 31 December 2019.
[15] Change of personnel on 20 December 2019. New incumbent 21 December 2019.
[16] The number in this group has increased in comparison to 2018 because there were a number of unfilled positions at 31 December 2018.

Income statement

These financial statements have been approved for issue by the Board of Directors on 7 April 2020.

For the year ended 31 December 2019	Note	Year to 31 Dec 2019 € million	Year to 31 Dec 2018 € million
Interest and similar income			
From Banking loans		1,239	1,064
From fixed-income debt securities and other interest		462	348
Interest expense and similar charges		(988)	(831)
Net interest income on derivatives		107	170
Net interest income	3	820	751
Fee and commission income		103	101
Fee and commission expense		(21)	(8)
Net fee and commission income	4	82	93
Dividend income		215	204
Net gains/(losses) from share investments at fair value through profit or loss	5	922	(176)
Net (losses)/gains from loans	6	(8)	25
Net gains from Treasury assets held at amortised cost	7	2	-
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	8	91	34
Fair value movement on non-qualifying and ineffective hedges	9	(235)	21
Impairment provisions on Banking loan investments	10	(17)	(192)
Impairment provisions on guarantees		(5)	-
General administrative expenses	11	(381)	(391)
Depreciation and amortisation	20, 21	(54)	(29)
Net profit for the year from continuing operations		1,432	340
Transfers of net income approved by the Board of Governors	26	(117)	(130)
Net profit after transfers of net income approved by the Board of Governors		1,315	210
Attributable to:			
Equity holders		1,315	210

Pages 16 to 79 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2019	Note	Year to 31 December 2019 € million	Year to 31 December 2018 € million
Net profit after transfers of net income approved by the Board of Governors		1,315	210
Other comprehensive income			
1: Items that will not be reclassified subsequently to profit or loss			
– Gains/(losses) on share investments designated as fair value through other comprehensive income	19	19	(1)
– Actuarial gains/(losses) on defined benefit scheme	29	18	(10)
2: Items that may be reclassified subsequently to profit or loss			
– (Losses)/gains on cash flow hedges		(2)	1
– Gains/(losses) on fair value hedges		87	(46)
– Gains/(losses) on loans designated as fair value through other comprehensive income		108	(17)
Total comprehensive income		1,545	137
Attributable to:			
Equity holders		1,545	137

Pages 16 to 79 are an integral part of these financial statements.

Balance sheet

At 31 December 2019	Note	€ million	31 Dec 2019 € million	€ million	31 Dec 2018 € million
Assets					
Placements with and advances to credit institutions	12	18,368		16,014	
Debt securities	13				
At fair value through profit or loss		1,789		1,604	
At amortised cost		11,840		11,343	
			31,997		28,961
Other financial assets	14				
Derivative financial instruments		4,300		3,948	
Other financial assets		456		381	
			4,756		4,329
Loan investments					
Banking portfolio:					
Loans at amortised cost	15	24,118		22,413	
Less: Provisions for impairment	10	(946)		(981)	
Loans at fair value through other comprehensive income	16	2,494		1,737	
Loans at fair value through profit or loss	17	409		460	
			26,075		23,629
Share investments					
Banking portfolio:					
At fair value through profit or loss	18	5,070		4,745	
Treasury portfolio:					
Share investments at fair value through other comprehensive income	19	112		75	
			5,182		4,820
Intangible assets	20		69		62
Property, technology and equipment	21		122		50
Total assets			68,201		61,851
Liabilities					
Borrowings					
Amounts owed to credit institutions and other third parties	22	1,669		2,107	
Debts evidenced by certificates	23	45,821		40,729	
			47,490		42,836
Other financial liabilities	24				
Derivative financial instruments		1,935		2,079	
Other financial liabilities		946		653	
			2,881		2,732
Total liabilities			50,371		45,568
Members' equity attributable to equity holders					
Paid-in capital	25	6,217		6,215	
Reserves and retained earnings	26	11,613		10,068	
Total members' equity			17,830		16,283
Total liabilities and members' equity			68,201		61,851
Memorandum items					
Undrawn commitments	27		14,254		13,068

Pages 16 to 79 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2019	Subscribed capital € million	Callable capital € million	Revaluation reserve € million	Hedging reserve € million	Actuarial remeasurement € million	Retained earnings € million	Total equity € million
At 31 December 2017	29,723	(23,512)	36	1	14	9,874	16,136
Total comprehensive income for the year	-	-	(18)	(45)	(10)	210	137
Internal tax for the year	-	-	-	-	-	6	6
Capital subscriptions	20	(16)	-	-	-	-	4
At 31 December 2018	29,743	(23,528)	18	(44)	4	10,090	16,283
At 31 December 2018	29,743	(23,528)	18	(44)	4	10,090	16,283
Total comprehensive income for the year	-	-	127	85	18	1,315	1,545
Capital subscriptions	12	(10)	-	-	-	-	2
At 31 December 2019	29,755	(23,538)	145	41	22	11,405	17,830

Refer to note 26 "Reserves and retained earnings" on page 71 for a further explanation of the Bank's reserves.

Pages 16 to 79 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2019	€ million	Year to 31 Dec 2019 € million	€ million	Year to 31 Dec 2018 € million
Cash flows from operating activities				
Net profit for the year	1,315		210	
Adjustments to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Depreciation and amortisation	54		29	
Gross provisions charge for Banking loan losses and guarantees	22		192	
Fair value movement on share investments	(922)		(126)	
Fair value movement on loans held at fair value through profit or loss	8		19	
Fair value movement on Treasury investments	(91)		75	
Other unrealised fair value movements	236		23	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayments of Banking loans	6,276		6,301	
Funds advanced for Banking loans	(8,413)		(7,835)	
Proceeds from sale of Banking share investments	1,307		606	
Funds advanced for Banking share investments	(374)		(660)	
Net cash flows from Treasury derivative settlements	81		(172)	
Net placements to credit institutions	(3,071)		(1,780)	
Working capital adjustment:				
Movement in interest income	(112)		107	
Movement in interest expense	78		65	
Movement in net fee and commission income	(4)		12	
Movement in net income allocations payable	95		-	
Movement in accrued expenses	22		15	
Net cash used in operating activities		(3,493)		(2,919)
Cash flows from investing activities				
Proceeds from debt securities at amortised cost	8,353		9,350	
Purchases of debt securities at amortised cost	(8,548)		(11,201)	
Proceeds from debt securities at fair value through profit or loss	2,719		2,415	
Purchases of debt securities at fair value through profit or loss	(2,748)		(3,052)	
Purchases of Treasury share investments	(27)		-	
Purchase of intangible assets, property, technology and equipment	(30)		(24)	
Cash flows used in investing activities		(281)		(2,512)
Cash flows from financing activities				
Capital received	4		7	
Lease liability payments	(28)		-	
Issue of debts evidenced by certificates	22,093		27,711	
Redemption of debts evidenced by certificates	(18,731)		(23,014)	
Net cash from financing activities		3,338		4,704
Net decrease in cash and cash equivalents		(436)		(727)
Cash and cash equivalents at beginning of the year		5,544		6,271
Cash and cash equivalents at 31 December[17]		5,108		5,544

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 2019 balance is €8 million restricted for technical assistance to be provided to member economies in the SEMED region (2018: €8 million).

Pages 16 to 79 are an integral part of these financial statements.

[17] See note 12 on page 62 for total amounts in "placements with and advances to credit institutions".

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. In addition, financial assets and liabilities subject to amortised cost measurement which form part of a qualifying hedge relationship have been accounted for in accordance with hedge accounting rules – see “Derivative financial instruments and hedge accounting” on page 19.

The financial statements have been prepared on a going concern basis. The Bank’s Board of Directors considered the Bank’s ongoing financial sustainability when approving the Bank’s “Strategy Implementation Plan 2020-22” in February 2020, which analysed the Bank’s capital and liquidity position. The going concern assessment was confirmed by the President and Vice President, Chief Financial Officer on 7 April 2020, 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 “Significant accounting policies and judgements” on page 17 and “Critical accounting estimates” on page 23.

New and amended IFRS mandatorily effective for the current reporting period

There are a number of new standards, and amendments to existing standards, effective for the current reporting period which have negligible or no impact on the Bank’s financial statements, namely:

- IFRIC 23: Uncertainty over Income Tax Treatments
- Amendments to IAS 28: Investments in Associates and Joint Ventures
- Amendments to IFRS 9: Financial Instruments
- Amendments to IAS 19: Employee Benefits

In addition, IFRS 16: Leases became effective in the current reporting period. For details of the impact of implementing the standard see the significant accounting policies section on page 17 and note 28 on page 73.

IFRS not yet mandatorily effective but adopted early

On 26 September 2019, the IASB issued “Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)” as a first reaction to the potential effects that the interbank offer rate (IBOR) reform could have on financial reporting. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2020, the Bank has adopted these amendments in the current reporting period. Further detail on the implementation of these amendments is in the significant accounting policies section on page 17.

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
Amendments to: IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors	Provides clarifications on the definition of “material”. Effective for annual reporting periods beginning on or after 1 January 2020.	The Bank anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IFRS 3: Business Combinations	Provides guidance for when to account for acquisitions either as either a business or as a group of assets. Effective for annual reporting periods beginning on or after 1 January 2020.	The Bank anticipates no material impact as a result of adopting this standard.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2021.	The Bank has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2022.	The Bank anticipates no material impact as a result of adopting the changes to the standard.

B. Significant accounting policies and judgements

Financial assets – classification and measurement

The classification of the Bank's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income and those measured at fair value through profit or loss.

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.

Financial assets at fair value through other comprehensive income

The Bank accounts for a small number of strategic equity investments[18] at fair value through other comprehensive income with no recycling of such fair value gains or losses through the income statement. Such a classification is available only for equity investments that are not held for trading purposes following an irrevocable election to do so at the point of initial recognition.

In addition to the above class of financial assets at fair value through other comprehensive income, a category is available whereby gains or losses recognised in other comprehensive income are subsequently recognised in the income statement. An investment is classified as "fair value through other comprehensive income" in this manner only if both of the following criteria are met: the objective of the Bank's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; 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 fair value, but the gains and losses on these investments recognised in the income statement are measured using the effective interest method less any impairment. The difference between the fair value gains and losses and the gains and losses recognised in the income statement is recognised in the statement of other comprehensive income. The Bank's financial assets at fair value through other comprehensive income are recognised at settlement date.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset 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 financial asset 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.

Financial assets 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 an equity instrument, the Bank determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attached to the instrument in accordance with IFRS.

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

[18] See note 19 to the financial statements on page 65.

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.

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:

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

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

Financial liabilities

With the exception of derivative instruments that must be measured at fair value, and the Bank's obligations to the Equity Participation Fund,[19] 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 movements 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 of funding Treasury's trading assets which is recognised within "net gains from Treasury activities at fair value through profit or loss".

Where a 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. IFRS 9 does not require bifurcation of embedded derivatives in the case of financial assets.

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 five purposes:

1. To swap the majority of the Bank's issued securities, excluding commercial paper, back to back so as to convert the issuance proceeds into the currency and interest rate structure sought by the Bank.
2. To manage the net interest rate risks and foreign exchange risks arising from all of its financial assets and liabilities.
3. To provide potential exit strategies for its unlisted equity investments through negotiated put options.
4. Through currency swaps, to manage funding requirements for the Bank's loan portfolio.
5. To manage the foreign exchange risks arising from the Bank's expenses, the majority of which are incurred in pound sterling.

All derivatives are measured at fair value through profit and loss 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 cash flows are recognised therein. Any hedge ineffectiveness will result in the relevant proportion of the fair value remaining in the income statement.

Derivative 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.

[19] See note 31 on page 79 for further details on the Equity Participation Fund.

The Bank applies additional valuation measures for its over-the-counter (OTC)[20] derivatives portfolio to reflect credit and funding cost adjustments which the Bank reasonably anticipates will be incorporated into the exit price for such instruments.

In line with market practice, the Bank also applies valuation adjustments to these derivatives attributable to "cheapest-to-deliver" factors, reflecting the value of terms and conditions relating to the posting of collateral in the Bank's Credit Support Annexes (CSA) to the ISDA Master Agreements.

The valuation adjustment deriving from these factors is detailed within the Risk Management section of the report on page 38.

Hedge accounting

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).

The Bank applies hedge accounting treatment to individually identified hedge relationships. 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.

The gains and losses associated with these hedge relationships are recognised within "Fair value movement on non-qualifying and ineffective hedges". 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.

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.

To qualify for hedge accounting under IFRS 9, there must be a demonstrable economic relationship between the hedged item and the hedging instrument, where credit risk is not a dominant factor in the value changes expected in that relationship.

One of the principal causes of ineffectiveness in the Bank's fair value hedging relationships is the foreign currency basis spread, a pricing factor applicable to the cross-currency swaps designated as hedging items in many of the Bank's hedge relationships. Changes in foreign currency basis risk leads to hedge ineffectiveness as it causes movements in the value of the hedging instrument, the cross-currency swap, but does not directly lead to movements in the value of the hedged item. The Bank applies the option available under IFRS 9 to separate the foreign currency basis spread of a financial instrument in a hedging relationship, with changes in its value recognised in other comprehensive income. The amounts recognised in other comprehensive income are subsequently amortised through the income statement over the remaining life of the hedging relationship in "Fair value movement on non-qualifying and ineffective hedges".

Any remaining ineffectiveness arising from the Bank's fair value hedging relationships after separating the foreign currency basis risk is recognised in "Fair value movement on non-qualifying and ineffective hedges" in the income statement.

Cash flow hedges

The Bank typically engages in cash flow hedges to minimise the exchange rate risk associated with the fact that the majority of its administrative expenses are incurred in pound sterling. The movement in the fair value of these hedges is recognised as other comprehensive income until such time as the relevant expenditure is incurred, when the hedge gains or losses will be reflected as part of the euro-equivalent expenses for the year. The amount and timing of such hedges fluctuate in line with the Bank's view on opportune moments to execute the hedges. At 31 December 2019 the Bank had yet to hedge its 2020 budgeted pound sterling expenditure.

For further information on risk and related management policies see the Risk Management section of this report on page 27.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Bank is exposed are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks. At present the impact on the affected benchmarks is uncertain as the timing and precise form of the new benchmarks has yet to be finalised.

[20] OTC derivatives are those not settled through a central clearing party.

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

These amendments are relevant to the Bank in that the majority of the Bank's hedging relationships contain exposure to affected interest rate benchmarks. Uncertainty over the future cash flows of instruments in a hedging relationship could lead to the discontinuation of the hedge under the unadjusted accounting standards. Consequently, the Bank has adopted these amendments prior to their mandatory implementation date. Doing so allows the Bank's hedge accounting relationships to continue to qualify for hedge accounting during the current period of uncertainty, even though there is uncertainty about the replacement of the benchmarks undergoing reform that the Bank's hedged items and hedging instruments are linked to.

Within its fair value hedging relationships the Bank is exposed, through its hedging instruments, to interest rate benchmarks which are subject to the reforms described above. The Bank's exposures through these instruments are listed in the table below.

At 31 December 2019 Hedged Item	Benchmark	Pay/Receive	Matures pre-2022 Nominal € million	Matures 2022 or later Nominal € million	Total Nominal € million
Debt securities	GBP LIBOR	Receive	-	32	32
	USD LIBOR	Receive	1,616	4,816	6,432
Debts evidenced by certificates	CHF LIBOR	Receive	19	69	88
	EUR LIBOR	Pay	-	569	569
	GBP LIBOR	Pay	59	723	782
	GBP LIBOR	Receive	59	952	1,011
	JPY LIBOR	Pay	-	54	54
	JPY LIBOR	Receive	25	190	215
	USD LIBOR	Pay	12,052	12,566	24,618
	USD LIBOR	Receive	184	263	447

In addition to these exposures, the Bank has significant volumes of derivative and non-derivative financial instruments in its banking and trading books, which are also exposed to interest rate benchmarks undergoing reform, that are not included in hedge accounting relationships.

Issued financial guarantees

Issued financial guarantees are initially recognised at their fair value, with an asset representing the discounted value of the guarantee fee income and a liability representing the expected credit loss (ECL). After initial recognition, where the expected credit losses exceed the value of the guarantee asset, these losses are recognised in the income statement. The financial guarantee assets and liabilities are recognised within other financial assets and other financial liabilities.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)

Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis (the general provision). Under IFRS 9 the Bank's methodology is to calculate impairment on an expected credit loss basis.

A "three-stage" model for impairment is applied based on changes in credit quality since origination,[21] with the stage allocation being based on the financial asset's probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12-month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of impairment is identified, the asset is reallocated to Stage 3 as described below.

The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement. The Bank additionally makes transfers within its reserves, maintaining a separate loan loss reserve to supplement the cumulative

[21] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Bank's loans at amortised cost), not the date of the initial recognition of the asset on the Bank's balance sheet.

amount provisioned through the Bank's income statement for Stage 1 assets. The amounts held within the loan loss reserve equate to the difference between the ECL calculated on a lifetime basis and the ECL calculated over a 12-month horizon for the assets held in Stage 1.

Financial assets at amortised cost – non-performing assets (Stage 3)

Where there is objective evidence that an identified loan asset is impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. 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.

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. After initial impairment, subsequent 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 carrying amount of the asset is reduced directly only through repayment or upon write-off. 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 may be 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.

Financial assets at fair value through other comprehensive income

Impairment of financial assets held at fair value through other comprehensive income is assessed in the same way as for financial assets at amortised cost. The impairment gains and losses thus calculated are recorded in the income statement within Impairment provisions on Banking loan investments. Unlike amortised cost instruments, on the balance sheet no separate provision is recorded, with the impairment gains and losses instead forming part of the overall fair value of these assets.

Statement of cash flows

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

Foreign currencies

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

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

Capital subscriptions

The Bank's share capital is denominated in euros and is divided into paid-in and callable shares. Paid-in shares are recognised on the balance sheet as members' equity. Callable shares will not be recorded on the balance sheet unless the Bank exercises its right to call the shares.

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 to ten years.

Property, technology and equipment

In 2017 the Bank took legal ownership of a stock of railcars in part settlement of a loan which was in default and which had been fully provisioned. The loan and associated provision were each reduced by the value attributed to the railcars. The railcars are classified as "property, technology and equipment" with income generated from the operation of the railcars classified as fee and commission income.

Property, technology and 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 three and ten years
Other (railcars)	20 years

Accounting for leases – prior to 1 January 2019

From 1 January 2019, the Bank has adopted IFRS 16: Leases as issued by the IASB in 2016. Prior to 1 January 2019, the Bank accounted for leases in accordance with IAS 17: Leases. Under this standard, leases of assets under which all the risks and rewards of ownership were effectively retained by the lessor were classified as operating leases. The Bank had entered into such leases for its office accommodation, both in its UK Headquarters and its Resident Offices in other economies in which it had a presence. Payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease. When an operating lease was terminated before the lease period had expired, any payment required to be made to the lessor by way of penalty was recognised as an expense in the period in which the termination took place. In accordance with the transition requirements of IFRS 16, the Bank has opted to apply the new standard retrospectively with the cumulative effect of applying the standard recognised at 1 January 2019. Accordingly the presentation of 2018 lease accounting remains unchanged.

Accounting for leases – from 1 January 2019

Under IFRS 16, short-term leases of 12 months or less and low-value leases of assets worth less than £5,000 continue to be accounted for as a general administrative expense, recognised in the income statement on a straight-line basis over the period of the lease.

