Income statement

These financial statements have been approved for issue by the Board of Directors on 8 March 2017.

For the year ended 31 December 2016	Note	Year to 31 December 2016 € million	Year to 31 December 2015 € million
Interest and similar income			
From Banking loans		1,007	1,127
From fixed-income debt securities and other interest		126	81
Interest expense and similar charges		(237)	(139)
Net interest expense on derivatives		(81)	(170)
Net interest income	3	815	899
Net fee and commission income	4	29	28
Dividend income		97	82
Net gains from share investments at fair value through profit or loss	5	326	197
Net gains/(losses) from loans at fair value through profit or loss	6	9	(44)
Net gains from loans at amortised cost		15	3
Net gains from Treasury assets held at amortised cost	7	6	4
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	8	84	114
Fair value movement on non-qualifying and ineffective hedges	9	131	(171)
Impairment provisions on Banking loan investments	10	(57)	120
Impairment provisions on guarantees		(3)	1
General administrative expenses	11	(445)	(401)
Depreciation and amortisation	19,20	(22)	(30)
Net profit for the year from continuing operations		985	802
Transfers of net income approved by the Board of Governors	25	(181)	(360)
Net profit after transfers of net income approved by the Board of Governors		804	442
Attributable to:			
Equity holders		804	442

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

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Statement of comprehensive income

For the year ended 31 December 2016	Year to 31 December 2016 € million	Year to 31 December 2015 € million
Net profit after transfers of net income approved by the Board of Governors	804	442
Other comprehensive income/(expense)		
1. Items that will not be reclassified subsequently to profit or loss		
Share investments designated as fair value through other comprehensive expense	12	(7)
Actuarial gains/(losses) on defined benefit scheme	20	(6)
2. Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	(2)	-
Total comprehensive income	834	429
Attributable to:		
Equity holders	834	429

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

Balance sheet

At 31 December 2016	Note	€ million	31 December 2016 € million	€ million	31 December 2015 € million
Assets					
Placements with and advances to credit institutions	12	14,110		11,724	
Debt securities	13				
At fair value through profit or loss		926		747	
At amortised cost		8,981		11,329	
		9,907		12,076	
Collateralised placements		-		13	
			24,017		23,813
Other financial assets	14				
Derivative financial instruments		4,319		4,596	
Other financial assets		214		335	
			4,533		4,931
Loan investments					
Banking portfolio:					
Loans at amortised cost	15	22,885		21,817	
Less: Provisions for impairment	10	(1,044)		(1,083)	
Loans at fair value through profit or loss	16	313		339	
			22,154		21,073
Share investments					
Banking portfolio:					
At fair value through profit or loss	17	5,265		5,033	
Treasury portfolio:					
Share investments at fair value through other comprehensive income	18	75		63	
			5,340		5,096
Intangible assets	19		63		63
Property, technology and office equipment	20		43		50
Total assets			56,150		55,026
Liabilities					
Borrowings					
Amounts owed to credit institutions and other third parties	21	2,478		2,590	
Debts evidenced by certificates	22	35,531		34,280	
			38,009		36,870
Other financial liabilities	23				
Derivative financial instruments		2,170		2,993	
Other financial liabilities		540		577	
			2,710		3,570
Total liabilities			40,719		40,440
Members' equity attributable to equity holders					
Paid-in capital	24	6,207		6,202	
Reserves and retained earnings	25	9,224		8,384	
Total members' equity			15,431		14,586
Total liabilities and members' equity			56,150		55,026
Memorandum items					
Undrawn commitments	26		12,075		12,959

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

Statement of changes in equity

For the year ended 31 December 2016	Subscribed capital € million	Callable capital € million	Fair value through other comprehensive income reserve € million	Cash flow reserves € million	Actuarial remeas-urement € million	Retained earnings € million	Total equity € million
At 31 December 2014	29,674	(23,472)	14	-	(8)	7,941	14,149
Total comprehensive income for the year	-	-	(7)	-	(6)	442	429
Internal tax for the year	-	-	-	-	-	8	8
At 31 December 2015	29,674	(23,472)	7	-	(14)	8,391	14,586
Total comprehensive income for the year	-	-	12	(2)	20	804	834
Internal tax for the year	-	-	-	-	-	6	6
Capital subscriptions	29	(24)	-	-	-	-	5
At 31 December 2016	29,703	(23,496)	19	(2)	6	9,201	15,431

Refer to note 25 “Reserves and retained earnings” on page 69 for a further explanation of the Bank’s reserves.

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

Statement of cash flows

For the year ended 31 December 2016	€ million	Year to 31 December 2016 € million	€ million	Year to 31 December 2015 € million
Cash flows from operating activities				
Net profit for the year	804		442	
Adjustments for:				
Unwinding of the discount relating to impaired identified assets	(31)		(30)	
Interest income	(1,102)		(1,178)	
Interest expenses and similar charges	318		309	
Net deferral of fees and direct costs	113		98	
Dividend income	(97)		(82)	
Internal tax	7		7	
Realised gains on share investments and equity derivatives	(21)		(250)	
Unrealised (gains)/losses on share investments and equity derivatives at fair value through profit or loss	(305)		53	
Unrealised (gains)/losses from loans at fair value through profit or loss	(9)		44	
Realised gains on Banking loans	(15)		(3)	
Realised gains on Treasury investments	(6)		(4)	
Fair value movement on hedges	(131)		165	
Unrealised fair value movement	344		(262)	
Foreign exchange gains	(10)		(1)	
Depreciation and amortisation	21		30	
Loss on disposal of property, technology and office equipment	5		2	
Gross provisions charge for Banking loan losses and guarantees	60		(121)	
Movement in net income allocations payable	105		115	
	50		(666)	
Interest income received	1,055		1,056	
Interest expenses and similar charges paid	(444)		(276)	
Dividend income received	99		80	
(Increase)/decrease in operating assets:				
Prepaid expenses	33		25	
Proceeds from repayments of Banking loans	9,124		6,818	
Funds advanced for Banking loans	(9,854)		(7,743)	
Proceeds from sale of Banking share investments and equity derivatives	764		1,361	
Funds advanced for Banking share investments	(774)		(1,082)	
Net placements to credit institutions	(1,500)		86	
Net proceeds from settlement of derivatives	(32)		1,633	
Increase in operating liabilities:				
Accrued expenses	84		94	
Net cash from operating activities		(1,395)		1,386
Cash flows used in investing activities				
Proceeds from sale of debt securities at amortised cost	12,724		12,721	
Purchases of debt securities at amortised cost	(10,341)		(12,622)	
Proceeds from sale of debt securities held at fair value through profit or loss	901		1,334	
Purchases of debt securities held at fair value through profit or loss	(1,065)		(1,026)	
Purchases of intangible assets, property, technology and office equipment	(43)		(61)	
Net cash from investing activities		2,176		346
Cash flows from financing activities				
Capital received	5		-	
Issue of debts evidenced by certificates	15,526		15,454	
Redemption of debts evidenced by certificates	(15,328)		(16,088)	
Net cash used in financing activities		203		(634)
Net increase in cash and cash equivalents		984		1,098
Cash and cash equivalents at beginning of the year		7,533		6,435
Cash and cash equivalents at 31 December[20]		8,517		7,533

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 2016 balance is €9 million restricted for technical assistance to be provided to member countries in the SEMED region (2015: €12 million).

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

[20] See note 12 on page 60 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 21. The financial statements have been prepared on a going concern basis. The going concern assessment was made by the Bank's Board of Directors when approving the Bank's 'Strategy Implementation Plan 2017 – 2019' in December 2016, which analysed the Bank's liquidity position. The assessment was re-confirmed by the President and Senior Vice President, Chief Financial Officer and Chief Operating Officer on 8 March 2017, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's policies. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Critical accounting estimates and judgements" on page 24.