The leases for the Bank's office accommodation do not qualify for this simplified treatment. Instead, at the inception of such a lease, the Bank recognises a lease liability and a "right of use" asset on the balance sheet.

The lease liability is calculated as the present value of the remaining lease payments, discounted at the Bank's incremental cost of borrowing. Over the life of the lease the discount to the future lease payments is unwound and recognised in the income statement as an interest expense. The right of use asset represents the value to the Bank of its right to operate the leased asset over the life of the lease. This asset is depreciated on a straight-line basis over the life of the lease. The total cost of the lease is therefore recognised through a combination of both interest expense and depreciation over the life of the lease. The effect on the balance sheet of adopting IFRS 16 as at 1 January 2019 is shown in note 28 on page 73.

Interest, fees, commissions and dividends

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument. 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 usually 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, including loan commitment fees 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 IFRS 9 when the Bank's right to receive payments has been established, and when it is probable that the economic benefits will flow to the Bank and the amount can be reliably measured.

Staff retirement schemes

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

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

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

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

The defined benefit cost charged to the income statement represents the service cost, the net interest income/(cost) and any foreign exchange movements 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.

Other critical judgements

In the process of applying its accounting policies the Bank makes various judgements. The judgements that the Bank has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the "Critical accounting estimates" section below. There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Bank to make estimates 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 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 economies 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 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 are 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 on page 52.

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 third-party valuations, whole firm valuations based on multiples, discounted cash flow models and options pricing models. These models incorporate relevant market data pertaining to interest rates, a borrower's credit spreads, underlying equity prices and dividend cash flows. Where relevant market data are 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 65. 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 on page 51.

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 (page 16) and further explained under credit risk within the Risk Management section of the report (page 28).

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default (PD), whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

A number of critical accounting estimates and judgements are therefore made in the calculation of impairment of loan investments.

Stage assessment

In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2, a combination of quantitative and qualitative risk metrics are employed. All loans with at least a 3-notch downgrade in PD on the Bank's internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the "watch list" are transitioned to Stage 2.[22]

Point-in-time PD rates

To calculate expected credit losses for both Stage 1 and Stage 2 assets, a default probability is mapped to each PD rating using historical default data. The Bank uses forward looking point-in-time (PIT) PD rates to calculate the ECL. The PIT PD rates are derived from through-the-cycle (TTC) PD rates adjusted for projected macroeconomic conditions.

The cumulative TTC PD rates used in 2019 are set out by internal rating grade below:

PD rating [23]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

TTC PD rates express the likelihood of a default based on long-term credit risk trend rates and are constructed by using external benchmarks for investment grades and blending internal default experience with external data, assigning 75 per cent weight to the Bank's internal experience, and 25 per cent to emerging markets data published by Standard & Poor's for sub-investment grades. These are then adjusted

[22] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk that needs to be flagged to management and Corporate Recovery of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

[23] The Bank's internal PD rating scale is explained in detail on page 29 of the Risk Management section.

based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default. The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession. Consequently forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

In 2019 the Bank carried out a modelling enhancement as part of the ongoing refinement of the ECL calculation. The technical change pertains to the way annual PD rates are decomposed into monthly PD rates (the ECL model is based on exposure at default analysed at monthly intervals). The change aligned the decomposition methodology with the linear approach used in the Bank's Treasury credit risk models, thus better reflecting the annual nature of the default data used to calibrate PD rate figures. Applied to the opening balance as at 1 January 2019, the change in methodology decreased general provisions by €18 million.

Update of historical default data

In 2019 the Bank carried out its regular annual review of the loss parameters underpinning estimates of unidentified impairment, with the aim of better reflecting the Bank's loss experience. The key revision to these estimates was in determining the probabilities of default for each risk rating,[24] the historical data used to calibrate the rates were updated to include 2018 data. This was carried out for both the internal and external data used to determine the final probability of default rates.[25]

There was an overall improvement in the TTC PD rates from 2018 to 2019. As a result, retaining the old PD rates would have increased the 2019 general provisions by €13 million.

Loss given default rates

An LGD rate is assigned to individual facilities indicating how much the Bank expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the Foundation-IRB[26] approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the non-sovereign portfolio is consistent with the Bank's long-term recovery experience.

In the case of a sovereign default, the Bank believes that its payment would be more likely to remain uninterrupted, benefitting from its preferred creditor status. These features are reflected in the LGD rate assigned to a sovereign exposure. Different categories of LGD rates are established based on the ability of the state to extend preferred credit status primarily through reviewing the proportion of preferred creditor debt to overall public debt and the overall institutional and governance effectiveness. Sub-sovereign recovery rates are adjusted in line with the recovery rates associated with the respective sovereigns.

Guarantors

Where the Bank's loans are fully and unconditionally guaranteed, and the PD and/or LGD rating of the guarantor is better than the PD and/or LGD rating of the borrower, the ECL is based on the better of the PD and LGD ratings of the borrower and the guarantor.

Exposure at default

EAD estimates the outstanding balance at the point of default. EAD is modelled at an individual loan level, with all future expected contractual cash flows including disbursements, cancellations, prepayments and interest being considered. The Bank's EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

[24] See table showing probability of default ratings used by the Bank in the credit risk section under "Risk Management" on page 29.
[25] See PD table above.
[26] Internal ratings based.

Sensitivity analysis

The sensitivity of portfolio provisions at 31 December 2019 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2019 €million	Change in provision 2019 €million	Change in provision 2019 %	Recalculated provision 2018 €million	Change in provision 2018 €million	Change in provision 2018 %
2019 portfolio provision (Stages 1 and 2)	294	-	-	306	-	-
Staging [27]						
All loans in Stage 1	230	(64)	(22)%	236	(70)	(23)%
All loans in Stage 2	707	413	140%	786	480	157%
PD Ratings [28]						
All loans upgraded 1 notch	180	(114)	(39)%	179	(127)	(42)%
All loans downgraded 1 notch	448	154	52%	513	207	67%
All loans upgraded 3 notches	76	(218)	(74)%	57	(249)	(81)%
All loans downgraded 3 notches	1,170	876	298%	1,391	1,085	354%
Projected GDP [29]						
Projected GDP increased by 1%	276	(18)	(7)%	286	(20)	(7)%
Projected GDP decreased by 1%	317	23	8%	330	24	8%
Projected GDP increased by 5%	238	(56)	(19)%	236	(70)	(23)%
Projected GDP decreased by 5%	436	142	48%	450	144	47%
LGD						
All loans decreased by 10%	218	(76)	(26)%	227	(79)	(26)%
All loans increased by 10%	371	77	26%	386	80	26%
EAD						
All undrawn commitments cancelled	260	(34)	(12)%	260	(46)	(15)%
All undrawn commitments disbursed within one month	328	34	12%	355	49	16%
PD rates – weighting of Bank data and external data						
Increase weighting of Bank data by 10%	260	(34)	(12)%	269	(37)	(12)%
Decrease weighting of Bank data by 10%	330	34	12%	343	37	12%

With respect to specific provisions, an increase or decrease of 10 percentage points on the current provision cover level would have an impact of ±€111 million (2018: €99 million).

[27] The level of provision is very sensitive to an adverse move in stage allocation. This sensitivity is driven by relatively long maturity of the underlying assets, as well as the fact that around 90 per cent of the portfolio is currently in Stage 1.

[28] Adjusting the PD ratings has a dual impact in that a changed PD rating results in a change in the PD rate applied in the ECL calculation, but can also lead to a change in the staging of a loan, given that a three-notch downgrade since inception is one of the Bank's triggers for including an asset in Stage 2. Both of these effects are captured here.

[29] The relatively low sensitivity to changes in GDP is due to high historical volatilities of GDP growth in the economies where the Bank invests, resulting in substantial uncertainty around GDP forecasts. This analysis of sensitivity excludes any stage transition effects that might occur in parallel to such changes in GDP forecasts.

Risk management

Financial risks

Risk governance

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[30] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (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 chaired by the Vice President, Risk and Compliance, CRO. 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 Managing Director, Risk Management reports to the Vice President, Risk and Compliance, 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
- 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.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank's key risks.

Covid-19

The ongoing Covid-19 pandemic will materially affect the Bank across several critical dimensions. Notwithstanding the likely headwinds, the Bank expects to maintain adequate operational capacity and retain its strong capital and liquidity positions.

- As a AAA rated institution, the Bank is extremely well capitalised. The capital base of €17.8 billion at December 2019 is comprised solely of fully loss absorbing paid-in capital and reserves (common equity tier 1). In terms of capital strength the Bank operates well in excess of AAA requirements as determined by ratings agencies and expects to remain strongly capitalised.
- At December 2019, the Bank held €32.0 billion of liquid assets with an average rating of AA- within its treasury portfolio. While the Bank has comfortable access to funding markets, and is expected to continue to do so in 2020, this liquidity cushion ensures continued business operations in the foreseeable future.
- In March 2020, the Bank triggered its business continuity plans and moved largely to remote working practices across all its business functions and geographies. While this poses some challenges in terms of client communication and outreach, it also secures the Bank's capacity to continue operations.

Nevertheless the Bank has exposure to adverse effects as the Covid-19 pandemic places strain on the global economy. Primarily, the impact of the pandemic will affect the Bank's profitability and threaten delivery of some business plan objectives. In particular:

- A sharp correction of equity prices in the first quarter of 2020 will likely reduce the fair value of the Bank's equity investments. While it will not lead to significant deterioration in the capital ratios, it will significantly lower short-term profitability.
- Disruptions to the supply chain and a sharp drop in global economic activity will likely put significant pressure on cash flows for a wide range of borrowers, heavily affecting those operating in the service and consumer goods industries. This will likely force debt restructurings and increase corporate defaults among less resilient clients. Profitability will also be impacted by an increase in ECL on

[30] With the Banking Vice Presidency being the first line of defence in identifying and managing risks related to Banking debt and equity operations and the Treasury department being the first line of defence in identifying and managing risks related to Treasury exposure.

performing loans, driven by significant worsening of the macro-financial outlook and material credit deterioration of a number of debt exposures.
- Growing risk aversion and the consequent outflow of capital from emerging markets will likely lead to devaluation of several currencies, putting further pressure on the Bank's clients, especially those with unhedged hard currency liabilities.
- Macroeconomic outlook in several of the economies in which the Bank invests is likely to be further weakened by the disruption to the flow of remittances due to economic slowdown and people movement restriction. Lower oil prices will put additional pressure on several oil exporting countries in the Bank's regions. This may increase fiscal deficits and increase pressure on several currencies, leading to more pronounced devaluations.
- Monetary policy response to the crisis and the resulting lowering of global interest rates will reduce fair value of interest rate swaps taken by the Bank to hedge market risk related to its fixed rate loan book. This will create temporary losses on the non-qualifying hedges in the coming months.
- Widespread restrictions on people's movement will reduce the Bank's operational ability to conduct face to face business and due diligence, forcing increased reliance on remote working arrangements and putting pressure on IT systems.

The Bank expects to manage and absorb these impacts, while continuing to deliver on its business and policy objectives throughout 2020, adjusting parts of its business plan to provide timely assistance to clients affected by the Covid-19 pandemic.

Other risks in 2020

Below is a summary of other 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's ability to carry out its mandate and/or 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.
- Further increase in prominence of parties and policies with "national (inward)" focus leading to progressive fragmentation of the global economy, reduced levels of trade and hence increasing the challenge of delivering on transition and the Bank's mission overall.
- Material reform slowdown in one or more of the Bank's key markets (Turkey, Egypt, Poland, Ukraine and Kazakhstan), reducing the scope for the Bank's engagement in pursuing its mandate.
- Escalation of instability in the Middle East, including due to the ongoing US–Iran tensions, with spillover effects on the SEMED region and other economies in which the Bank invests, leading to increased political risks and a deteriorating business environment.

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

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 is also exposed to concentration risk, which arises from too high a proportion of the exposure being exposed to a single obligor and/or exposure that has the potential to simultaneously deteriorate due to correlation to an event. Exposure to obligors in the same country or sector are examples but such concentrations could also include clusters or subsets of country or sector portfolios.

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 approximated on the balance sheet, inclusive of the undrawn commitments related to loans and guarantees (see note 27 on page 72).

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

Individual projects

The Board of Directors approves 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.

The Operations Committee reviews all Banking projects (both debt and equity transactions) prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President, Risk and Compliance, 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.[31] It operates within the authority delegated by the Board, via the President, 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 reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment 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 senior management and 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 portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (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 ratings (PD ratings)

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.[32]

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

[31] For further information on the concepts of transition impact and additionality, visit: https://www.ebrd.com/our-values.html
[32] The TTC probabilities of default associated with these risk ratings are summarised in the critical accounting estimates section on page 24.

Loss given default

The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.[33]

Non-performing loans (NPL)

NPL definition

An asset is designated as non-performing when either the borrower is past due on payment to any material creditor for 90 days or more, 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.[34]

Provisioning methodology

A specific provision is raised on all NPL 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. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

General portfolio provisions

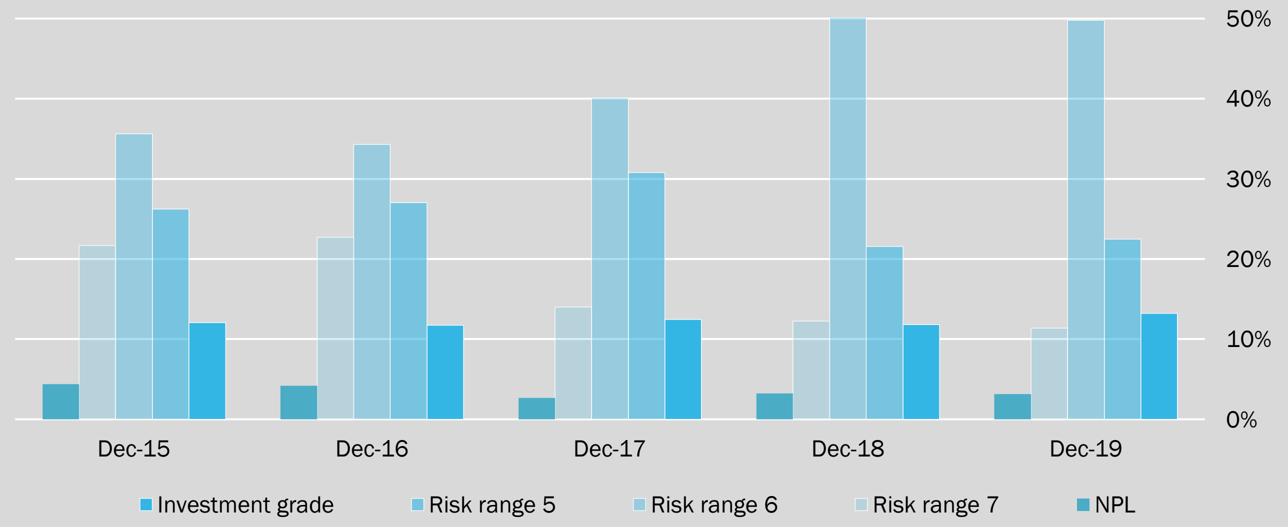
In the performing portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk in the Banking portfolio: 2019

Total Banking loan exposure (operating assets including fair value adjustments but before provisions) increased during the year from €24.6 billion at 31 December 2018 to €27.0 billion at 31 December 2019. The total signed Banking loan portfolio and guarantees increased from €36.3 billion at 31 December 2018 to €39.9 billion at 31 December 2019.

The average credit profile of the debt portfolio improved in 2019 as the weighted average probability of default (WAPD) rating decreased to 5.68 (2018: 5.74). This reduction largely reflected a slight improvement in the economic and political environment in the economies where the Bank invests, with notable sovereign upgrades in the SEMED and Central Asia regions. Concentration of Risk range 7 loans (those risk rated 6.7 to 7.3) decreased from 12.3 to 11.4 per cent and the absolute level now stands at €4.6 billion (2018: €4.5 billion). The higher absolute figure is due to the increasing size of the overall portfolio.

Credit risk in the Banking portfolio



[33] For more details on LGD rates see the critical accounting estimates and judgements section on page 25.
[34] For further details see the accounting policies section on page 16.

NPL[35] remained flat in 2019, amounting to €1.2 billion or 4.5 per cent of operating assets at year-end 2019 (2018: €1.2 billion or 4.7 per cent). Distressed restructured loans[36] were relatively low, comprising an additional €493 million or 1.8 per cent of operating assets at year-end 2019 (2018: €526 million or 2.1 per cent). Net write-offs amounted to €14 million in 2019 (2018: €107 million).

Specific provisions cover remained relatively flat in 2019, decreasing from 59 per cent in 2018 to 57 per cent in 2019.[37]

Movement in NPL[38]	2019 € million	2018 € million
Opening balance	1,176	898
Repayments	(206)	(144)
Write-offs	(14)	(107)
New impaired assets	306	515
Assets no longer impaired	(66)	-
Other movements	13	14
Closing balance	1,209	1,176

Loan investments at amortised cost

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.[39]

- Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.
- Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.
- Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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.

	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € million	Stage 2 € million	Credit Impaired Stage 3 € million	Total € million	Total %	Stage 1 € million	Stage 2 € million	Credit Impaired Stage 3 € million	Total net of impairment € million	Impairment provisions coverage %
2: Very strong	-	1	-	1	-	-	-	-	1	-
3: Strong	677	2	-	679	2.8	-	-	-	679	-
4: Good	1,984	415	-	2,399	9.9	(1)	(3)	-	2,395	0.2
5: Fair	4,840	369	-	5,209	21.6	(6)	(2)	-	5,201	0.2
6: Weak	10,859	1,003	-	11,862	49.3	(88)	(27)	-	11,747	1.0
7: Special attention	1,634	1,196	-	2,830	11.7	(67)	(100)	-	2,663	5.9
8: Non-performing [40]	-	-	1,138	1,138	4.7	-	-	(652)	486	57.3
At 31 December 2019	19,994	2,986	1,138	24,118	100.0	(162)	(132)	(652)	23,172	

	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € million	Stage 2 € million	Credit Impaired Stage 3 € million	Total € million	Total %	Stage 1 € million	Stage 2 € million	Credit Impaired Stage 3 € million	Total net of impairment € million	Impairment provisions coverage %
2: Very strong	-	2	-	2	-	-	-	-	2	-
3: Strong	478	34	-	512	2.3	-	-	-	512	-
4: Good	1,844	107	-	1,951	8.7	(1)	(2)	-	1,948	0.2
5: Fair	4,660	448	-	5,108	22.8	(7)	(2)	-	5,099	0.2
6: Weak	10,283	700	-	10,983	49.0	(100)	(15)	-	10,868	1.0
7: Special attention	1,979	743	-	2,722	12.1	(85)	(94)	-	2,543	6.6
8: Non-performing	-	-	1,135	1,135	5.1	-	-	(675)	460	59.5
At 31 December 2018	19,244	2,034	1,135	22,413	100.0	(193)	(113)	(675)	21,432	

[35] NPL include impaired loans at amortised cost of €1.1 billion (2018: €1.1 billion), loans at fair value through profit or loss with an original cost of €71 million (2018: €41 million) and no loans at fair value through other comprehensive income (2018: nil).
[36] 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 be likely to have become an impaired loan.
[37] Specific provisions cover is the ratio of specific provisions to amortised cost loan operating assets. A reconciliation of the movement in specific provisions during the year is available in note 10 on page 59.
[38] Includes loans at fair value that have no associated specific provisions.
[39] For further information about stage assessment see the critical accounting estimates and judgements section on page 24.
[40] This ratio of amortised cost impaired loans is based on the balance sheet carrying value rather than operating assets. Total NPL including fair value loans were 4.5 per cent of operating assets (2018: 4.7 per cent).