New and amended IFRS mandatorily effective for the current reporting period

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

- IFRS 11: Joint Arrangements
- IAS 1: Presentation of Financial Statements
- IAS 16: Property, Plant and Equipment
- IAS 38: Intangible Assets

IFRS not yet mandatorily effective but adopted early

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

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

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 2: Share-based Payment	Accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled. Effective for annual reporting periods beginning on or after 1 January 2018.	The Bank considers that this standard is not applicable to its operations.
Amendments to: IFRS 4: Insurance Contracts	Provides guidance for insurers in applying IFRS 9: Financial Instruments with IFRS 4: Insurance Contracts. Effective for annual reporting periods beginning on or after 1 January 2018.	The Bank considers that this standard is not applicable to its operations.
IFRS 9: Financial Instruments	Classification and measurement of financial liabilities (October 2010). Hedge accounting (November 2013). Impairment methodology and introduction of a 'fair value through other comprehensive income' measurement category for financial assets represented by simple debt instruments (July 2014). IFRS 9 to be adopted in its entirety for annual reporting periods beginning on or after 1 January 2018.	The Bank has commenced its implementation programme for the hedge accounting and impairment sections of IFRS 9. At this stage it does not foresee any material change to its classification and measurement of financial assets and liabilities.
Amendments to: IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures	Provides guidance for accounting for the loss of control of a subsidiary as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Effective for annual reporting periods beginning on or after a date to be determined by the IASB.	The Bank considers that these amendments have no applicability to its existing operations.
IFRS 15: Revenue from Contracts with Customers	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Effective for annual reporting periods beginning on or after 1 January 2018.	The Bank has yet to assess the potential impact of adopting this standard.
IFRS 16: Leases	Sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, that is, the customer ('lessee') and the supplier ('lessor'). Effective for annual reporting periods beginning on or after 1 January 2019.	The Bank has yet to assess the potential impact of adopting this standard.
Amendments to: IAS 7: Statement of Cash Flows	An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Effective for annual reporting periods beginning on or after 1 January 2017.	This is a disclosure requirement only which the Bank will comply with in 2017.
Amendments to: IAS 12: Income Taxes	Clarifies the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. Effective for annual reporting periods beginning on or after 1 January 2017.	The Bank is exempt from all forms of direct taxes and so this Standard is not applicable.

B. Significant accounting policies

Financial assets – Classification and measurement

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

Financial assets at amortised cost

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

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

Financial assets at fair value

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

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

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

When an instrument that is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Bank determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching 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 which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

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

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

The Bank also accounts for a small number of strategic equity investments[21] at fair value through other comprehensive income with no recycling of such fair value gains or losses through the income statement.

Derecognition of financial assets

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

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

[21] See note 18 to the financial statements on page 62.

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

Financial liabilities

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

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

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

Contingent liabilities

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

Derivative financial instruments and hedge accounting

The Bank primarily makes use of derivatives for four purposes:

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

All derivatives are measured at fair value through the income statement unless they form part of a qualifying cash flow hedge, in which case the fair value is taken to reserves and released into the income statement at the same time as the risks on the hedged instrument are recognised therein. Any hedge ineffectiveness will result in the relevant proportion of the fair value remaining in the income statement. Fair values are derived primarily from discounted cash flow models, option pricing models and from third party quotes. Derivatives are carried as assets when their fair values are positive and as liabilities when their fair values are negative. In 2016 the Bank introduced additional valuation measures for its over-the-counter (OTC)[22] derivatives portfolio to reflect credit and funding cost adjustments which the Bank reasonably anticipates will be incorporated into the exit price for such instruments. These adjustments, calculated at a portfolio level for each individual counterparty, allow for the following factors:

- the credit valuation adjustment ("CVA") reflects the impact on the price of a derivative trade of changes in the credit risk associated with the counterparty;
- the debit valuation adjustment ("DVA") reflects the impact on the price of a derivative trade of changes in the credit risk associated with EBRD, and
- the funding valuation adjustment ("FVA") reflects the costs and benefits arising when uncollateralised derivative exposures are hedged with collateralised trades.

The valuation adjustment deriving from these factors is detailed within the 'Risk Management' section of the report in the table detailing the fair value of the Bank's derivative positions on page 38.

Hedge accounting

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

The Bank has engaged in cash flow hedges, principally to minimise the exchange rate risk associated with the fact that its administrative expenses are incurred in the pound sterling. The amount and timing of such hedges fluctuates in line with the Bank's view on opportune moments to execute the hedges. In December 2016 the Bank purchased in the forward foreign exchange market approximately fifty per cent of the pound sterling figure for the 2017 budget. The movement in the fair value of these hedges will be recognised directly in reserves 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.

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

Financial guarantees

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

Impairment of financial assets

Financial assets at amortised cost

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

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

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

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

Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis (the general provision). The methodology used for assessing such impairment is based on a risk-rated approach, with the methodology applied for all sovereign risk assets taking into account the Bank's preferred creditor status afforded by its members. The Bank's methodology calculates impairment on an incurred loss basis.[23] Impairment is deducted from the asset categories on the balance sheet.

The Bank additionally makes transfers within its reserves to maintain a separate loan loss reserve to supplement the cumulative amount provisioned through the Bank's income statement on an incurred loss basis.

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

[23] See 'Loss emergence period' on page 26 under 'Critical accounting estimates and judgements'.

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

Statement of cash flows

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

Foreign currencies

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

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

Capital subscriptions

The Bank's share capital is denominated in euro 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 years.

Property, technology and office equipment

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

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

Update in accounting estimate

During the year a review of the useful lives of the technology and office equipment assets was conducted. This review resulted in an increase in the estimated useful lives of a number of assets. The impact of this change in estimated useful lives has been a €7.2 million reduction to the 2016 depreciation expense. The effect on future periods is not disclosed due to the impracticality of estimating future asset balances.

Accounting for leases

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

Interest, fees, commissions and dividends

Interest income and expense is recognised on an accruals basis using the effective interest rate method. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating and maintaining the instrument are also recognised as interest income or expense over the life of the instrument. The amortisation of such fees and costs is recognised in the same line of interest income or expense as the instruments to which they relate. Further details are provided below.

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

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

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

Staff retirement schemes

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

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

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

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

The defined benefit cost charged to the income statement represents the service cost and the net interest income/(cost) on the plan’s net asset or liability. Remeasurements due to actuarial assumptions, including the difference between expected and actual net interest, are recognised in ‘other comprehensive income’. The net defined benefit or liability recognised on the balance sheet is equal to the actual surplus or deficit of the defined benefit plan.

Taxation

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

C. Critical accounting estimates and judgements

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

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

Fair value of derivative financial instruments

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

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

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

Fair value of share investments

The Bank's method for determining the fair value of share investments is described under "Financial assets" in the Accounting Policies section of the report and an analysis of the share investment portfolio is provided in note 17 on page 62. In relation to the Bank's share investments where the valuations are not based on observable market inputs, additional sensitivity information has been included under "fair value hierarchy" in the Risk Management section of the report on page 54.

Provisions for the impairment of loan investments

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

Portfolio provisions for the unidentified impairment of non-sovereign loan investments at 31 December 2016 were €250 million (2015: €252 million).

During 2016 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. This review resulted in a modest reduction in the level of portfolio provisions. The key revision to these estimates was:

Probability of default[24]

- In determining the probabilities of default for each risk rating, the historical datasets used to calibrate the rates were updated to include 2015. This was carried out for both the internal and external data used to determine the final probability of default rates.

If this change to loss parameter estimates had been applied at 31 December 2015, the portfolio provisions for the unidentified impairment of non-sovereign loan investments would have reduced by €16 million from €252 million to €236 million. The total reduction, as a result of this change, in portfolio provisions (including sovereign loan investments) at 31 December 2015 would have been €18 million. No estimate of the effect these changes may have on future periods has been undertaken on the grounds of impracticability.