At the end of 2019, €39 million of loans were past due but not impaired (2018: €66 million). Loans amounting to €25 million were past due for 30 days or less (2018: €33 million) and €14 million were past due for more than 30 days but fewer than 90 days (2018: €33 million).

At 31 December 2019 the Bank had security arrangements in place for €8.7 billion of its loan operating assets (2018: €7.7 billion). Although this security is generally illiquid and its value is closely linked to the performance of the relevant loan operating assets, it does provide the Bank with rights and negotiating leverage that help mitigate the overall credit risk. The Bank also benefited from guarantees and risk-sharing facilities extended by Special Funds and Cooperation Funds (see note 30: related parties on page 76) which provided credit enhancement of approximately €106 million at the year-end (2018: €91 million).

Loans at fair value through other comprehensive income

Set out below is an analysis of the Bank's loans held at fair value through other comprehensive income for each of the Bank's relevant internal risk rating categories. There were no loans held at fair value through other comprehensive income in stage 3 (2018: nil).

	Fair value 2019			Fair value 2018		
Risk rating category	Stage 1 € million	Stage 2 € million	Total € million	Stage 1 € million	Stage 2 € million	Total € million
3: Strong	215	-	215	60	-	60
4: Good	594	-	594	567	-	567
5: Fair	899	6	905	560	8	568
6: Weak	449	64	513	468	15	483
7: Special attention	215	52	267	39	20	59
At 31 December	2,372	122	2,494	1,694	43	1,737

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 2019 € million	Fair value 2018 € million
5: Fair	77	13
6: Weak	214	236
7: Special attention	108	211
8: Non-performing	10	-
At 31 December	409	460

Undrawn 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 2019 € million	Guarantees 2019 € million	Undrawn loan commitments 2018 € million	Guarantees 2018 € million
3: Strong	107	-	76	-
4: Good	1,257	19	1,104	8
5: Fair	2,788	93	2,128	63
6: Weak	6,425	849	6,240	621
7: Special attention	1,117	219	1,245	196
8: Non-performing	49	-	9	-
At 31 December	11,743	1,180	10,802	888

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. The Bank is generally well diversified by country apart from its concentrations in Turkey, Egypt and Ukraine which account for 18.3, 6.8 and 8.0 per cent of loans drawn down respectively (as shown below) and 14.4, 10.0 and 9.6 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.

Country	Loans 2019 € million	Undrawn loan commitments and guarantees 2019 € million	Total 2019 € million	Loans 2018 € million	Undrawn loan commitments and guarantees 2018 € million	Total 2018 € million
Albania	402	298	700	401	231	632
Armenia	216	64	280	163	73	236
Azerbaijan	1,033	289	1,322	998	388	1,386
Belarus	419	459	878	404	236	640
Bosnia and Herzegovina	554	651	1,205	537	493	1,030
Bulgaria	812	23	835	823	135	958
Croatia	618	149	767	653	171	824
Cyprus	10	66	76	15	66	81
Czech Republic	1	-	1	2	-	2
Egypt	1,843	2,134	3,977	1,415	1,911	3,326
Estonia	80	-	80	85	-	85
Georgia	687	269	956	683	130	813
Greece	1,051	433	1,484	993	377	1,370
Hungary	411	-	411	385	-	385
Jordan	777	212	989	654	302	956
Kazakhstan	1,685	917	2,602	1,509	735	2,244
Kosovo	125	238	363	82	177	259
Kyrgyz Republic	121	74	195	103	78	181
Latvia	136	2	138	88	2	90
Lebanon	224	73	297	130	60	190
Lithuania	204	7	211	142	23	165
Moldova	147	426	573	134	365	499
Mongolia	691	48	739	702	47	749
Montenegro	252	94	346	243	97	340
Morocco	599	370	969	438	453	891
North Macedonia	306	550	856	260	511	771
Poland	2,007	284	2,291	1,723	282	2,005
Romania	1,229	299	1,528	1,179	272	1,451
Russian Federation	381	23	404	537	25	562
Serbia	1,566	560	2,126	1,399	531	1,930
Slovak Republic	459	72	531	305	114	419
Slovenia	207	-	207	148	23	171
Tajikistan	175	198	373	137	241	378
Tunisia	313	325	638	313	221	534
Turkey	4,956	785	5,741	4,970	863	5,833
Turkmenistan	38	7	45	29	14	43
Ukraine	2,157	1,690	3,847	1,726	1,673	3,399
Uzbekistan	129	834	963	102	370	472
At 31 December	27,021	12,923	39,944	24,610	11,690	36,300

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 transport, power and energy as well as depository credit (banks) constituting substantial sector concentrations.

	Loans 2019 € million	Undrawn loan commitments and guarantees 2019 € million	Total 2019 € million	Loans 2018 € million	Undrawn loan commitments and guarantees 2018 € million	Total 2018 € million
Agribusiness	2,007	447	2,454	2,018	293	2,311
Depository credit (banks)	5,649	1,459	7,108	5,337	1,195	6,532
Information and communication technologies	474	59	533	546	20	566
Insurance, pension, mutual funds	42	9	51	74	2	76
Leasing finance	618	114	732	617	31	648
Manufacturing and services	2,830	415	3,245	2,425	448	2,873
Municipal and environmental infrastructure	2,148	3,168	5,316	1,964	2,770	4,734
Natural resources	1,754	680	2,434	2,690	1,111	3,801
Non-depository credit (non-bank)	605	111	716	553	114	667
Power and energy	6,105	2,553	8,658	4,211	2,084	6,295
Property and tourism	696	99	795	535	32	567
Transport	4,093	3,809	7,902	3,640	3,590	7,230
Non-sovereign	22,251	5,130	27,381	20,233	4,985	25,218
Sovereign	4,770	7,793	12,563	4,377	6,705	11,082
At 31 December	27,021	12,923	39,944	24,610	11,690	36,300

Concentration by counterparty

The Bank has maximum nominal as well as risk-based non-sovereign Banking counterparty exposure limits. Maximum exposure (after risk transfers) to a non-sovereign economic group was €550 million at end-2019 (2018: €569 million).

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 Senior Vice President, Chief Financial Officer and Chief Operating Officer to manage and the Vice President Risk and Compliance, 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 Authority and Liquidity Procedures are approved by the Vice President Risk and Compliance, CRO to regulate operational aspects of Treasury risk-taking and the related risk management processes and procedures.

Eligible Treasury counterparties and investments are normally internally rated between 1.0 and 4.0 (approximately equivalent to S&P AAA to BBB ratings), with the exception of counterparties approved for local currency activities in the economies 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 eligibility standard for existing exposures, Risk Management and Treasury recommend actions for the approval of the Vice President Risk and Compliance, CRO and the Vice President, Chief Financial Officer.

The Treasury Authority and Liquidity Procedures state the minimum internal credit rating and maximum tenor by type of eligible counterparty and set the maximum credit limits per rating. The actual credit limit and/or tenor approved for individual counterparties by Risk Management may be smaller or shorter than the ceilings defined by the Treasury Authority and Liquidity Procedures 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 approved counterparties 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. This includes all transaction types and is measured out to the maturity of the longest dated transaction with each respective 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.

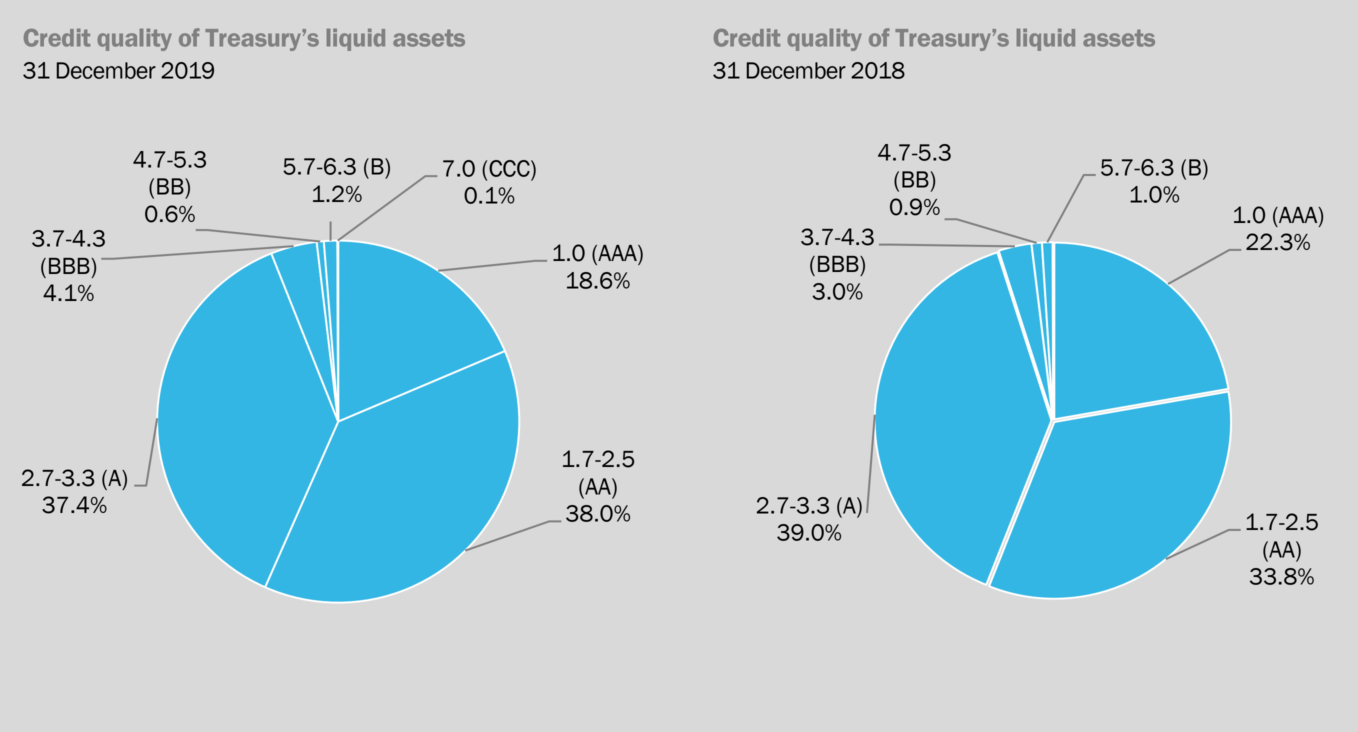
Further, the overall credit risk incurred by the Bank in its Treasury transactions is subject to a Default Value-at-risk (DVaR)[41] limit of 10 per cent of the Bank's available capital.[42]

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

Credit risk in Treasury: Treasury liquid assets

The carrying value of Treasury's liquid assets stood at €32.0 billion at 31 December 2019 (2018: €29.0 billion).[43]

The internal ratings of Treasury's counterparties and sovereign exposures are reviewed at least annually and adjusted as appropriate. Overall the WAPD rating, weighted by the carrying value of Treasury's liquid assets, weakened to 2.36 at 31 December 2019 (2018: 2.30).



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	2019 € million	2018 € million
2: Very strong	6,863	4,843
3: Strong	10,404	10,213
4: Good	865	693
5: Fair	157	237
6: Weak	55	15
7: Special attention	24	13
At 31 December	18,368	16,014

At 31 December 2019 there were no placements with and advances to credit institutions that were past due or impaired (2018: €nil).

[41] Calculated at 99.99% confidence level and over a one-year horizon.
[42] Available capital is total members' equity less amounts allocated to the SEMED TC fund. See note 26 for further information.
[43] Treasury liquid assets consist of placements with and advances to credit institutions and debt securities.

Debt securities at fair value through profit or loss

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

Risk rating category	2019 € million	2018 € million
1: Excellent	509	630
2: Very strong	215	323
3: Strong	228	175
4: Good	465	177
5: Fair	45	33
6: Weak	327	266
At 31 December	1,789	1,604

There were no debt securities at fair value past due in 2019 (2018: €nil).

Debt securities at amortised cost

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

Risk rating category	2019 € million	2018 € million
1: Excellent	5,458	5,812
2: Very strong	5,049	3,826
3: Strong	1,333	1,705
At 31 December	11,840	11,343

There were no debt securities at amortised cost past due in 2019 (2018: €nil).

Treasury credit risk 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 portfolio. 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 repurchase/reverse repurchase activity and hedging products such as OTC swaps and forwards. Calculation of PFE takes into account reduction in counterparty exposures through standard risk mitigations such as netting and collateral, which enables Risk Management to see a comprehensive exposure profile for all Treasury products (including liquid assets) against a specific counterparty limit on a daily basis. Whereas PFE measures the exposure at default, DVaR calculations are based on a simulation of counterparty defaults. DVaR measures the maximum aggregated loss, to a high degree of confidence (99.99%), that Treasury could incur over a one-year horizon due to defaults.

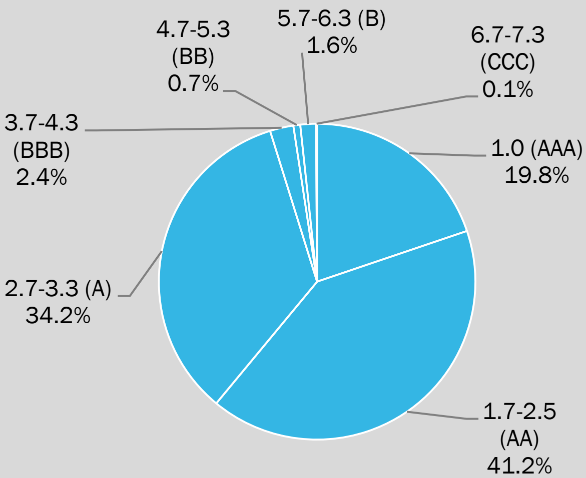
Treasury PFE stood at €30.9 billion at 31 December 2019 (2018: €27.1 billion), whereas the DVaR was €1.3 billion at 31 December 2019 (2018: €1.1 billion).

Treasury maintained a high-quality average credit risk profile during 2019 by investing liquidity in AAA sovereign and other highly rated assets. This was reflected in a high and stable WAPD rating of the portfolio, as measured by PFE, which was 2.32 at 31 December 2019 (2018: 2.24).

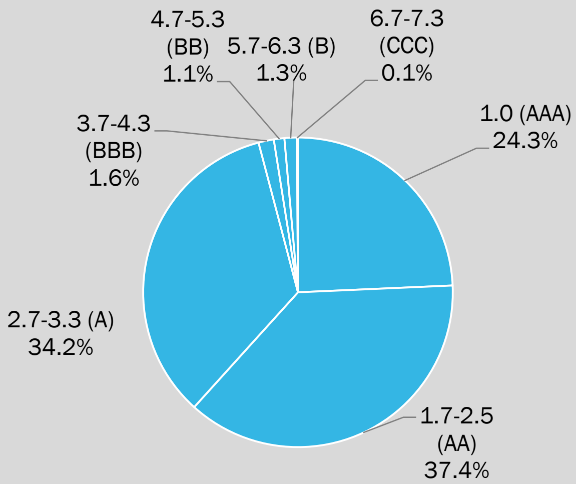
A very low proportion of Treasury exposures was below investment grade quality,[44] amounting to around 2.4 per cent at 31 December 2019 (2018: 2.4 per cent). This comprised a small pool of local currency assets held with counterparties from the economies in which the Bank invests.

[44] BB+/Ba1/BB+ level or worse.

Credit quality of Treasury PFE
31 December 2019



Credit quality of Treasury PFE
31 December 2018



Before provisioning, the value of impaired assets in the Treasury portfolio was €nil at 31 December 2019 (2018: €nil).

Derivatives

The Bank makes use of derivatives for different purposes within both its Banking portfolio and its Treasury activities. Within the Banking equity portfolio option contracts are privately negotiated with third parties to provide potential exit routes for the Bank on many of its unlisted share investments. Banking also has a portfolio of interest rate swaps with clients to hedge its market risks. 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, the 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 43), while the transactions through which the Bank funds itself in the 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, care is devoted to those risks that are specific to the use of derivatives through, for example, the monitoring of volatility risk for options.

The table below shows the fair value of the Bank's derivative financial assets and liabilities at 31 December 2019 and 31 December 2018.

	Assets 2019 € million	Liabilities 2019 € million	Total 2019 € million	Assets 2018 € million	Liabilities 2018 € million	Total 2018 € million
Portfolio derivatives not designated as hedges						
OTC foreign currency products						
Currency swaps	249	(126)	123	287	(74)	213
Spot and forward currency transactions	49	(189)	(140)	134	(69)	65
	298	(315)	(17)	421	(143)	278
OTC interest rate products						
Interest rate swaps	172	(311)	(139)	103	(157)	(54)
Banking derivatives						
Fair value of equity derivatives held in relation to the Banking portfolio	202	(142)	60	499	(99)	400
Total portfolio derivatives not designated as hedges and Banking derivatives	672	(768)	(96)	1,023	(399)	624
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	1,156	(194)	962	1,042	(312)	730
Cross currency interest rate swaps	1,620	(857)	763	1,278	(1,220)	58
Embedded derivatives[45]	852	(116)	736	603	(148)	455
	3,628	(1,167)	2,461	2,923	(1,680)	1,243
Derivatives designated as cash flow hedges						
Forward currency transactions	-	-	-	2	-	2
Total derivatives held for hedging	3,628	(1,167)	2,461	2,925	(1,680)	1,245
Total derivatives at 31 December	4,300	(1,935)	2,365	3,948	(2,079)	1,869

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	2019 € million	2018 € million
1: Excellent	852	604
2: Very strong	1,550	1,965
3: Strong	1,527	813
4: Good	128	173
5: Fair	154	195
6: Weak	75	176
7: Special attention	14	22
At 31 December	4,300	3,948

There were no derivative financial assets past due in 2019 (2018: €nil).

Included in the fair value of derivatives is a net valuation decrease of €4 million attributable to the counterparty portfolio-level adjustments for credit and funding cost factors that could reasonably influence the price of the derivatives in an arms-length market transaction (2018: €40 million increase). In 2019 the Bank adjusted its model for estimating the size of these adjustments to better align with market practice. Had the previous model been retained, the 2019 adjustment would instead have been an increase of €18 million.

Also included in the valuation of derivatives is an overall negative value to the Bank of €14 million attributable to "cheapest-to-deliver" (CTD) adjustments (2018: €6 million) reflecting the value of terms and conditions relating to the posting of collateral in the Bank's CSA agreements.

In order to manage credit risk in OTC derivative transactions,[46] the Bank's policy is to approve, in advance, 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 BBB and above. Furthermore, the Bank pays attention to mitigating the credit risk of OTC derivatives through the negotiation of appropriate legal documentation with counterparties. OTC derivative transactions are documented under an ISDA Master Agreement within an accompanying 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 Master Agreement and CSA, notably foreign exchange transactions. Similarly, the Bank

[45] Where a financial liability held at amortised cost 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. All such derivatives bifurcated by the Bank are embedded in Debts Evidenced by Certificates.