In addition, the sensitivity of portfolio provisions at 31 December 2016 to the key variables used in determining the level of impairment is provided below.

Risk ratings

- If all non-sovereign loan investments were upgraded by three 'notches' or detailed ratings on the Bank's probability of default rating scale, this would result in a reduction of €206 million (2015: €208 million) in portfolio provisions on non-sovereign loans.
- Conversely, if all non-sovereign loan investments were downgraded by three 'notches' or detailed ratings on the Bank's probability of default rating scale this would result in a charge to the income statement of €403 million (2015: €447 million) in relation to portfolio provisions for non-sovereign loans.

Probability of default rates

- In determining the probabilities of default for each risk rating, the relative weighting applied to external data and the Bank's own experience is reviewed annually. The 2016 general provisioning methodology applies a 67 per cent weighting to the Bank's own experience and a 33 per cent weighting to external data. A +/- 10 percentage points change in the weighting assigned to the Bank's own experience would lead to a change in portfolio provisions of -/+ €25 million (2015: €24 million).

[24] See table showing probability of default ratings used by the Bank in the credit risk section under 'Risk Management' on page 29.

Loss emergence period

- Provisions for unidentified impairment are made to reflect losses arising from events existing but not identified at the balance sheet date and which will emerge within a 12-month period from that date. If the loss emergence period was reduced to three months it is broadly estimated that this would result in a decrease in portfolio provisions charged to the income statement of approximately €186 million (2015: €186 million).

Loss given default rates

- A change in loss given default rates of 10 percentage points would lead to a change in portfolio provisions of +/- €56 million (2015: €55 million).

Sovereign ratings

- Portfolio provisions for the unidentified impairment of sovereign loan investments at 31 December 2016 amounted to €29 million (2015: €32 million). If all sovereign loans were downgraded by three 'notches' or detailed ratings on the Bank's probability of default rating scale this would result in a total charge to income statement of €58 million (2015: €63 million). Similarly, if the portfolio was upgraded by three 'notches' this would result in a release to the income statement of €24 million (2015: €27 million).

With respect to specific provisions, an increase or decrease of 10 percentage points on the current provision cover level would have an impact of +/- €121 million (2015: €125 million).

Risk management

Financial risks

Risk governance

The Bank's overall framework for identifying and managing risks is underpinned by independent second line of defence[25] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Social Department, Finance Department, Evaluations Department and other relevant units. An Internal Audit Department acts as third line of defence and independently assesses the effectiveness of the processes within the first and second lines of defence. The Vice President, Risk and Compliance, 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 accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on Risk Management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Risk Committee is chaired by the VP Risk and Compliance, CRO.

The Managing Director, Risk Management reports to the VP 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 identifying and managing operational risks across the Bank. It develops and maintains the Risk Management policies to facilitate Banking and Treasury operations and promotes risk awareness across the Bank.

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

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

Risks in 2017

Below is a summary of current top and emerging risks identified by the Bank. These are risks that, if they were to crystallise, have the potential to negatively affect the Bank'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.

- Political and economic environment in Turkey (the Bank's largest country of operations). Weakening of the business environment, reduced investor confidence and vulnerability to US interest rates are likely to negatively impact the volatility of capital flows, foreign exchange rates, and debt availability.
- Elevated uncertainties about political and economic outlook for the eurozone following the UK referendum to exit the EU.
- Global dynamics following the US presidential election, with the likely shifts in the US approach towards international trade and the global environmental agreements, and its impact on the rest of the world trade and on multilateral cooperation.
- Radicalisation and threat of terrorist activity in Middle East and beyond, undermining investment climate and intensifying the refugee crisis across borders.
- The continued weakness in the oil price and in other export commodity prices often leading to currency devaluations, exacerbating budget problems and affecting creditworthiness of companies exposed to foreign currency risk in commodity producing countries.

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Bank also monitors concentration risk, which arises when too high a proportion of the Bank's exposure is to a single obligor and/or has the potential to simultaneously deteriorate due to correlation to an event. Exposures 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 represented on the balance sheet, inclusive of the undrawn commitments related to loans and guarantees (see note 26 on page 71).