[46] This does not include negotiated options associated with share investments.

emphasises risk mitigation for repurchase and reverse repurchase agreements and related transaction types through Master Agreement documentation.

Collateral

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

Counterparty exposure, for the purposes of collateralising credit risk, is only concerned with counterparties with whom the Bank has an overall net positive exposure. At 31 December 2019 this exposure stood at €1.7 billion (2018: €1.3 billion). Against this, the Bank held collateral of €1.7 billion (2018: €1.3 billion), reducing its net credit exposure to €nil (2018: €nil).

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.

Collateral held as security	Held collateral 2019 € million	Sold or repledged 2019 € million	Held collateral 2018 € million	Sold or repledged 2018 € million
Derivative financial instruments				
High grade government securities	712	-	347	-
Cash	1,031	1,031	910	910
	1,743	1,031	1,257	910
Reverse sale and repurchase transactions	2,659	15	3,111	46
At 31 December	4,402	1,046	4,368	956

Where the Bank sells securities subject to a commitment to repurchase them (a repurchase agreement) but does not transfer the risk and rewards of ownership, the transactions are treated as collateralised borrowings. The securities remain included in the balance sheet and are deemed to be held by the counterparty as collateral. The table below shows the carrying amount of collateral that has been pledged by the Bank in connection with its borrowings.

Collateral pledged as security	Pledged collateral 2019 € million	Pledged collateral 2018 € million
Sale and repurchase transactions	-	412

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

	Recognised derivative assets 2019 € million	Recognised derivative liabilities 2019 € million	Net position 2019 € million	Collateral held 2019 € million
Subject to a master netting agreement				
Net derivative assets by counterparty	3,015	(1,253)	1,762	1,728
Net derivative liabilities by counterparty	144	(423)	(279)	14
	3,159	(1,676)	1,483	1,742
No master netting agreement				
Other derivatives	87	(1)	86	-
Embedded derivatives	852	(116)	736	-
Equity derivatives	202	(142)	60	-
	1,141	(259)	882	-
At 31 December	4,300	(1,935)	2,365	1,742

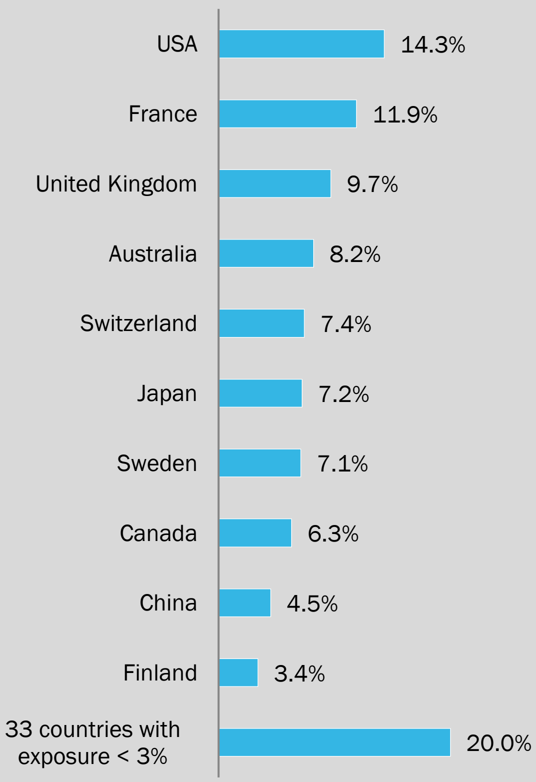
	Recognised derivative assets 2018 € million	Recognised derivative liabilities 2018 € million	Net position 2018 € million	Collateral held 2018 € million
Subject to a master netting agreement				
Net derivative assets by counterparty	1,818	(540)	1,278	1,209
Net derivative liabilities by counterparty	982	(1,287)	(305)	48
	2,800	(1,827)	973	1,257
No master netting agreement				
Other derivatives	46	(5)	41	-
Embedded derivatives	603	(148)	455	-
Equity derivatives	499	(99)	400	-
	1,148	(252)	896	-
At 31 December	3,948	(2,079)	1,869	1,257

Credit risk in Treasury: Concentration

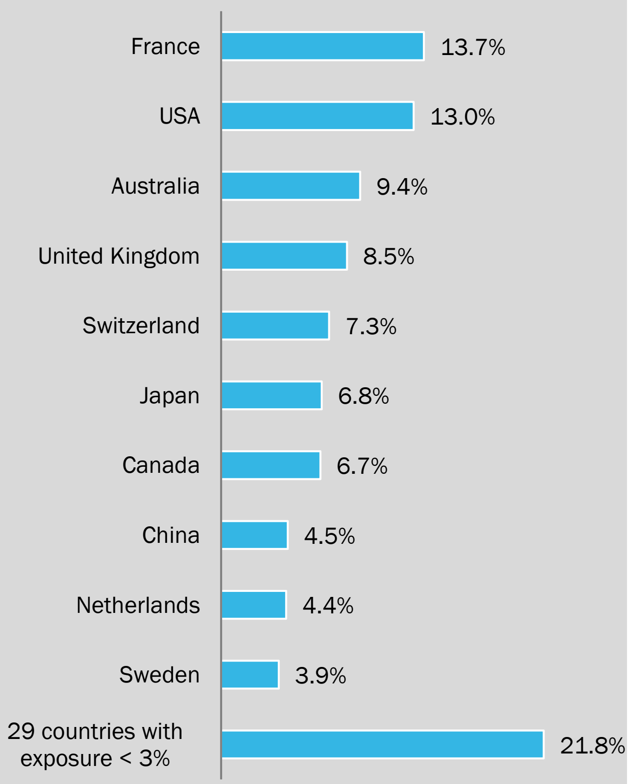
Concentration by country

At the end of 2019, Treasury credit risk exposure was spread across the following countries:

Concentration of Treasury peak exposure by country/region
31 December 2019



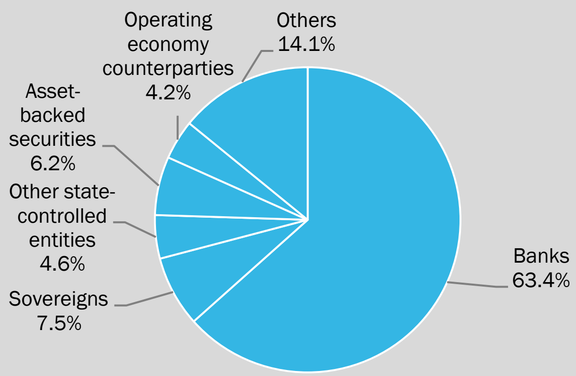
Concentration of Treasury peak exposure by country/region
31 December 2018



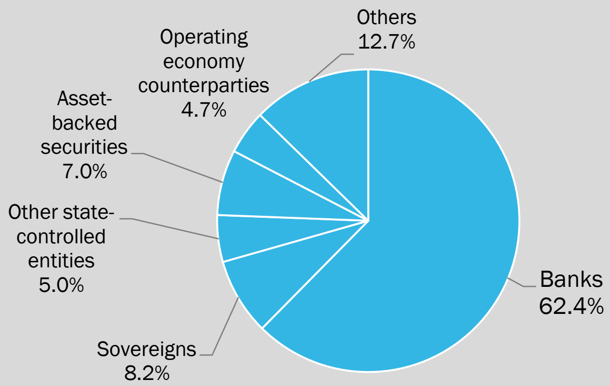
Concentration by counterparty type

The Bank continues to be largely exposed to banks in the Treasury portfolio which accounted for 63.4 per cent of the portfolio peak exposure (2018: 62.4 per cent). Direct sovereign exposure[47] decreased to 7.5 per cent (2018: 8.2 per cent), while exposure to counterparties in the economies in which the Bank invests fell to 4.2 per cent (2018: 4.7 per cent) on a PFE basis.

Concentration of peak exposure by counterparty type
31 December 2019



Concentration of peak exposure by counterparty type
31 December 2018



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 eVaR[48] 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.

Foreign exchange risk

The Bank is subject to foreign exchange risks as it invests in equities with foreign exchange exposures to 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 through its equity investments at 31 December 2019.[49] The sensitivity analysis summarises the total effect of a reasonably possible movement of the currency rate[50] against the euro on equity fair value and on profit or loss with all other variables held constant.

[47] Indirect exposure is not included – that is, where the Bank holds government securities as collateral.
[48] 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.
[49] The table reflects the currency of the country of risk associated with each investment. Depending on their business models, the underlying investments may be exposed to other FX risks which could affect their value, but those risks are outside the scope of this disclosure.
[50] Based on a five-year rolling average movement in the exchange rate.

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
Russian rouble	12.7	1,104	140
Euro	-	737	-
Polish zloty	2.6	652	17
Turkish lira	19.0	609	116
Romanian leu	1.3	607	8
Ukrainian hryvnia	17.2	269	46
Hungarian forint	1.8	162	3
Egyptian pound	30.9	159	49
Other non-euro	10.6	771	82
At 31 December 2019		5,070	461

	5-year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Russian rouble	21.2	971	206
Turkish lira	17.8	674	120
Euro	-	668	-
Polish zloty	3.0	605	18
Romanian leu	0.9	460	4
Serbian dinar	2.3	238	6
Ukrainian hryvnia	27.7	209	58
Hungarian forint	2.4	154	4
Other non-euro	12.5	766	96
At 31 December 2018		4,745	512

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.

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 reasonably possible changes in equity indices.[51]

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
Russian Federation	IMOEX Index	19.8	1,104	219
Poland	WIG Index	10.8	652	70
Turkey	XU100 Index	23.8	609	145
Romania	BET Index	10.3	607	63
Ukraine	PFTS Index	30.6	269	82
Slovenia	SBTIOP Index	8.4	224	19
Hungary	BUX Index	23.8	162	39
Egypt	EGX 30 Index	27.9	159	44
Regional and other	Weighted average	18.0	1,284	230
At 31 December 2019			5,070	911

[51] Based on a five-year rolling average movement in the relevant equity market indices. The table reflects the currency of the country of risk associated with each investment. For consistency the 2018 comparative table has been restated as in the current year presentation regional investments have been allocated to the country of risk.

		5-year rolling average movement in benchmark index %	Fair value € million	Impact on net profit € million
Russian Federation	IMOEX Index	15.3	971	148
Turkey	XU100 Index	24.0	674	162
Poland	WIG Index	10.8	605	65
Romania	BET Index	5.1	460	24
Serbia	BELEX15 Index	8.1	238	19
Ukraine	PFTS Index	34.6	209	72
Slovenia	SBTIOP Index	9.3	199	18
Hungary	BUX Index	22.3	154	34
Regional and other	Weighted average	15.5	1,235	189
At 31 December 2018			4,745	731

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 economies in which it invests. The aggregate direct exposure to oil and gas extraction, metal ore mining and coal mining (and related support activities) rose to 3.5 per cent (2018: 2.9 per cent) of the overall banking portfolio. This increase in exposure was primarily driven by new signings of projects with gas utilities in Ukraine. Although the share of this portfolio is a small percentage of the total, the potential overall risk can be more substantial, as several economies in which the Bank invests are heavily reliant on commodity 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.

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 hedging the interest rate profiles of assets and liabilities 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/or foreign exchange rates. The Bank's overall eVaR limit, laid down in the Board-approved TALP, at a 95 per cent confidence level over a one-day trading horizon is €60.0 million (less than 0.5 per cent of available capital).

For enhanced comparability across institutions, numbers disclosed in this financial report show eVaR-based measures scaled up to a 10-trading-day horizon. The market risk methodology considers the three-month swap curve as the main interest rate risk factor and the other factors as basis spread risk factors.[52] The total eVaR (95 per cent confidence level over a 10-day trading horizon) of the Bank's Treasury portfolio, including basis spread risks, stood at €22.2 million at 31 December 2019 (2018: €16.7 million) with an average eVaR over the year of €17.5 million (2018: €13.8 million). Interest rate option exposure remained modest throughout the year with option eVaR at €0.1 million at year-end (2018: €1.4 million), having peaked at €2.0 million during the year (2018: €1.8 million). The specific contribution from foreign exchange risk to the overall eVaR stood at €0.8 million at year-end (2018: €0.6 million). As in previous years, this contribution was small throughout 2019 and never exceeded €1.5 million (2018: €4.8 million).

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Bank is exposed are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks. At present the impact on the affected benchmarks is uncertain as the timing and precise form of the new benchmarks has yet to be finalised.

[52] Spread risk arises from cross-currency basis spreads, tenor spreads (for example, between 6-month and 3-month Libor), Overnight Index Swap (OIS) vs. 3-month Libor spread and government bond spreads.

In order to manage the risks created by interest rate benchmark reforms, the Bank has established a steering committee, consisting of key Finance, Risk, IT, Treasury and legal personnel, to oversee the Bank's transition plans. This steering committee has put in place a transition project for those contracts which reference affected benchmarks, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project will include changes to systems, processes, risk management and valuation models, as well as managing related accounting implications.

Local currency inflation risk

The Bank is additionally exposed to local currency market risk in Kazakh Consumer Price Index (CPI) that exposes the Bank to model risk, given that there is no market in Kazakh inflation. Treasury have raised Kazakh tenge through issuances linked to inflation, given that the Kazakh tenge market has no transparent domestic reference rate for borrowing and lending. This risk is mitigated by the fact that the liabilities are largely matched by on-lending linked to Kazakh CPI. At 31 December 2019 surplus Kazakh tenge CPI-linked funding stood at €490 million; these funds were invested predominantly in short-term Kazakhstan Government bonds.

Equity price risk

The Treasury had direct exposure to equity risk of €112 million at 31 December 2019 through two Treasury share investments[53] (2018: €75 million). In addition, indirect exposures to equity risk occur in the form of equity-linked structured products that are hedged on a back-to-back basis and therefore result in no outright exposure.

C. Liquidity risk

Liquidity risk management process

The Bank's liquidity policies are reviewed annually and any changes 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 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 considered a strong positive factor when rating agency methodologies are applied. 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.
- 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.[54]

The Bank holds liquidity above its minimum policy levels to allow flexibility in the execution of its borrowing programme. At 31 December 2019, the Bank's key medium-term liquidity metrics were as follows:

- Net Treasury liquid assets represented 121 per cent (2018: 113 per cent) of the next two years' net cash requirements against a minimum 75 per cent coverage.
- Treasury liquid assets (after the application of haircuts to simulate a stressed scenario) represented 107 per cent (2018: 110 per cent) of one-year debt service plus 50 per cent of undrawn commitments, against a minimum 100 per cent coverage.

The average weighted maturity of assets managed by Treasury at 31 December 2019 was 1.5 years (2018: 1.6 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 2019 and consistently throughout the year.

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

[53] See note 19 to the financial statements on page 65.
[54] 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 was one year or less at 31 December 2019.

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 2019 the Bank raised €9.9 billion of medium to long-term debt with an average tenor of 4.3 years (2018: €8.7 billion and 4.1 years). The Bank's triple-A credit rating with a stable outlook was affirmed by the three major rating agencies in 2019.

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

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

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

Financial liabilities at 31 December 2019	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	(1,500)	(25)	(122)	-	(22)	(1,669)
Debts evidenced by certificates	(2,187)	(5,280)	(10,693)	(15,244)	(14,753)	(48,157)
Other financial liabilities	(63)	(153)	(51)	(107)	(202)	(576)
At 31 December 2019	(3,750)	(5,458)	(10,866)	(15,351)	(14,977)	(50,402)
Trading derivative cash flows						
Net settling interest rate derivatives	(8)	(11)	(67)	(92)	(169)	(347)
Gross settling interest rate derivatives – outflow	(257)	(444)	(1,518)	(1,643)	(1,494)	(5,356)
Gross settling interest rate derivatives – inflow	230	410	1,455	1,618	1,423	5,136
Foreign exchange derivatives – outflow	(5,849)	(3,685)	(1,999)	(16)	(114)	(11,663)
Foreign exchange derivatives – inflow	5,759	3,635	1,983	15	100	11,492
At 31 December 2019	(125)	(95)	(146)	(118)	(254)	(738)
Hedging derivative cash flows						
Net settling interest rate derivatives	(4)	(15)	(14)	(55)	(52)	(140)
Gross settling interest rate derivatives – outflow	(251)	(142)	(1,022)	(1,784)	(2,942)	(6,141)
Gross settling interest rate derivatives – inflow	223	168	1,029	1,775	2,362	5,557
At 31 December 2019	(32)	11	(7)	(64)	(632)	(724)
Total financial liabilities at 31 December 2019	(3,907)	(5,542)	(11,019)	(15,533)	(15,863)	(51,864)
Other financial instruments						
Undrawn commitments						
Financial institutions	(2,759)	-	-	-	-	(2,759)
Non-financial institutions	(11,495)	-	-	-	-	(11,495)
At 31 December 2019	(14,254)	-	-	-	-	(14,254)

Financial liabilities at 31 December 2018	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	(1,581)	(362)	(145)	-	(50)	(2,138)
Debts evidenced by certificates	(1,013)	(3,922)	(10,802)	(15,493)	(12,320)	(43,550)
Other financial liabilities	(6)	(16)	(74)	(67)	(174)	(337)
At 31 December 2018	(2,600)	(4,300)	(11,021)	(15,560)	(12,544)	(46,025)
Trading derivative cash flows						
Net settling interest rate derivatives	(4)	(6)	(39)	(67)	(59)	(175)
Gross settling interest rate derivatives – outflow	(36)	(116)	(1,208)	(565)	(1,382)	(3,307)
Gross settling interest rate derivatives – inflow	31	98	1,169	554	1,047	2,899
Foreign exchange derivatives – outflow	(5,077)	(2,483)	(700)	(16)	-	(8,276)
Foreign exchange derivatives – inflow	5,045	2,467	675	15	-	8,202
At 31 December 2018	(41)	(40)	(103)	(79)	(394)	(657)
Hedging derivative cash flows						
Net settling interest rate derivatives	(2)	(35)	(97)	(92)	(11)	(237)
Gross settling interest rate derivatives – outflow	(153)	(268)	(1,793)	(2,592)	(3,908)	(8,714)
Gross settling interest rate derivatives – inflow	130	231	1,696	2,463	3,289	7,809
At 31 December 2018	(25)	(72)	(194)	(221)	(630)	(1,142)
Total financial liabilities at 31 December 2018	(2,666)	(4,412)	(11,318)	(15,860)	(13,568)	(47,824)
Other financial instruments						
Undrawn commitments						
Financial institutions	(2,481)	-	-	-	-	(2,481)
Non-financial institutions	(10,587)	-	-	-	-	(10,587)
At 31 December 2018	(13,068)	-	-	-	-	(13,068)

D. 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 (financially and/or to the Bank's reputation) resulting from inadequate or failed internal processes, people and systems or from external events.

Sources of operational risk

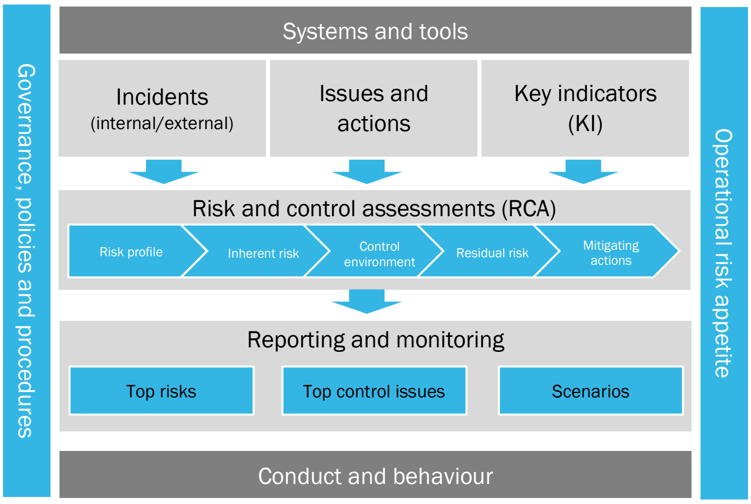
Operational risk can manifest itself in various ways, including business interruptions, inappropriate behaviour of employees (including fraud), failure to comply with applicable rules and policies or failure of vendors to perform in accordance with their contractual arrangements. These events could result in financial losses, as well as reputational damage to the Bank.

Operational Risk Framework

The Bank's Operational Risk Framework (ORF) is a network of processes, procedures, reports and responsibilities that are used to identify, manage and monitor the operational risks of the Bank. These include governance committees, day-to-day management practices such as the collection and analysis of key risks, risk of loss incidents and both strategic and cultural practices.

The ORF provides a structured approach to managing operational risk. It seeks to apply consistent standards and techniques for evaluating risks across the Bank within which individual businesses have sufficient flexibility to tailor specific components to their own needs.

The main components of the Operational Risk Framework are described below:



Governance, policies and procedures

The Bank utilises a comprehensive set of policies and procedures that set out how operational risks should be managed throughout the Bank.

Operational risk appetite

This determines the Bank's approach to risk taking and articulates the motivations for taking, accepting or avoiding certain types of risks or exposures.

Incidents

The Bank systematically collects, analyses and reports data on operational risk incidents to ensure it understands the reasons they occurred and how controls can be improved to reduce the risk of future incidents. It also collects and utilises available data on incidents at relevant peer firms through the Global Operational Risk Loss Database to identify potential risks that may be relevant in the future, even if they have not currently impacted the Bank.

Issues and actions

Issues comprise a catalogue of problems the business faces with potential operational risks arising as a consequence of business activities. Actions address these issues and are steps taken to ensure these issues do not present operational risks.

Key indicators

These are metrics that are used to monitor particular operational risks and controls over time.

Risk and control assessments

Risk and control assessments are comprehensive, bottom-up assessments of the key operational risks in each business. They comprise a self-assessment that defines a risk profile based on Bank-wide operational risk taxonomy, classifies risks under a standardised approach, covers the inherent risks of each business and control function, provides an evaluation of the effectiveness of the controls in place to mitigate these risks, determines the residual risk ratings and requires a decision to either accept or remediate any residual risks.

Reporting and monitoring

The Bank produces a wide range of regular management information reports covering the key inputs and outputs of the ORF. These reports are used by senior management to monitor outcomes against agreed targets and tolerance levels.

Systems and tools

The Bank utilises system and tools to ensure operational risks are identified and managed properly.

Conduct and behaviour

Several ORF components include assessments of behaviour as effective operational risk management relies on employees conducting themselves appropriately. For example, investigations of incidents typically consider whether employees escalated issues at an appropriately early stage. Risks that have implications for conduct risk can be identified and assessed via the operational risk register and the risk and control assessment process.

Key risks and mitigations

The Bank continually assesses and strengthens its risk and control processes and technological support tools to increase their effectiveness.

The following table summarises key operational risks currently considered most relevant to its business.

Key risk	Description	How is the risk managed
Reputational risk	Reputational risk can arise from any of the key risks outlined below. Reputational risk relates to the Bank's brand, as well as ethics, trust, relationships with clients and stakeholders, conduct and the overall culture and values of our organisation. Reputational risk may also arise from taking on inappropriate client relationships which may have adverse implications for the Bank.	Consider key reputational risks when initiating changes in strategy or operating model. Engage in proactive communications with all stakeholders and monitor media coverage to understand how our reputation is perceived. In addition, a number of controls and frameworks are in place to address other risks that could affect our reputation including: conduct risk, financial crime, investment risk and client take-on and product development.
Conduct risk	The potential detriment to the EBRD, its stakeholders and clients with respect to investment management, lending fraud, market integrity, money laundering, bribery and corruption.	Managed through a framework focusing on enhancements to risk identification, mitigation, management information, reporting in conjunction with line management, OCCO and Human Resources.
People risk	The risk that losing one important employee or team would cause a significant negative impact to the Bank or that failing to attract talent leads to sub-optimal performance. This relates to investment staff or teams associated with key products or other individuals with significant experience or specialist knowledge (for example, key operator or IT system specialists).	Key mitigations include identifying and developing resources to support front to back processes, talent management programme and succession planning. Develop comprehensive procedure documentation of all key processes and where possible include as part of disaster recovery tests.
Process risk	Risk arising from the failure of significant business processes undertaken by the EBRD, including for example critical transaction and payments processing, client suitability checks and asset pricing.	Risk and control assessments are used to identify and assess key operational risks. Associated controls are assessed with regard to their design and performance. Where required, processes and controls are enhanced to improve the control environment with the aim of preventing risk events from recurring.
Change management risk/project risk	Risk of negative impact from change/projects/initiatives. Project risk is the risk that ineffective project implementation could lead to sub-optimal solutions being delivered on our key projects.	Dedicated change management team overseeing all major projects, ensuring that consistent, Bank-wide rigour is brought to the initiation, approval and monitoring of projects. The Bank does not implement new processes and systems before they have been fully tested.
Cyber crime	Risk of loss or detriment to the Bank's business and customers as a result of actions committed or facilitated through the use of networked information systems.	The Bank's IT and information security procedures and processes ensure that all servers and computers have up to date antivirus software. Backups are made regularly and regular access control checks, system penetration and vulnerability tests along with disaster recovery tests are performed. The Bank's anti-cyber attack controls are checked and aligned with external best practice.
Business resilience risk	Business resilience risk is the risk that, for a number of reasons, the Bank is unable to continue to operate.	Resilience planning is in place across the business with clear identification of key staff and their involvement in business resumption plans. This includes annual disaster recovery testing at the Bank's back-up site. Bank-wide insurance held against a loss resulting from interruption to the business as a consequence of loss of or damage to our property. The Bank works closely with its third-party suppliers to maintain the quality and continuity of service.
Technology risk	The risks that the Bank's technology systems and support are inadequate or fail to adapt to changing requirements.	Build a technology risk management operating model that enables the organisation to identify, measure, and manage technology risks against its business objectives, critical processes, and information risks. Ensure consideration for key areas such as incident, change, and capacity management. Regularly review the progress of major information technology projects and new systems are subject to rigorous testing before approval.
Third-party service provider risk	Inadequate selection and ongoing management of external suppliers. Third-party service provider risk relates to the risk that suppliers may not be able to meet their agreed service level terms.	Before entering into third-party arrangements, the Bank undertakes due diligence on third-party suppliers and maintain a programme of regular assessment against agreed service levels. Exit plans are considered prior to appointment and provide a framework for transitioning business from one service provider to another should the quality fall below the agreed service level.

Outlook

The overall operational risk outlook has heightened due to external factors. The Bank is closely monitoring the latest developments in the coronavirus outbreak, with the Crisis Management Team remaining vigilant to the potential risks to its staff, operations and clients, and is taking precautionary measures. For further detail on risks related to the pandemic see the Covid-19 section on page 27. Over recent months the Bank has also been preparing for the potential impact of Brexit, and will continue to closely monitor and respond to developments accordingly.

The Bank continues to focus on strengthening its information technology systems and infrastructure, information and cyber security and its business resilience capabilities and practices.

To reduce, and where appropriate mitigate, the expected technology and people risk that naturally arises from changing threats facing organisations and the life expectancy of the Bank's IT infrastructure, and to address the growing market experience of sophisticated challenges to IT security, the Bank is taking steps to enhance its user awareness and modernise IT delivery and service. A new InfoSec awareness programme will commence in 2020 along with the IT enhancement programme.

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 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 2019, €8.9 billion of the callable capital increase had been subscribed (2018: €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 2016-20 period, in the context of the approval of the Bank's Strategic and Capital Framework 2016-20. 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 in 2020 (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 economies 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. The capital base for these purposes amounted to €41.2 billion[55] at 31 December 2019 after 2019 net income allocation decisions (2018: €40.5 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. At 31 December 2019, the Bank's gearing ratio on an aggregated basis was 76 per cent (2018: 73 per cent) compared with a policy threshold for this ratio of 92 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 (2018: 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.

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.

[55] Deductions are made to exclude revaluation reserves related to Banking assets (as operating assets are considered at cost).

At 31 December 2019 the ratio of required capital to available capital was 66 per cent (2018 as restated:[56] 67 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 5. At 31 December 2019, the ratio of members' equity to total assets was 26 per cent (2018: 26 per cent) and the ratio of members' equity to Banking assets was 58 per cent (2018: 58 per cent).

F. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial assets at 31 December 2019	Carrying amount € million	Fair value € million
Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:		
Debt securities	1,789	1,789
Derivative financial instruments	4,300	4,300
Banking loans at fair value through profit or loss	409	409
Banking loans at fair value through other comprehensive income	2,494	2,494
Banking portfolio: Share investments at fair value through profit or loss	5,070	5,070
Treasury portfolio: Share investments at fair value through other comprehensive income	112	112
	14,174	14,174
Financial assets measured at amortised cost:[57]		
Placements with and advances to credit institutions	18,368	18,368
Debt securities	11,840	11,872
Other financial assets	456	456
Banking loan investments at amortised cost	23,172	23,932
	53,836	54,628
Total	68,010	68,802

Financial assets at 31 December 2018	Carrying amount € million	Fair value € million
Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:		
Debt securities	1,604	1,604
Derivative financial instruments	3,948	3,948
Banking loans at fair value through profit or loss	460	460
Banking loans at fair value through other comprehensive income	1,737	1,737
Banking portfolio: Share investments at fair value through profit or loss	4,745	4,745
Treasury portfolio: Share investments at fair value through other comprehensive income	75	75
	12,569	12,569
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	16,014	16,014
Debt securities	11,343	11,312
Other financial assets	381	381
Banking loan investments at amortised cost	21,432	21,957
	49,170	49,664
Total	61,739	62,233

[56] Following a change in the Bank's capital adequacy policy in 2019, the calculation of this ratio was amended. The changes in methodology, based on revisions to external rating agency methodologies, resulted in a reduction of the 2018 comparative from 73 per cent to 67 per cent.

[57] 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.

Financial liabilities at 31 December 2019	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
Amounts owed to credit institutions	-	-	-	(1,669)	(1,669)	(1,669)
Debts evidenced by certificates	-	-	-	(45,821)	(45,821)	(45,740)
Derivative financial instruments	(626)	(142)	(1,167)	-	(1,935)	(1,935)
Other financial liabilities	-	(138)	-	(808)	(946)	(946)
Total financial liabilities	(626)	(280)	(1,167)	(48,298)	(50,371)	(50,290)

Financial liabilities at 31 December 2018	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
Amounts owed to credit institutions	–	–	–	(2,107)	(2,107)	(2,107)
Debts evidenced by certificates	–	–	–	(40,729)	(40,729)	(40,642)
Derivative financial instruments	(300)	(99)	(1,680)	–	(2,079)	(2,079)
Other financial liabilities	–	(111)	–	(542)	(653)	(653)
Total financial liabilities	(300)	(210)	(1,680)	(43,378)	(45,568)	(45,481)

At 31 December 2019, 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 (see fair value hierarchy, below) as the Bank's assessment of their fair value is based on the observable market valuation of similar assets and liabilities.

The fair value of amortised cost debt securities is determined using Level 2 inputs, employing valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are quotes from brokerage services and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

Banking loan investments whereby the objective of the Bank's business model is to hold these investments to collect the contractual cash flow, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest, are recognised at amortised cost. The fair value of these loans was calculated 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. 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.

Fair value hierarchy

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 and listed bonds classified as loans held at fair value through other comprehensive income.
- **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, most derivative products and listed share and bond investments valued using a quoted price but where there is no market sufficiently active to be included in Level 1. 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 valuation inputs are observable.

The table below provides information at 31 December 2019 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 2019
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	1,789	-	1,789
Derivative financial instruments	-	4,098	202	4,300
Banking loans	2,494	-	409	2,903
Share investments (Banking portfolio)	1,573	12	3,485	5,070
Share investments (Treasury portfolio)	-	112	-	112
Total financial assets at fair value	4,067	6,011	4,096	14,174
Derivative financial instruments	-	(1,793)	(142)	(1,935)
Other liabilities	-	-	(138)	(138)
Total financial liabilities at fair value	-	(1,793)	(280)	(2,073)

				At 31 December 2018
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	1,604	-	1,604
Derivative financial instruments	-	3,449	499	3,948
Banking loans	1,737	-	460	2,197
Share investments (Banking portfolio)	1,520	51	3,174	4,745
Share investments (Treasury portfolio)	-	75	-	75
Total financial assets at fair value	3,257	5,179	4,133	12,569
Derivative financial instruments	-	(1,980)	(99)	(2,079)
Other liabilities	-	-	(111)	(111)
Total financial liabilities at fair value	-	(1,980)	(210)	(2,190)

During 2019 €5 million worth of Banking share investments were transferred from Level 1 to Level 3, and €1 million from Level 2 to Level 3. There were no transfers between Level 1 and Level 2. Transfers to Level 2 occur when the volume of trading of an investment is at a level that is insufficient for its market to be deemed active, but where the market price is still the best indicator of the investment's value. Transfers to Level 3 occur when there is no longer an observable market price indicative of arms-length transactions.

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 2019.

	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total assets € million	Other liabilities € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2018	499	460	3,174	4,133	(111)	(99)	(210)
Net (loss)/gains	(24)	(10)	602	568	(9)	(63)	(73)
Movement in deferred gains/losses	28	-	-	28	-	4	4
Purchases/issues	-	26	294	320	(26)	-	(26)
Sales/settlements	(301)	(67)	(575)	(943)	8	16	24
Write offs	-	-	(16)	(16)	-	-	-
Transfers in/(out) of Level 3	-	-	6	6	-	-	-
Balance at 31 December 2019	202	409	3,485	4,096	(138)	(142)	(281)
Total (losses)/gains for the period included in net profit from assets and liabilities held at 31 December 2019	(49)	(11)	520	460	(8)	(63)	(71)

	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total assets € million	Other liabilities € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2017	462	372	3,286	4,120	-	(77)	(77)
Net (loss)/gains	99	34	94	227	-	(22)	(22)
Deferred loss	(8)	-	-	(8)	-	-	-
Purchases/issues	-	132	362	494	(70)	-	(70)
Sales/settlements	(47)	(62)	(559)	(668)	-	-	-
Write offs	-	(16)	(9)	(25)	-	-	-
Transfers (out of)/into Level 3	(7)	-	-	(7)	(41)	-	(41)
Balance at 31 December 2018	499	460	3,174	4,133	(111)	(99)	(210)
Total gains/(losses) for the period included in net profit from assets and liabilities held at 31 December 2018	110	25	36	171	-	(9)	(9)

Level 3 – sensitivity analysis

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2019, the main valuation models/techniques[58] 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	Carrying amount € million	Favourable change € million	Unfavourable change € million
		Impact on net profit in 2019		
Banking loans	DCF, option pricing models, credit adjustment models and NAV	409	29	(14)
Banking share investments, EPF and associated derivatives[59]	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models	3,407	446	(384)
At 31 December		3,816	475	(398)

	Main valuation models/techniques	Carrying amount € million	Favourable change € million	Unfavourable change € million
		Impact on net profit in 2018		
Banking loans	DCF and option pricing models	460	44	(31)
Banking share investments and associated derivatives	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models	3,463	407	(343)
At 31 December		3,923	451	(374)

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 derive the fair value of these instruments are DCF models, NAV valuations and credit adjustments. The inputs into the models include interest rates, discount 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, alternative NAV valuations and changes to assumptions in underlying DCF models, for example, amending the discount rate.

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 determine the fair value of these financial instruments are NAV multiples, EBITDA multiples and DCF models.

NAV multiples are most commonly applied to bank investments and equity funds. Recent transactions within sectors are also considered where available. 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. 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).

[58] NAV = net asset value; EBITDA = earnings before interest, tax, depreciation and amortisation; DCF = discounted cash flow.

[59] 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. For details of the EPF, see note 31 on page 78.

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 2019, the Bank's members comprised 69 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 economies in which the Bank invests in their transition to open, market economies whilst fostering sustainable and inclusive growth and 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 President, the Bank's chief operating decision-maker. On this basis, Banking and Treasury operations have been identified as the operating segments.

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 years ended 31 December 2019 and 31 December 2018 is as follows:

	Banking 2019 € million	Treasury 2019 € million	Aggregated 2019 € million	Banking 2018 € million	Treasury 2018 € million	Aggregated 2018 € million
Interest income	1,239	462	1,701	1,064	348	1,412
Other income	1,211	93	1,304	146	34	180
Total segment revenue	2,450	555	3,005	1,210	382	1,592
Interest expense and similar charges	(492)	(496)	(988)	(396)	(435)	(831)
Net interest income on derivatives	-	107	107	-	170	170
General administrative expenses	(358)	(23)	(381)	(371)	(20)	(391)
Depreciation and amortisation	(51)	(3)	(54)	(28)	(1)	(29)
Segment result before provisions and hedges	1,549	140	1,689	415	96	511
Fair value movement on non-qualifying and ineffective hedges	-	(235)	(235)	-	21	21
Provisions for impairment of loan investments and guarantees	(22)	-	(22)	(192)	-	(192)
Net profit for the year	1,527	(95)	1,432	223	117	340
Transfers of net income approved by the Board of Governors			(117)			(130)
Net profit after transfers approved by the Board of Governors			1,315			210
Segment assets						
Total assets	31,842	36,359	68,201	29,266	32,585	61,851
Segment liabilities						
Total liabilities	694	49,677	50,371	436	45,132	45,568

Segment revenues – geographic

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

	Segment revenue 2019 € million	Segment revenue 2018 € million
Central Asia[60]	205	219
Central Europe and Baltics[61]	409	128
Cyprus and Greece	119	(31)
Eastern Europe and the Caucasus[62]	476	346
Russian Federation	308	(78)
South-eastern Europe[63]	351	178
Southern and Eastern Mediterranean[64]	201	165
Turkey	381	283
Other OECD[65]	555	382
Total	3,005	1,592

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

3. Net interest income

	2019 € million	2018 € million
Banking loans		
- At amortised cost	1,148	990
- At fair value through other comprehensive income	79	59
- At fair value through profit or loss	12	15
Debt securities at amortised cost	228	196
Reverse repurchase agreements	44	28
Cash and short-term funds	136	99
Treasury dealing instruments	54	25
Interest and similar income	1,701	1,412
Debts evidenced by certificates	(925)	(747)
Amounts owed to credit institutions	(61)	(83)
Other	(2)	(1)
Interest expense and similar charges	(988)	(831)
Net interest income on derivatives	107	170
Net interest income	820	751

Interest income accrued on impaired financial assets during 2019 was €29 million (2018: €21 million).[66]

[60] Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.
[61] Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.
[62] Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine
[63] Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Montenegro, North Macedonia, Romania and Serbia
[64] Egypt, Jordan, Lebanon, Morocco and Tunisia
[65] Other member countries of the Organisation for Economic Co-operation and Development that are not included within the other categories. www.oecd.org/about/membersandpartners/
[66] 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:

	2019 € million	2018 € million
Banking loan commitment charges	53	53
Other Banking loan fee income	12	20
Banking equity fee income	5	6
Other fee income	33	22
Fee and commission income	103	101
Banking equity fee expense	(8)	(4)
Other fee expenses	(13)	(4)
Fee and commission expense	(21)	(8)
Net fee and commission income	82	93

Front-end and appraisal fees of €57 million (2018: €69 million) received in 2019, together with related direct costs of €4 million (2018: €4 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 as part of the loan's effective interest, in accordance with IFRS 9.