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

Credit risk in the Banking portfolio: Management

Individual projects

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

The Operations Committee reviews all Banking projects 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 VP Risk & 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. 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 Audit Committee of the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with all portfolio risk limits including an explanation of any limit breaches.

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

The Bank assigns its internal risk ratings to all counterparties, including borrowers, investee companies, guarantors, put counterparties and sovereigns in the Banking and Treasury portfolios. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external rating agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

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

<table>
<tr><th>EBRD risk rating category</th><th>EBRD risk rating</th><th>External rating equivalent</th><th>Category name</th><th>Broader category</th></tr>
<tr><td>1</td><td>1.0</td><td>AAA</td><td>Excellent</td><td rowspan="10">Investment grade</td></tr>
<tr><td rowspan="3">2</td><td>1.7</td><td>AA+</td><td rowspan="3">Very strong</td></tr>
<tr><td>2.0</td><td>AA</td></tr>
<tr><td>2.3/2.5</td><td>AA-</td></tr>
<tr><td rowspan="3">3</td><td>2.7</td><td>A+</td><td rowspan="3">Strong</td></tr>
<tr><td>3.0</td><td>A</td></tr>
<tr><td>3.3</td><td>A-</td></tr>
<tr><td rowspan="3">4</td><td>3.7</td><td>BBB+</td><td rowspan="3">Good</td></tr>
<tr><td>4.0</td><td>BBB</td></tr>
<tr><td>4.3</td><td>BBB-</td></tr>
<tr><td rowspan="3">5</td><td>4.7</td><td>BB+</td><td rowspan="3">Fair</td><td rowspan="3">Risk class 5</td></tr>
<tr><td>5.0</td><td>BB</td></tr>
<tr><td>5.3</td><td>BB-</td></tr>
<tr><td rowspan="3">6</td><td>5.7</td><td>B+</td><td rowspan="3">Weak</td><td rowspan="3">Risk class 6</td></tr>
<tr><td>6.0</td><td>B</td></tr>
<tr><td>6.3</td><td>B-</td></tr>
<tr><td rowspan="3">7</td><td>6.7</td><td>CCC+</td><td rowspan="3">Special attention</td><td rowspan="4">Classified</td></tr>
<tr><td>7.0</td><td>CCC</td></tr>
<tr><td>7.3</td><td>CCC-/CC/C</td></tr>
<tr><td>8</td><td>8.0</td><td>D</td><td>Non-performing</td></tr>
</table>

Loss given default (LGD)

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

Non-performing loans (NPL)

NPL definition

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

Provisioning methodology

A specific provision is raised on all 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.

General portfolio provisions

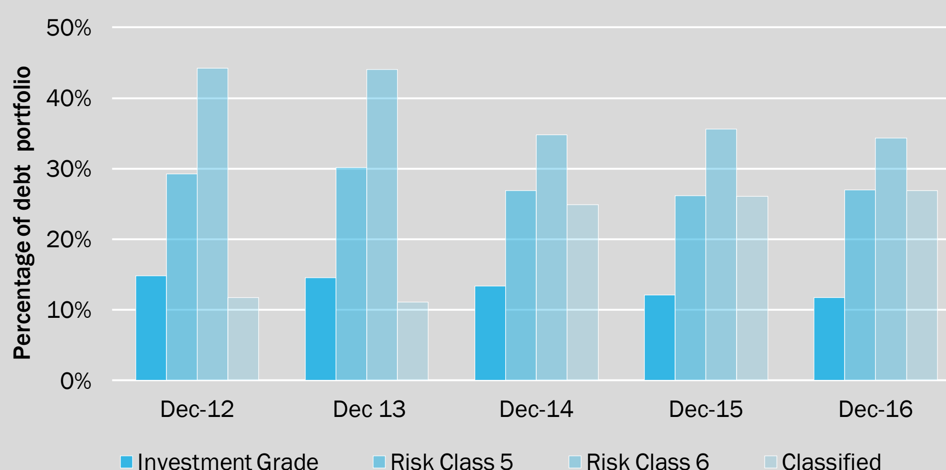
In the performing portfolio, provisions are held against losses incurred but not identified at the balance sheet date. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority and the Exposure at Default (EAD). EAD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