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

	2019 € million	2018 € million
Net realised gains/(losses) from share investments and equity-related derivatives	206	(105)
Net unrealised gains/(losses) from share investments and equity-related derivatives	716	(71)
Net gains/(losses) from share investments at fair value through profit or loss	922	(176)

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

	2019 € million	2018 € million
Realised gains from loans at fair value through profit or loss	19	6
Loans at fair value through profit or loss written off	-	(16)
Unrealised fair value (losses)/gains on loans at fair value through profit or loss	(32)	19
Unrealised foreign exchange gains/(losses) on loans at fair value through profit or loss	3	6
Net (losses)/gains from loans at fair value through profit or loss	(10)	15
Realised gains from loans at amortised cost	-	7
Realised gains from loans at fair value through other comprehensive income	2	3
Net (losses)/gains from loans	(8)	25

7. Net gains from Treasury assets held at amortised cost

	2019 € million	2018 € million
Net realised gains from debt securities at amortised cost	2	-
Net gains from Treasury assets held at amortised cost	2	-

During the year the Bank sold €865 million of debt securities held at amortised cost (2018: €195 million).

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

	2019 € million	2018 € million
Debt buy-backs and termination of related derivatives	1	1
Net gains from trading activities	90	33
Net gains from Treasury activities at fair value through profit or loss	91	34

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 18 in the Accounting Policies section of this 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.

Fair value hedges – one-to-one hedge relationships

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, different valuation methodologies may apply to such cash flows, depending on market conventions for pricing different types of instrument.

One example of such a difference is a pricing component of currency swaps known as the basis swap spread, which 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. To reduce the level of income statement volatility due to this factor, the Bank, under IFRS 9, elects to recognise these movements in hedging swap valuations in the statement of other comprehensive income. These amounts are then released to the income statement as hedge ineffectiveness over the life of the hedging relationship. Other pricing differentials between the hedging instruments and the hedged items are recognised directly in the income statement.

During the year fair value movements on one-to-one hedging relationships resulted in a loss of €64 million, comprising losses of €173 million on the derivative hedging instruments and gains of €109 million on the hedged items (2018: a loss of €29 million comprising loss of €599 million on the derivative hedging instruments and gains of €570 million on the hedged items).

Fair value hedges – portfolio hedging

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 loss of €171 million (2018: gain of €50 million).

Cash flow hedges

The Bank hedges on an annual basis to minimise the exchange rate risk associated with incurring administrative expenses in pound sterling. In 2019 no gain or loss was recognised as ineffectiveness in the income statement arising from cash flow hedges, as was the case in 2018.

The combined effect of all the hedging activities described above was a loss of €235 million for the year (2018: gain of €21 million).

10. Provisions for impairment of Banking loan investments[67]

Charge for the year	2019 € million	2018 € million
Portfolio provisions for unidentified impairment of loan investments at amortised cost	15	(12)
Specific provisions for identified impairment of loan investments at amortised cost[68]	(20)	(175)
Associated hedging costs[69]	(1)	(1)
Provisions for impairment of Banking loan investments at amortised cost	(6)	(188)
Provisions for impairment of Banking loan investments at fair value through other comprehensive income	(11)	(4)
Provisions for impairment of Banking loan investments	(17)	(192)

Movement in provisions	2019 € million	2018 € million
At 1 January	(981)	(897)
Charge for the year to the income statement[70]	(6)	(188)
Reversal of accrued interest income on newly impaired loans	8	4
Unwinding of the discount on expected future cash flows of stage 3 assets	29	21
Foreign exchange adjustments	(10)	(11)
Release against amounts written off	14	91
Recovery against amounts written off	-	(1)
At 31 December	(946)	(981)
Analysed between		
Provisions for unidentified impairment of non-sovereign loan investments at amortised cost	(277)	(288)
Provisions for unidentified impairment of sovereign loan investments at amortised cost	(17)	(18)
Specific provisions for identified impairment of loan investments at amortised cost	(652)	(675)
At 31 December	(946)	(981)

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

- Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.
- Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.
- Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

[67] Provisions for loans held at fair value through other comprehensive income equated to €19 million (2018: €9 million). These provisions form part of the overall balance for loans at fair value through other comprehensive income on the balance sheet.
[68] Comprised of €137 million of new provisions against €117 million of released provisions (2018: €247 million against €76 million respectively).
[69] Provisions raised in 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.
[70] Excludes provisions for guarantees which are recorded in other assets.

Set out below is an analysis of the movements in the Banking loan investments held at amortised cost and the associated impairment provisions for each of the stages of impairment.

Movement in provisions	12-month ECL (Stage 1) 2019 € million	Lifetime ECL (Stage 2) 2019 € million	Lifetime ECL (Stage 3) 2019 € million	Total 2019 € million
At 1 January	193	113	675	981
New loans originated	44	-	-	44
Transfer to Stage 1	12	(32)	-	(20)
Transfer to Stage 2 – significant increase in credit risk	(43)	109	(30)	36
Transfer to Stage 3 – credit impaired	(1)	(25)	79	53
ECL release – repayments/settlements	(8)	(5)	(40)	(53)
ECL release – write offs	-	-	(14)	(14)
Changes in model or risk parameters	(31)	(17)	(25)	(73)
Foreign exchange and other movements	(4)	(11)	7	(8)
At 31 December	162	132	652	946

Movement in loans at amortised cost	Loans Stage 1 2019 € million	Loans Stage 2 2019 € million	Loans Stage 3 2019 € million	Total 2019 € million
At 1 January	19,244	2,034	1,135	22,413
New banking loans originated	7,563	-	-	7,563
Transfer to Stage 1	134	(134)	-	-
Transfer to Stage 2 – significant increase in credit risk	(1,808)	1,884	(76)	-
Transfer to Stage 3 – credit impaired	(56)	(221)	277	-
Repayments/settlements	(5,230)	(597)	(198)	(6,025)
Write offs	-	-	(14)	(14)
Remeasurement of previously impaired loans	-	6	-	6
Foreign exchange and other movements	147	14	14	175
At 31 December	19,994	2,986	1,138	24,118

Movement in provisions	12-month ECL (Stage 1) 2018 € million	Lifetime ECL (Stage 2) 2018 € million	Lifetime ECL (Stage 3) 2018 € million	Total 2018 € million
At 1 January	181	114	602	897
New loans originated	51	-	-	51
Transfer to Stage 1	12	(30)	-	(18)
Transfer to Stage 2 – significant increase in credit risk	(18)	94	-	76
Transfer to Stage 3 – credit impaired	(1)	(45)	231	185
ECL release – repayments/settlements	(16)	(17)	(80)	(113)
ECL release – write offs	-	-	(91)	(91)
Changes in model or risk parameters	(18)	(2)	1	(19)
Foreign exchange and other movements	2	(1)	12	13
At 31 December	193	113	675	981

Movement in loans at amortised cost	Loans Stage 1 2018 € million	Loans Stage 2 2018 € million	Loans Stage 3 2018 € million	Total 2018 € million
At 1 January	17,981	2,622	848	21,451
New banking loans originated	6,918	-	-	6,918
Transfer to Stage 1	932	(932)	-	-
Transfer to Stage 2 – significant increase in credit risk	(1,354)	1,354	-	-
Transfer to Stage 3 – credit impaired	(74)	(422)	496	-
Repayments/settlements	(5,291)	(605)	(135)	(6,031)
Write offs	-	-	(91)	(91)
Remeasurement of previously impaired loans	9	-	-	9
Foreign exchange and other movements	123	17	17	157
At 31 December	19,244	2,034	1,135	22,413

11. General administrative expenses

	2019 € million	2018 € million
Personnel costs	(289)	(276)
Overhead expenses	(96)	(119)
Accommodation costs	-	(30)
General administrative expenses	(385)	(395)
Deferral of direct costs related to loan origination	4	4
Net general administrative expenses	(381)	(391)

The Bank's expenses are predominantly incurred in pound sterling. The pound sterling equivalent of the Bank's €381 million general administrative expenses, excluding depreciation and amortisation, totalled £343 million (2018: £348 million). The reduction in accommodation costs is due to the adoption of IFRS 16 *Leases*. Under the new standard, leasing costs are now recognised as depreciation and interest expense rather than administrative expenses. For further information on this change see the accounting policies section on page 22.

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

Audit and assurance services	2019 € 000	2018 € 000
Services as auditor of the Bank	(310)	(299)
Internal controls framework assurance	(147)	(142)
Retirement plan audit	(25)	(24)
Audit and assurance services	(482)	(465)

12. Placements with and advances to credit institutions

Analysed between	2019 € million	2018 € million
Cash and cash equivalents	5,108	5,544
Other current placements and advances	13,260	10,470
At 31 December	18,368	16,014

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

	2019 € million	2018 € million
Debt securities at fair value through profit or loss	1,789	1,604
Debt securities at amortised cost	11,840	11,343
At 31 December	13,629	12,947
Analysed between		
Current	4,334	4,091
Non-current	9,295	8,856
At 31 December	13,629	12,947

There were no impairment losses relating to debt securities in 2019 (2018: €nil).

14. Other financial assets

	2019 € million	2018 € million
Fair value of derivatives designated as fair value hedges	3,628	2,923
Fair value of derivatives designated as cash flow hedges	-	2
Fair value of portfolio derivatives not designated as hedges	470	524
Fair value of derivatives held in relation to the banking portfolio	202	499
Interest receivable	283	255
Paid-in capital receivable	5	7
Other	168	119
At 31 December	4,756	4,329
Analysed between		
Current	860	793
Non-current	3,896	3,536
At 31 December	4,756	4,329

15. Banking loan investments at amortised cost

	2019 Sovereign loans € million	2019 Non-sovereign loans € million	2019 Total loans € million	2018 Sovereign loans € million	2018 Non-sovereign loans € million	2018 Total loans € million
At 1 January	4,376	18,037	22,413	4,071	17,380	21,451
Disbursements	925	6,638	7,563	1,092	5,826	6,918
Repayments and prepayments	(567)	(5,458)	(6,025)	(795)	(5,236)	(6,031)
Remeasurement of previously impaired loans	-	6	6	-	9	9
Foreign exchange movements	26	137	163	53	76	129
Movement in effective interest rate adjustment	10	2	12	(45)	55	10
Reclassification	-	-	-	-	18	18
Written off	-	(14)	(14)	-	(91)	(91)
At 31 December	4,770	19,348	24,118	4,376	18,037	22,413
Impairment at 31 December	(17)	(929)	(946)	(18)	(963)	(981)
Total net of impairment at 31 December	4,753	18,419	23,172	4,358	17,074	21,432
Analysed between						
Current			3,725			3,000
Non-current			19,447			18,432
Total net of impairment at 31 December	4,753	18,419	23,172	4,358	17,074	21,432

At 31 December 2019 the Bank categorised 82 loan investments at amortised cost as impaired, with operating assets totalling €1,138 million (2018: 82 loans totalling €1,135 million). Specific provisions on these assets amounted to €652 million (2018: €675 million).

16. Banking loan investments at fair value through other comprehensive income

Non-sovereign loans	2019 € million	2018 € million
At 1 January	1,737	1,190
Movement in fair value revaluation	117	(17)
Movement in expected credit loss	(11)	(4)
Disbursements	823	792
Repayments and prepayments	(175)	(190)
Foreign exchange movements	3	(16)
Reclassification	-	(18)
At 31 December	2,494	1,737
Analysed between		
Current	63	110
Non-current	2,431	1,627
Total net of impairment at 31 December	2,494	1,737

At 31 December 2019 the Bank categorised no loan investments at fair value through other comprehensive income as non-performing.

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

Non-sovereign loans	2019 € million	2018 € million
At 1 January	460	372
Movement in fair value revaluation	(28)	19
Disbursements	26	132
Repayments and prepayments	(55)	(62)
Foreign exchange movements	6	15
Written off	-	(16)
At 31 December	409	460
Analysed between		
Current	66	45
Non-current	343	415
At 31 December	409	460

18. Share investments at fair value through profit or loss

	2019 Fair value Unlisted € million	2019 Fair value Listed € million	2019 Fair value Total € million	2018 Fair value Unlisted € million	2018 Fair value Listed € million	2018 Fair value Total € million
Outstanding disbursements						
At 1 January	3,568	1,959	5,527	3,826	1,680	5,506
Disbursements	292	108	400	319	412	731
Disposals	(570)	(523)	(1,093)	(577)	(124)	(701)
Written off	(16)	-	(16)	-	(9)	(9)
At 31 December	3,274	1,544	4,818	3,568	1,959	5,527
Fair value adjustment						
At 1 January	(596)	(186)	(782)	(761)	89	(672)
Movement in fair value revaluation	605	429	1,034	165	(275)	(110)
At 31 December	9	243	252	(596)	(186)	(782)
Fair value at 31 December	3,283	1,787	5,070	2,972	1,773	4,745

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 2019 (venture capital associates), is detailed in note 30: related parties on page 76.

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

Treasury holds a strategic share investment in the Currency Exchange Fund N.V. for the purposes of accessing hedging and risk management products in the currencies of less developed markets. In 2019 the Bank increased the size of its investment in the fund by €27 million. The Bank also has a purely nominal shareholding in SWIFT as membership is required to participate in this international payments system.

Share investment designated at fair value through other comprehensive income	2019 € million	2018 € million
The Currency Exchange Fund N.V.	112	68
The Frontier Clearing Fund[71]	-	7
SWIFT	-	-
At 31 December	112	75

No dividend income was received on these share investments during 2019 (2018: €nil).

[71] The Bank's investment in The Frontier Clearing Fund has been reclassified as a debt security held at fair value through profit or loss in 2019.

20. Intangible assets

	Computer software development costs 2019 € million	Computer software development costs 2018 € million
Cost		
At 1 January	145	129
Additions	24	17
Disposals	-	(1)
At 31 December	169	145
Amortisation		
At 1 January	(83)	(67)
Charge	(17)	(16)
Disposals	-	-
At 31 December	100	(83)
Net book value at 31 December	69	62

21. Property, technology and equipment

	Property 2019 € million	Property under construction 2019 € million	Technology and equipment 2019 € million	Right of use assets 2019 € million	Other 2019 € million	Total 2019 € million
Cost						
At 1 January	85	-	20	-	19	124
Effect of adoption of IFRS 16[72]	-	-	-	86	-	86
At 1 January as restated	85	-	20	86	19	210
Additions	3	1	1	-	-	5
Reclassification	-	-	-	-	14	14
Transfers	-	-	-	4	-	4
Disposals	(4)	-	(1)	(1)	-	(6)
At 31 December	84	1	20	89	33	227
Depreciation						
At 1 January	(55)	-	(15)	-	(4)	(74)
Charge	(8)	-	(2)	(24)	(3)	(37)
Disposals	4	-	1	1	-	6
At 31 December	(59)	-	(16)	(23)	(7)	(105)
Net book value at 31 December 2019	25	1	4	66	26	122

	Property 2018 € million	Property under construction 2018 € million	Technology and equipment 2018 € million	Right of use assets 2018 € million	Other 2018 € million	Total 2018 € million
Cost						
At 1 January	78	2	19	-	18	117
Additions	6	-	2	-	1	9
Transfers	2	(2)	-	-	-	-
Disposals	(1)	-	(1)	-	-	(2)
At 31 December	85	-	20	-	19	124
Depreciation						
At 1 January	(46)	-	(15)	-	(2)	(63)
Charge	(9)	-	(2)	-	(2)	(13)
Disposals	-	-	2	-	-	2
At 31 December	(55)	-	(15)	-	(4)	(74)
Net book value at 31 December 2018	30	-	5	-	15	50

[72] For further information on the impact of the adoption of IFRS 16 please see note 28 on page 73.

22. Borrowings

	2019 € million	2018 € million
Amounts owed to credit institutions and other third parties		
Amounts owed to credit institutions	(107)	(461)
Amounts held as collateral	(1,032)	(962)
Amounts managed on behalf of third parties[73]	(530)	(684)
At 31 December	(1,669)	(2,107)
Of which current:	(1,669)	(2,085)

23. Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates are summarised below by currency. A significant proportion of the Bank's debts evidenced by certificates are hedged in a one-to-one hedging relationship with a cross-currency swap. On these bond issuances, as the bond's cash flows are offset by equivalent cash flows on the swap, the Bank's funding costs are effectively incurred in the currency of the funding leg of the swap. The table below therefore also presents the outstanding debts evidenced by certificates by currency after factoring in these currency hedges.

	Bond denomination s 2019 € million	Currency after swap 2019 € million	Bond denominations 2018 € million	Currency after swap 2018 € million
Australian dollar	(925)	(84)	(1,062)	(298)
Brazilian real	(552)	-	(839)	-
Euro	(5,861)	(6,191)	(3,774)	(4,243)
Indonesian rupiah	(1,437)	-	(1,197)	-
Indian rupee	(538)	-	(683)	-
Kazakh tenge	(1,405)	(1,361)	(587)	(522)
New Turkish lira	(2,414)	-	(2,032)	-
Pound sterling	(5,689)	(1,843)	(3,489)	(1,824)
United States dollar	(22,952)	(35,617)	(24,599)	(33,169)
Other currencies	(4,048)	(725)	(2,467)	(673)
At 31 December	(45,821)	(45,821)	(40,729)	(40,729)

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	2019 € million	2018 € million
Current	(17,122)	(15,044)
Non-current	(28,699)	(25,685)
Debts evidenced by certificates at 31 December	(45,821)	(40,729)

During the year the Bank redeemed €264 million of bonds and medium-term notes prior to maturity (2018: €340 million), generating a net gain of €1 million (2018: €1 million).

The table below provides a reconciliation of the movements in debts evidenced by certificates for the year ended 31 December 2019, including both changes arising from cash flows and non-cash changes.

For the year ended 31 December 2019	2018 € million	Net cash flows € million	Fair value movements € million	Foreign exchange movements € million	Deals pending settlement € million	2019 € million
Debts evidenced by certificates	40,729	3,362	321	1,423	(14)	45,821

	2017 € million	Net cash flows € million	Fair value movements € million	Foreign exchange movements € million	Deals pending settlement € million	2018 € million
Debts evidenced by certificates	35,116	4,697	(289)	1,205	-	40,729

[73] See note 30 on page 76 for details of third parties.