Credit risk in the Banking portfolio: 2016

Total Banking loan exposure (operating assets including fair value adjustments but before provisions) increased during the year from €22.2 billion at 31 December 2015 to €23.2 billion at 31 December 2016. The total signed Banking loan portfolio and guarantees increased from €33.4 billion at 31 December 2015 to €33.8 billion at 31 December 2016.

The average credit profile of the portfolio remained unchanged in 2016 as the weighted average probability of default (WAPD) rating improved slightly to 5.80 (2015: 5.81). Classified assets (those risk-rated 6.7 to 8.0) increased from 26.1 to 26.9 per cent and the absolute level now stands at €9.2 billion (2015: €8.8 billion). This performance largely reflected a deterioration in the economic and political environment since the end of 2014 in the countries where the Bank invests, most notably in Turkey, Ukraine and Russia.

Credit risk in the Banking portfolio 2016



NPL[26] still remain low relative to the average portfolio risk rating, amounting to €1.3 billion or 5.5 per cent of operating assets at year-end 2016 (2015: €1.3 billion or 5.9 per cent). Distressed restructured loans[27] were also relatively low, at €626 million or 2.7 per cent of operating assets at year-end 2016 (2015: €516 million or 2.3 per cent). Net write-offs amounted to €79 million in 2016 (2015: €60 million). Write-offs are typically relatively low as the Bank benefits from its strong liquidity and capitalisation to work out distressed loans.

Specific provisions remained broadly at the same level in 2016. This reflects the macro-financial environment in the countries in which the Bank invests, particularly in Turkey, Ukraine and Russia, which in turn affected the quality of the Bank's portfolio.

Movement in NPL[28]	2016 € million	2015 € million
Opening balance	1,316	1,183
Repayments	(228)	(216)
Write-offs	(79)	(60)
New impaired assets	269	330
Other movements	14	79
Closing balance	1,292	1,316

[26] NPL include impaired loans at amortised cost of €1.2 billion (2015: €1.2 billion) and loans at fair value through profit or loss with an original cost of €75 million (2015: €69 million).

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

[28] Includes loans at fair value that have no associated specific provisions.

Movement in specific provisions[29]	2016 € million	2015 € million
Opening balance	799	631
Provision cover	64%	54%
New/increased specific provisions	189	266
Provisions release – repayments	(117)	(54)
Provisions release – now performing	(11)	-
Provisions release – write-offs	(79)	(39)
Provisions release – loans sold	-	(20)
Release against amounts recovered from guarantees	-	(3)
Foreign exchange movement	13	45
Unwinding discount[30]	(29)	(27)
Closing balance	765	799
Provision cover[31]	63%	64%

Loan investments at amortised cost

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

Risk rating category	Neither past due nor impaired € million	Past due but not impaired € million	Impaired € million	Total € million	Total %	Portfolio provisions for unidentified impairment € million	Specific provisions for identified impairment € million	Total net of impairment € million	Impairment provisions %
2: Very strong	4	-	-	4	-	-	-	4	-
3: Strong	292	-	-	292	1.2	-	-	292	-
4: Good	2,365	-	-	2,365	10.3	(1)	-	2,364	-
5: Fair	6,998	-	-	6,998	30.6	(10)	-	6,988	0.1
6: Weak	7,562	-	-	7,562	33.1	(69)	-	7,493	0.9
7: Special attention	4,445	3	-	4,448	19.5	(199)	-	4,249	4.5
8: Non-performing[32]	-	-	1,216	1,216	5.3	-	(765)	451	62.9
At 31 December 2016	21,666	3	1,216	22,885	100.0	(279)	(765)	21,841	