24. Other financial liabilities

	2019 € million	2018 € million
Fair value of derivatives designated as fair value hedges	(1,167)	(1,680)
Fair value of portfolio derivatives not designated as hedges	(626)	(300)
Fair value of other derivatives held in relation to the banking portfolio	(142)	(99)
Interest payable	(362)	(308)
Amounts payable to the Equity Participation Fund	(138)	(111)
Lease liability[74]	(77)	-
Other	(369)	(234)
At 31 December	(2,881)	(2,732)
Analysed between		
Current	(1,127)	(911)
Non-current	(1,754)	(1,821)
At 31 December	(2,881)	(2,732)

25. Subscribed capital

	2019 Number of shares	2019 Total € million	2018 Number of shares	2018 Total € million
Authorised shared capital	3,000,000	30,000	3,000,000	30,000
of which				
Subscribed capital	2,975,468	29,755	2,974,279	29,743
Unsubscribed capital	24,532	245	25,721	257
At 31 December	3,000,000	30,000	3,000,000	30,000

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of €10,000. At the Bank's Annual Meeting in May 2010, the Board of Governors approved a two-step increase in the authorised capital stock of the Bank: a €1.0 billion increase in authorised paid-in shares and a €9.0 billion increase in authorised callable capital shares, amounting to a €10.0 billion aggregate increase in the authorised capital stock of the Bank (collectively referred to as the second capital increase). Resolution No. 126 authorised the increase in authorised capital stock by 100,000 paid-in shares, each share having a par value of €10,000, taking the authorised capital stock of the Bank to €21.0 billion. Resolution No. 128 authorised the increase in the authorised capital stock of the Bank by 900,000 callable shares, each share having a par value of €10,000. 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, was 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 69 countries and two inter-governmental organisations, and that the purpose of the Bank is to foster the transition process in politically qualifying economies from central Europe to Central Asia and the SEMED region.

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

[74] Following the adoption of IFRS 16 in 2019, the methodology for measuring lease liabilities has changed. For further information see note 28 on page 73.

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.

On 10 June 2019, San Marino was admitted to membership of the Bank, subscribing to 203 shares of the Bank's capital stock (166 callable shares and 37 paid-in shares). A capital contribution of €0.37 million was made for the paid-in shares.

On 17 July 2019, Libya was admitted to membership of the Bank, subscribing to 986 shares of the Bank's capital stock (807 callable shares and 179 paid-in shares). A capital contribution of €1.79 million was made for the paid-in shares.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the number of 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 2019 Members	Total shares (number)	Resulting votes[75] (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Albania	3,001	3,001	30.01	23.75	6.26
Armenia	1,499	1,499	14.99	11.86	3.13
Australia	30,014	30,014	300.14	237.54	62.60
Austria	68,432	68,432	684.32	541.59	142.73
Azerbaijan	3,001	3,001	30.01	23.75	6.26
Belarus	6,002	6,002	60.02	47.50	12.52
Belgium	68,432	68,432	684.32	541.59	142.73
Bosnia and Herzegovina	5,071	5,071	50.71	40.14	10.57
Bulgaria	23,711	23,711	237.11	187.65	49.46
Canada	102,049	102,049	1,020.49	807.64	212.85
China	2,900	2,900	29.00	23.75	5.25
Croatia	10,942	10,942	109.42	86.60	22.82
Cyprus	3,001	3,001	30.01	23.75	6.26
Czech Republic	25,611	25,611	256.11	202.69	53.42
Denmark	36,017	36,017	360.17	285.05	75.12
Egypt	3,087	3,087	30.87	22.82	8.05
Estonia	3,001	3,001	30.01	23.75	6.26
European Investment Bank	90,044	90,044	900.44	712.63	187.81
European Union	90,044	90,044	900.44	712.63	187.81
Finland	37,518	37,518	375.18	296.92	78.26
France	255,651	255,651	2,556.51	2,023.28	533.23
Georgia	3,001	3,001	30.01	23.75	6.26
Germany	255,651	255,651	2,556.51	2,023.28	533.23
Greece	19,508	19,508	195.08	154.39	40.69
Hungary	23,711	23,711	237.11	187.65	49.46
Iceland	3,001	3,001	30.01	23.75	6.26
India	986	986	9.86	8.07	1.79
Ireland	9,004	9,004	90.04	71.26	18.78
Israel	19,508	19,508	195.08	154.39	40.69
Italy	255,651	255,651	2,556.51	2,023.28	533.23
Japan	255,651	255,651	2,556.51	2,023.28	533.23
Jordan	986	986	9.86	8.07	1.79
Kazakhstan	6,902	6,902	69.02	54.62	14.40
Republic of Korea	30,014	30,014	300.14	237.54	62.60
Kosovo	580	580	5.80	4.75	1.05

[75] 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.

At 31 December 2019 Members	Total shares (number)	Resulting votes[75] (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Kyrgyz Republic	2,101	1,010	21.01	14.75	6.26
Latvia	3,001	3,001	30.01	23.75	6.26
Lebanon	986	986	9.86	8.07	1.79
Libya	986	986	9.86	8.07	1.79
Liechtenstein	599	599	5.99	4.74	1.25
Lithuania	3,001	3,001	30.01	23.75	6.26
Luxembourg	6,002	6,002	60.02	47.50	12.52
Malta	210	210	2.10	1.47	0.63
Mexico	4,501	4,501	45.01	34.50	10.51
Moldova	3,001	3,001	30.01	23.75	6.26
Mongolia	299	299	2.99	2.36	0.63
Montenegro	599	599	5.99	4.74	1.25
Morocco	2,464	2,464	24.64	19.35	5.29
Netherlands	74,435	74,435	744.35	589.10	155.25
New Zealand	1,050	1,050	10.50	7.00	3.50
North Macedonia	1,762	1,762	17.62	13.31	4.31
Norway	37,518	37,518	375.18	296.92	78.26
Poland	38,418	38,418	384.18	304.05	80.13
Portugal	12,605	12,605	126.05	99.76	26.29
Romania	14,407	14,407	144.07	114.02	30.05
Russian Federation	120,058	120,058	1,200.58	950.17	250.41
San Marino	203	203	2.03	1.66	0.37
Serbia	14,031	14,031	140.31	111.05	29.26
Slovak Republic	12,807	12,807	128.07	101.36	26.71
Slovenia	6,295	6,295	62.95	49.82	13.13
Spain	102,049	102,049	1,020.49	807.64	212.85
Sweden	68,432	68,432	684.32	541.59	142.73
Switzerland	68,432	68,432	684.32	541.59	142.73
Tajikistan	2,101	1,609	21.01	14.75	6.26
Tunisia	986	986	9.86	8.07	1.79
Turkey	34,515	34,515	345.15	273.16	71.99
Turkmenistan	210	210	2.10	1.47	0.63
Ukraine	24,011	24,011	240.11	190.03	50.08
United Kingdom	255,651	255,651	2,556.51	2,023.28	533.23
United States of America	300,148	300,148	3,001.48	2,375.44	626.04
Uzbekistan	4,412	4,412	44.12	30.97	13.15
Capital subscribed by members	2,975,468	2,973,885	29,754.68	23,537.97	6,216.71

26. Reserves and retained earnings

For the year ended 31 December 2019	Special reserve € million	Loan loss reserve € million	SEMED TC fund € million	Revaluation reserves € million	General reserves and retained earnings € million	Total € million
At 1 January	306	513	8	(26)	9,267	10,068
Net profit for the year	-	-	-	-	1,315	1,315
Movement in loan loss reserve	-	(51)	-	-	51	-
Revaluation of share investments at fair value through other comprehensive income	-	-	-	19	-	19
Revaluation of loan investments at fair value through other comprehensive income	-	-	-	108	-	108
Changes in value of hedging instruments recognised in other comprehensive income – fair value hedges	-	-	-	87	-	87
Changes in value of hedging instruments recognised in other comprehensive income – cash flow hedges	-	-	-	(2)	-	(2)
Actuarial movements on defined benefit scheme	-	-	-	-	18	18
At 31 December	306	462	8	186	10,651	11,613

For the year ended 31 December 2018	Special reserve € million	Loan loss reserve € million	SEMED TC fund € million	Revaluation reserves € million	General reserves and retained earnings € million	Total € million
At 1 January	306	1,219	8	37	8,355	9,925
Net profit for the year	-	-	-	-	210	210
Movement in loan loss reserve	-	(706)	-	-	706	-
Revaluation of share investments at fair value through other comprehensive income	-	-	-	(1)	-	(1)
Revaluation of loan investments at fair value through other comprehensive income	-	-	-	(17)	-	(17)
Changes in value of hedging instruments recognised in other comprehensive income – fair value hedges	-	-	-	(46)	-	(46)
Changes in value of hedging instruments recognised in other comprehensive income – cash flow hedges	-	-	-	1	-	1
Actuarial movements on defined benefit scheme	-	-	-	-	(10)	(10)
Internal tax	-	-	-	-	6	6
At 31 December	306	513	8	(26)	9,267	10,068

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 on the Bank's balance sheet in accordance with IFRS impairment rules. In 2015 in a one-off allocation of €660 million was moved to the LLR. Following a period of more stable economic conditions, it was agreed during 2017 that this additional allocation would be released in full as of 1 January 2018.

The **SEMED TC fund** was established in 2011 for the purpose of providing technical assistance to member countries in the SEMED region. As the Bank is considered to control the fund under the rules of IFRS 10, it has not been derecognised from the Bank's balance sheet.

The **revaluation reserves** contain fair value movements recognised on the Bank's assets and liabilities that are recorded as other comprehensive income.

- Fair value movements on financial assets classified at fair value through other comprehensive income. At 31 December 2019 there was an accumulated valuation gain of €145 million on these assets (2018: €18 million gain).

- Valuation adjustments on designated hedging instruments held by the Bank as fair value hedges that are attributable to movements in foreign currency basis spreads. These deferred gains or losses will be released from reserves over the remaining life of the underlying hedging instruments. At 31 December 2019 there was a deferred gain of €41 million on these hedging instruments (2018: €46 million loss).
- 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 2019 there was no gain or loss on these hedges. Revaluation gains or losses on these hedges are held in reserves until the related hedged expenditure is incurred at which time such gains or losses are released to profit or loss (2018: €2 million gain).

General reserves and retained earnings represents all reserves except those amounts otherwise allocated to separate reserves and it primarily comprises retained earnings.

Reserves and retained earnings	2019 € million	2018 € million
Special reserve	306	306
Loan loss reserve	462	513
SEMED TC fund	8	8
Unrealised gains	1,773	1,234
Total restricted reserves	2,549	2,061
Unrestricted general reserves	9,064	8,007
At 31 December	11,613	10,068

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 (2018: €3.0 billion).

During 2019, the Board of Governors approved the transfer of €117 million of net income to be allocated to other purposes. This amount was reflected in the 2019 income statement, below net profit from continuing operations. Under Resolution No. 221: 2018 Net Income Allocation, €95 million was allocated to the EBRD Shareholder Special Fund, €20 million was allocated as a contribution to the EBRD Trust Fund for the West Bank and Gaza, and €2 million was allocated to finance the EBRD Community Special Fund.

27. Undrawn commitments and guarantees

Analysis by instrument	2019 € million	2018 € million
Undrawn commitments		
Loans	11,743	10,802
Share investments	1,331	1,378
At 31 December	13,074	12,180
Guarantees		
Trade finance guarantees	910	797
Other guarantees	270	91
At 31 December	1,180	888
Undrawn commitments and guarantees at 31 December	14,254	13,068

28. Leases

The Bank leases its Headquarters building in London and all of its Resident Office buildings in the economies in which it invests. These are standard commercial operating leases and can include renewal options, periodic rent reviews 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 which is due to expire in 2022. Rent payable under the terms of this lease is reviewed every five years and changes in rent are based on market rates. The most recent review was completed in 2016 from which there was no increase in rent. The next review is due to commence in 2021.

In 2019 the Bank adopted IFRS 16, resulting in changes to the way leases are accounted for. These changes are described in greater detail in the significant accounting policies section on page 22. The impact of this change on the balance sheet was twofold. New "right of use" assets were recognised representing the value of the Bank's right to operate the assets it leases, primarily office premises. In addition new liabilities were recognised representing the discounted value of the Bank's future lease payment obligations. In accordance with the transition requirements of IFRS 16, the Bank has opted to apply the new standard retrospectively with the cumulative effect of applying the standard recognised at 1 January 2019. Accordingly no comparative information is presented for 2018.

The table below presents a reconciliation of the undiscounted minimum future lease payments under long-term non-cancellable operating leases at 31 December 2018 and the opening value of the Bank's lease liabilities at 1 January 2019 in accordance with IFRS 16. The Bank's weighted average incremental borrowing rate applied to the lease liability on 1 January 2019 was 1.3 per cent.

	2019 Total € million
Operating lease commitments at 31 December 2018	(101)
Effect of discounting lease commitments	5
Lease liabilities at 1 January 2019	(96)

On the 1st of May 2019, the Bank entered into an "agreement for lease" for a 20-year lease, commencing in 2022, on a new Headquarters building located in London. The Bank's right to use the new Headquarters has not yet commenced and as such the associated right-of-use asset and lease liability are not yet reflected on either the balance sheet or in the tables below. The net annual future payment by the EBRD in respect of this "agreement to lease" will be £33 million (€39 million). The Bank has the option to terminate this lease after 15 years.

Right of use assets	2019 HQ lease € million	2019 RO leases € million	2019 Total € million
At 1 January	67	19	86
Change in lease terms	-	4	4
Expired leases	-	(1)	(1)
At 31 December	67	22	89
Depreciation			
At 1 January	-	-	-
Charge	(17)	(7)	(24)
Expired leases	-	1	1
At 31 December	(17)	(6)	(23)
Net book value at 31 December	50	16	66

Lease liabilities	2019 HQ lease € million	2019 RO leases € million	2019 Total € million
At 1 January	(78)	(18)	(96)
Interest expense	(1)	-	(1)
Lease payments	22	6	28
Change in lease terms	-	(4)	(4)
FX movements	(4)	-	(4)
At 31 December	(61)	(16)	(77)

Highlights
Financial results
Additional reporting
Financial statements
External financial reporting
Independent auditor's report

The table below outlines the undiscounted lease payments arising from the lease liabilities.

Future lease payments	2019 Less than 1 year € million	2019 1-5 years € million	2019 5-10 years € million	2019 Over 10 years € million	2019 Total € million
Undiscounted future lease payments	(29)	(49)	(1)	-	(79)
Implicit interest charge	1	1	-	-	2
Present value of lease liabilities	(28)	(48)	(1)	-	(77)

29. Staff retirement schemes

There are two retirement plans in operation. The FSP is a defined benefit scheme, to which only the Bank contributes. The 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, meaning 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 full valuation was carried out on 30 June 2017 which, for the purposes of IAS 19: Employee Benefits, was rolled forward to 31 December 2019. 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:

	2019 € million	2018 € million
Fair value of plan assets	563	462
Present value of the defined benefit obligation	(576)	(480)
Net defined benefit liability at 31 December	(13)	(18)
Movement in the net defined benefit liability (included in "Other liabilities"):		
At 1 January	(18)	3
Contributions paid[76]	34	31
Total expense as below	(47)	(42)
Remeasurement effects recognised in other comprehensive income	18	(10)
At 31 December	(13)	(18)

[76] Contributions for 2020 are expected to be €35 million.

The amounts recognised in the income statement are as follows:

	2019 € million	2018 € million
Current service cost	(47)	(42)
Total included in staff costs	(47)	(42)

Principal actuarial assumptions used:

	2019	2018
Discount rate	1.80%	2.55%
Expected return on plan assets	1.80%	2.55%
Price inflation	3.25%	3.25%
Future salary increases	3.25%	3.75%
Weighted average duration of the defined benefit obligation	11 years	10 years

Sensitivity analysis on the key actuarial assumptions:

	Assumption	Sensitivity	(Decrease)/increase in DBO € million
Discount rate	1.80%	±0.5% pa	(28)/31
Price inflation	3.25%	±0.25% pa	15/(14)

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.

Plan asset allocation	2019 Listed € million	2019 Unlisted € million	2019 Total € million	2018 Listed € million	2018 Unlisted € million	2018 Total € million
Equities	263	59	322	209	47	256
Index-linked bonds	186	-	186	170	-	170
Other	-	55	55	-	36	36
Fair value of plan assets	449	114	563	379	83	462

Changes in the present value of the defined benefit obligation are as follows:	2019 € million	2018 € million
Present value of defined benefit obligation at 1 January	(480)	(461)
Service cost	(47)	(42)
Interest cost	(13)	(11)
Effect of exchange rate movement	(26)	6
Actuarial (loss)/gain arising due to changes in assumptions[77]	(29)	15
Benefits paid	19	13
Present value of defined benefit obligation at 31 December	(576)	(480)

Changes in the fair value of plan assets are as follows:	2019 € million	2018 € million
Present value of plan assets at 1 January	462	464
Interest income on plan assets	13	11
Return on assets greater/(lower) than discount rate	47	(25)
Effect of exchange rate movement	26	(6)
Contributions paid	34	31
Benefits paid	(19)	(13)
Present value of plan assets at 31 December	563	462

[77] All actuarial losses relate to changes in financial assumptions.

Experience gains and losses	2019 € million	2018 € million
Defined benefit obligation	(576)	(480)
Plan assets	563	462
Deficit	(13)	(18)
Experience (losses)/gains on plan liabilities:		
Amount	(11)	3
Percentage of the present value of the plan liabilities	(2.0%)	0.6%
Actual return less expected return on plan assets:		
Amount	38	(25)
Percentage of the present value of the plan assets	6.7%	(5.4%)

Defined contribution scheme

The charge recognised in the income statement under the MPP was €19 million (2018: €18 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 €4 million (2018: €4 million).

30. 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.

Salaries and other benefits paid to key management personnel in 2019 amounted to €17 million (2018: €17 million). This comprises salary and employee benefits of €14 million (2018: €14 million) and post-employment benefits of €3 million (2018: €3 million).

In pound sterling terms, the salaries and other benefits paid to key management personnel in 2019 amounted to £15 million (2018: £16 million), comprising salary and employee benefits of £12 million (2018: £13 million) and post-employment benefits of £3 million (2018: £3 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 2019, according to the 2018[78] 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 €24.6 billion (2018: €26.1 billion) and total liabilities of €17.0 billion (2018: €18.5 billion). For the year ended 31 December 2018, these associates had income of €3.5 billion (2018: €3.6 billion) and made €0.9 billion profit before tax (2018: €1.0 billion).

In addition, as at 31 December 2019, the Bank had outstanding €9 million (2018: €9 million) of financing to these companies on which it had received no interest income during the year (2018: nil).

[78] The 2018 financial statements are the most recent available.

Set out below is summarised financial information for the venture capital associates deemed material to the Bank. The information presented is based off the latest set of audited financial statements available at the time which was 31 December 2018.

	Meridiam Infrastructure Eastern Europe (SCA) SICAR € million	Raiffeisen Bank Aval € million
EBRD ownership percentage	25.0%	30.0%
Principal place of business	Eastern Europe	Ukraine
Summarised balance sheet		
Current assets	25	1,970
Current liabilities	2	2,327
Non-current assets	434	804
Non-current liabilities	-	7
Summarised income statement		
Revenue	84	529
Profit or loss from continuing operations	79	197
Other comprehensive income	-	(4)
Total comprehensive income	79	193
Dividends	5	159

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 2019 the Bank administered 17 Special Funds (2018: 18 Funds) with aggregate pledged contributions and associated fees amounting to €2.8 billion (2018: €2.4 billion).

The Bank acts as manager and administrator of the Special Funds for which it receives management fees and recovers certain costs. In 2019 these fees amounted to €8.2 million (2018: €8.8 million) of which €2.4 million was receivable at 31 December 2019 (2018: €0.1 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 2019 (2018: €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 2019 the Bank had €1.9 million such exposures (2018: €1.9 million).

Audit fees payable to the Bank's auditor for the 2019 audits of the Special Funds totalled €0.1 million (2018: €0.1 million).

The financial statements of each Special Fund are approved separately by the Board of Governors.

Trust Funds

On 10 May 2017 the Board of Directors established the Trust Fund for the West Bank and Gaza and the Multi-Donor Trust Fund for the West Bank and Gaza in accordance with Article 20.1 (vii) of the Agreement Establishing the EBRD. The Trust Funds are governed under the terms of the rules and guidelines for each such Trust Fund.

At 31 December 2019 the total pledged contributions to the Trust Fund for the West Bank and Gaza were €70 million (2018: €50 million). The total pledged contributions to the Multi-Donor Trust Fund for the West Bank and Gaza were €3.7 million (2018: €0.8 million).

The Bank acts as the administrator of both Trust Funds and is entitled to management and cost recovery fees. During 2019 these fees totalled €1.1 million (2018: €1.3 million), of which €0.1 million was receivable at 31 December 2019 (2018: €0.2 million).

The financial statements of the Trust Funds are approved separately by the Board of Governors.

31. Other fund agreements

Cooperation Funds

In addition to the Bank's ordinary operations, the Special Funds programme and the Trust Funds, the Bank administers numerous bilateral and multilateral contribution agreements to provide technical assistance and investment support grants in the existing and potential economies in which it invests. These grants focus primarily on project preparation, project implementation (including goods and works), advisory services and training. The Bank also acts as a fund manager for donor-financed grants that can be accessed by other International Finance Institutions. The Bank acts as fund manager for the following funds: Eastern Europe Energy Efficiency and Environment Partnership Funds (E5P), European Western Balkans Joint Fund (EWBJF – under the Western Balkans Investment Framework) and the Northern Dimension Environmental Partnership Fund (non-nuclear).

The resources provided through cooperation contribution agreements are held separately from the ordinary capital resources of the Bank, and are typically subject to external audit when required by the agreements.

In 2019 new agreements and replenishments of €586 million (2018: €520 million) were signed with donors. Contributions of €241 million (2018: €310 million) were received, and disbursements of €239 million (2018: €160 million) paid out during the year. At 31 December 2019, the total number of open Cooperation Funds was 224 (2018: 212).

Nuclear Funds

Following a proposal by the G7 countries for a multilateral programme of action to improve safety in nuclear power plants in the economies 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 and decommissioning tasks.

At their Denver Summit in June 1997, the G7 countries and the European Union endorsed the setting up of the Chernobyl Shelter Fund (CSF). The CSF was established on 7 November 1997, when the rules of the CSF were approved by the Board of Directors. It became operational on 8 December 1997, when the required eight contributors had entered into contribution agreements with the Bank. The objective of the CSF is to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system.

In 1999, in pursuit of their policy to accede to the European Union, Lithuania, Bulgaria and the Slovak Republic gave firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 reactors by certain dates. In response to this, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants, 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 finance selective projects to help with the decommissioning of designated reactors. They also finance measures to facilitate the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency.

In late 1999, the European Council launched the Northern Dimension policy as demonstration of regional cooperation. The Bank was entrusted with setting up a Northern Dimension Environmental Partnership (NDEP), as a multi-donor fund providing grant assistance to address the most pressing environmental challenges in the north-west of Russia focusing on radioactive waste, within the "nuclear window".[79] The Board of Directors adopted the Rules of the NDEP Support Fund on 10 January 2002. On 21 May 2003, the European Commission, the Russian Federation and a number of donor countries signed a framework facilitating cooperation in the area of safety of spent nuclear fuel and radioactive waste management in Russia, referred to as the "Multilateral Nuclear Environmental Programme in the Russian Federation" (MNEPR). The signing of the MNEPR was a pre-condition for entering into NDEP grant agreements and marked the beginning of operations in the NDEP nuclear safety programme.

In 2011, major donors to the NSA and CSF expressed interest in the creation, by the Bank, of an independent project monitoring function on projects undertaken by the NSA and CSF. The Chernobyl Projects Monitoring Account was established by the Bank to fulfil this interest and became operational on 29 August 2012, when the required two contributors had entered into cooperation agreements with the Bank.

In 2013 the European Commission asked the Bank to set up a multilateral fund to finance projects dealing with uranium mining legacy in Central Asia. In May 2015, the Bank's Board of Directors approved the rules of the Environmental Remediation Account and the role of the Bank as fund manager. The Account became operational in 2016.

[79] The "nuclear window" refers to nuclear projects in the north west of Russia which are fully grant funded and managed by the EBRD under the supervision of the Nuclear Operating Committee.

The table below provides a summary of Nuclear Fund contributions.

	2019 Contributions pledged € million	2019 Number of contributors	2018 Contributions pledged € million	2018 Number of contributors
Nuclear Safety Account	427	17	427	17
Chernobyl Shelter Fund	1,646	28	1,646	28
Ignalina IDSF	779	15	778	15
Kozloduy IDSF	1,130	10	1,087	10
Bohunice IDSF	653	8	653	8
NDEP[80]	353	12	353	12
Chernobyl Projects Monitoring Account	5	3	5	3
Environmental Remediation Account	44	6	32	5

The cash balances belonging to each of the funds in the table above are managed by the Bank on their behalf.[81]

Audit fees payable to the Bank's auditor for the 2019 audits of the Cooperation and Nuclear Safety funds amounted to €0.5 million (2018: €0.5 million).

Equity Participation Fund

In 2016 the Bank set up the EBRD Equity Participation Fund LP (EPF) as part of a strategy to attract long-term institutional capital into private sector investments in the economies where the Bank invests. The EPF is a fixed-term fund (12 years) that gives investors a pre-determined (20 per cent) holding in new EBRD direct equity investments which meet the EPF eligibility criteria. These eligibility criteria ensure that neither the EBRD nor the EPF are able to "cherry-pick" the investments in which the EPF participates. Throughout the life of the direct equity investment the EBRD retains legal ownership and control over the equity investments, albeit that the economic benefits of the participation do not accrue to the Bank. In return for the purchase price the EPF receives from the EBRD an equity return swap (ERS). The ERS is classified as a financial liability held at fair value through profit or loss[82] within "Other liabilities" and as at 31 December 2019 has a total value of €138 million (2018: €111 million). In exchange for managing the equity investments the EBRD receives a management fee. The Bank charged a management fee of €5 million in 2019 (2018: €4 million) of which none remained payable at 31 December 2019 (2018: nil). Since the EPF's inception a total of €143 million has been invested in twenty eligible investments.

32. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that would require adjustment to these financial statements are those that provide evidence of conditions that existed at 31 December 2019.

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. Since 31 December 2019 the Covid-19 pandemic has severely impacted the global economy, including those regions in which the Bank operates. The economic impact of the crisis will result in substantial downward pressure on the Bank's equity valuations and a sizeable increase in loan provisioning. The losses associated with these developments will be recognised in the 2020 financial statements. At present the extent of these losses cannot be reliably estimated.

At 7 April 2020 there had been no other material events after the reporting period to disclose.

On 7 April 2020 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

[80] The NDEP includes a nuclear and non-nuclear programme.
[81] See note 22 on page 67.
[82] The ERS does not meet the definition of a derivative as a large net investment was required from the holders of the ERS.

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 2019*. 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 2019. Management’s assessment includes the Special Funds and other fund agreements referred to in notes 30 and 31 of the *Financial Report 2019*, 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 2019 the Bank maintained effective internal controls over its financial reporting as contained in the *Financial Report 2019*.

The Bank’s external auditor has provided an audit opinion on the fair presentation of the financial statements presented within the *Financial Report 2019*. 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 81.

Suma Chakrabarti　　　　SOHA ELTURKY

Suma Chakrabarti
President

Soha El-Turky
Vice President, Chief Financial Officer

European Bank for Reconstruction and Development
London
7 April 2020

Report of the independent auditor

To the Governors of the European Bank for Reconstruction and Development

We have examined management's assessment that the European Bank for Reconstruction and Development (the Bank) maintained effective internal controls over financial reporting as contained in the Bank's *Financial Report 2019*, 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 2019* 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

Deloitte LLP

Chartered Accountants
London, United Kingdom
7 April 2020

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the European Bank for Reconstruction and Development (the Bank):

- give a true and fair view of the state of the Bank's affairs as at 31 December 2019 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

We have audited the financial statements of the Bank, which comprise:

- the income statement
- the statement of comprehensive income
- the balance sheet
- the statement of changes in equity
- the statement of cash flows
- the accounting policies
- the risk management disclosures
- the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • valuation of illiquid equity investments and associated derivatives; • loan impairment and provisioning. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was €133 million, which was determined based on 0.75 per cent of total shareholders' equity.
Scoping	Our audit was performed on the Bank entity. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	During the period there were no significant changes to the audit approach from the previous year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of illiquid equity investments and associated derivatives.

Key audit matter description	The valuation of illiquid equities including funds (December 2019: €3.5 billion, December 2018: €3.2 billion) and associated level 3 derivatives (December 2019: €60 million, December 2018: €400 million) is a key audit matter given the large size of the portfolio and the inherent subjectivity when determining fair values. In general, there is a lack of comparable market transactions in the economies where the Bank operates leading to difficulties in deriving fair values for illiquid equity investments. Additionally, the Bank enters into option transactions in order to facilitate an exit route for certain equity investments. Consequently, the fair value of both the illiquid equity investments and associated derivatives can fall within a relatively wide valuation range. Common methodologies include the use of earnings multiples or net asset values multiples based on comparable companies. Discounted cash flows are also used in certain cases. There are a number of assumptions inherent in valuation models that are highly subjective and sensitive to model choice and inputs. The process of defining the fair value of an illiquid equity investment involves a high degree of subjectivity and, accordingly, the Bank has defined a set of valuation principles and rules by which valuations are governed and reviewed. The equity option valuations are subjective and complex with respect to whether they have value, what inputs to use and how to model contractual features. Management has assessed the sensitivity of the portfolio by considering reasonably possible alternative assumptions (such as multiples) in the individual equity valuations as disclosed within Risk Management note F on page 54 in the financial statements. The relevant accounting policy is disclosed in note C on page 24, and further details in notes 5, 14, 18 and 24 to the financial statements.
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to the valuation of illiquid equity investments and associated derivatives: • We have obtained an understanding of relevant controls within the business process and performed testing over management's controls in place over the valuation process for equity investments and derivatives. • Our review of the valuation process has included obtaining the Bank's valuation methodology and the processes and procedures that assess whether this is applied consistently over the portfolio, focusing on management review and challenge. • For the illiquid equity investments, we have performed tests of detail over a sample of valuations as well as assessing the valuation methodology applied by the Bank for reasonableness and consistency with IFRS and market practice. • Our testing involves agreement of multiples to third-party evidence and challenge to any discounts applied. • We performed retrospective testing of equity exits made in the year to assess whether the Bank's valuations were reasonable in light of the actual exit proceeds received for realised transactions. • For a sample of options, we have assessed the contractual features and then understood how the Bank has modelled them. We have tested the inputs to the valuation models for consistency of approach, reasonableness against the type of underlying transaction and against market practice and IFRS requirements. We have also agreed the inputs into the models to supporting documentation where applicable. • We assessed the accuracy of the Bank's disclosures within the financial statements including those around the fair value hierarchy.
Key observations	We conclude that the valuation of illiquid equities and associated derivatives is reasonable and within the acceptable range of possible outcomes.

Loan impairment and provisioning: stage classification and specific provisions.

Key audit matter description	The total provision balance for December 2019 is €946 million (December 2018: €981 million), split between Stage 1 (€162 million), Stage 2 (€132 million) and Stage 3 (€652 million). Provisions are calculated on an expected credit loss basis. Specific provisions comprise the majority of the loan loss provisions held by the Bank, these constitute impaired loans within Stage 3 and represent loans in the portfolio where there is objective evidence of impairment. The key audit matter relates to the appropriate stage classification and the key judgements are outlined below: • For exposures determined to be within IFRS 9 Stage 1, impairments are calculated using 12-month expected credit losses (ECLs). • Assets that have experienced a significant increase in credit risk (but where there is no objective indicator of impairment) are classified as Stage 2 and require provisions equal to lifetime ECL. • Lifetime ECLs are also calculated for assets where there is objective evidence of impairment. These are classified as Stage 3. There are a number of key elements that drive the IFRS 9 calculation, some of which are mechanical in nature while other elements involve more judgement. This includes: • The internal credit rating applied to each exposure and the change in credit rating is a significant determinant of whether an exposure is considered Stage 1 or Stage 2 (or indeed Stage 3) and this can involve a high level of judgement. The movement from Stage 1 to Stage 2 results in the use of a lifetime expected loss and so can potentially have a significant effect on the overall level of provisioning. • The actual probabilities of default (PD) or loss given default (LGD) applied to a credit rating is an exercise which is largely mechanical in nature although there is some judgement in the selection of historical default data and how "through the cycle" PDs are converted to "point in time" PDs as required by the standard. • For Stage 3 loans, individual calculations are performed to determine the impairment loss, a complex and judgemental process. Management has assessed the sensitivity of the portfolio provisions by considering reasonably possible alternative inputs into the provision calculation (such as probability of default ratings) in the individual loans as disclosed within the "Critical accounting estimates and judgements", note C on page 26. The relevant accounting policy is disclosed in note B on page 20, and further details in notes 6, 10 and 15 to the financial statements.

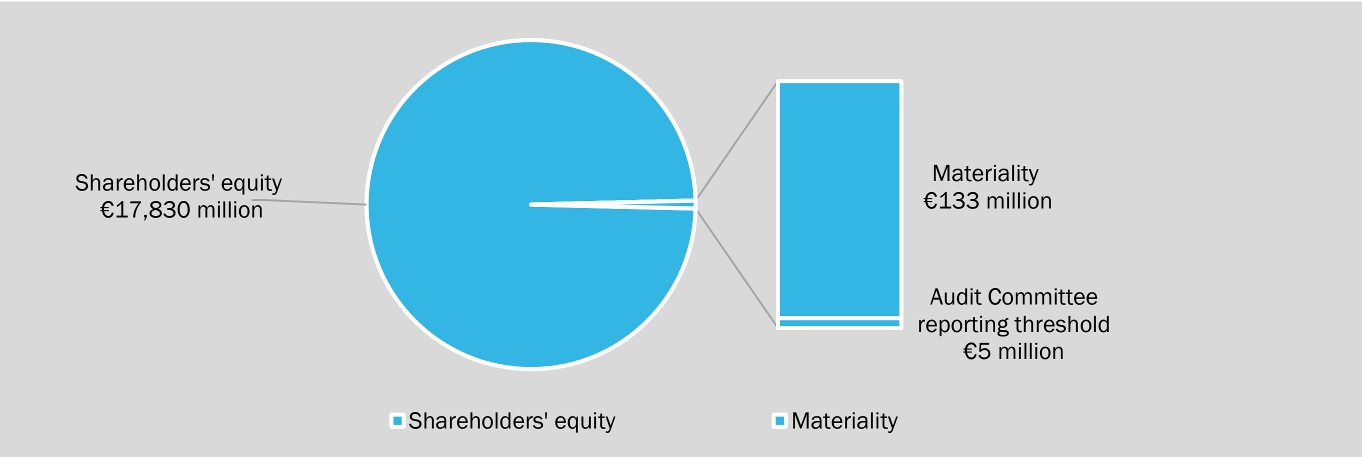
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to the loan impairment and provisioning balances: • We have obtained an understanding of relevant controls within the business process and performed testing over management's controls in place over loan impairment and provisioning, including performing testing on the relevant IT systems. • We challenged each element of the IFRS 9 methodology to evaluate compliance with the accounting standards and have assessed the reasonableness of judgements within the methodology such as the level of internal versus external default data used and the appropriateness and correlation of macroeconomic variables to the probability of default. • We further assessed if any overlays to the provisioning model were required. • We have tested the mechanical elements of the calculation such as the loan exposure data, the historical default data and GDP data used. • We have involved internal specialists to test that that the "calculation engine" performs calculations in line with the approved methodology, and we have reviewed all changes to the underlying code made during 2019. • The key judgement relates to the credit rating applied to each exposure. In this respect we have picked a large sample of exposures across Stage 1 and Stage 2 to assess credit ratings and hence whether the staging of the exposures is reasonable. In particular, we have selected Lebanese and Turkish loan exposures and assessed the staging of these exposures. This has involved consideration of the financial performance of the borrower including the currency exposure of financing and the ability to repay in such a currency given the business activities of the company. In order to consider the appropriateness of the valuation of specific provisions we performed further procedures: • We have obtained an understanding of relevant controls within the business process and performed testing over management's controls in in place over the credit assessment process for banking loans. • For a sample of specific provisions we: – assessed the economic situation of the borrower against Stage 3 determinants outlined in IFRS 9 – challenged management on assumptions made in factors affecting the cash flow forecast for specific loans. This included checking the consistency of inputs used to determine whether they are appropriate – performed detailed testing through re-performing the individual provision calculations associated with each specific provision tested and reconciling the inputs to supporting documentation. We have assessed completeness of Stage 3 exposures through our testing of Stage 1 and Stage 2 exposures. This includes testing of watchlist exposures and exposures rated just below 8 (Stage 3) in the internal credit rating system.
Key observations	We concluded that the loan impairment provision balance is reasonable and in compliance with IFRS 9.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	€133 million (2018: €121 million)
Basis for determining materiality	The materiality was determined on the basis of 0.75 per cent (2018: 0.75 per cent) of shareholders' equity of €17.8 billion as disclosed in the balance sheet and statement of changes in equity.
Rationale for the benchmark applied	Materiality has been based on shareholders' equity given our assessment of this being the most stable metric, and the most applicable to the operation of the Bank.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70 per cent of materiality for the 2019 audit (2018: 70 per cent). In determining performance materiality, we considered the following factors:

a. our assessment of the control environment
b. lack of significant changes in the business
c. low turnover of management or key accounting personnel
d. low history of corrected and uncorrected misstatements identified in prior periods.

Error reporting threshold

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of €5 million (2018: €5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Bank and its environment, including internal control, and assessing the risks of material misstatement. Our audit was performed on the Bank entity given there were no material consolidated entities as at 31 December 2019. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The scoping remains in line with the scoping for the prior year audit, given there have been no material changes to the Bank's structure, activities or relevant accounting standards.

Other information

The President is responsible for the other information. The other information comprises the highlights, financial results and additional reporting and disclosures sections of the *Financial Report* for the year ended 31 December 2019.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of the President for the financial statements

The President is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the President.
- conclude on the appropriateness of the President's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, include the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit
- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report to you in respect of these matters.

Other matters

Audit tenure

Following the recommendation of the Audit Committee, we were appointed by the President on 31 May 2011 to audit the financial statements for the year ended 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ended 31 December 2011 to 31 December 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs.

Use of our Report

This report is made solely to the Board of Governors, as a body, in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Alan Chaudhuri

Alan Chaudhuri

For and on behalf of Deloitte LLP

London, United Kingdom
7 April 2020

Notes

Financial Control
Peter Archer
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Paulo Sousa

Editorial production
Natasha Treloar
Helen Valvona

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1194 Financial Report 2019 (E/300)

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