Risk rating category	Neither past due nor impaired € million	Past due but not impaired € million	Impaired € million	Total € million	Total %	Portfolio provisions for unidentified impairment € million	Specific provisions for identified impairment € million	Total net of impairment € million	Impairment provisions %
2: Very strong	11	-	-	11	0.1	-	-	11	-
3: Strong	416	-	-	416	1.9	-	-	416	-
4: Good	2,503	-	-	2,503	11.5	(2)	-	2,501	0.1
5: Fair	6,630	-	-	6,630	30.4	(11)	-	6,619	0.2
6: Weak	7,206	15	-	7,221	33.0	(66)	-	7,155	0.9
7: Special attention	3,774	14	-	3,788	17.4	(205)	-	3,583	5.4
8: Non-performing	-	-	1,248	1,248	5.7	-	(799)	449	64.1
At 31 December 2015	**20,540**	**29**	**1,248**	**21,817**	**100**	**(284)**	**(799)**	**20,734**	

[29] Does not include fair value adjustments on impaired assets carried at fair value.

[30] Reduction in specific provisions due to interest income recognised.

[31] The ratio is calculated by dividing specific provisions over total impaired loans at amortised cost.

[32] The ratio of amortised cost impaired loans disclosed here is based on the exposure represented on the balance sheet rather than operating assets. Total NPL including fair value loans were 5.5 per cent of operating assets (2015: 5.9 per cent).

At the end of 2016, €3 million of loans were past due but not impaired. Loans amounting to €3 million were outstanding for more than 30 days but less than 90 days (2015: €29 million past due, of which €20 million were outstanding for less than 30 days, and €9 million were outstanding for more than 30 days but less than 90 days).

At 31 December 2016 the Bank had security arrangements in place for €7.5 billion of its loan operating assets (2015: €6.9 billion). It also benefited from guarantees and risk-sharing facilities provided by Special Funds and Cooperation Funds (see note 29 on page 74: Related Parties) which provided credit enhancement of approximately €63 million at the year-end (2015: €66 million).

Loans at fair value through profit or loss

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

Risk rating category	Fair value 2016 € million	Fair value 2015 € million
5: Fair	14	135
6: Weak	222	124
7: Special attention	71	64
8: Non-performing	6	16
At 31 December	313	339

Undrawn loan commitments and guarantees

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

Risk rating category	Undrawn loan commitments 2016 € million	Guarantees 2016 € million	Undrawn loan commitments 2015 € million	Guarantees 2015 € million
3. Strong	28	-	37	-
4: Good	1,275	-	1,044	-
5. Fair	2,123	20	2,001	21
6: Weak	3,642	195	4,312	237
7: Special attention	2,850	322	3,088	298
8: Non-performing	111	28	147	20
At 31 December	10,029	565	10,629	576

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

Credit risk in the Banking portfolio: Concentration

Concentration by country

The following table breaks down the main Banking credit risk exposures in their carrying amounts by country. In 2015 Turkey became the largest country exposure. The Bank is generally well diversified by country apart from its concentration in Turkey, Ukraine and Russia which account for 22.0, 10.3 and 7.5 per cent of loans drawn down respectively (as shown below) and 17.3, 11.7 and 5.6 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.

	Loans 2016 € million	Undrawn loan commitments and guarantees 2016 € million	Total 2016 € million	Loans 2015 € million	Undrawn loan commitments and guarantees 2015 € million	Total 2015 € million
Albania	153	340	493	225	209	434
Armenia	154	74	228	189	72	261
Azerbaijan	548	378	926	567	470	1,037
Belarus	358	105	463	434	55	489
Bosnia and Herzegovina	584	403	987	583	301	884
Bulgaria	818	152	970	584	102	686
Croatia	882	145	1,027	751	217	968
Cyprus	10	64	74	-	13	13
Czech Republic	4	-	4	5	-	5
Egypt	714	1,069	1,783	627	839	1,466
Estonia	70	-	70	59	40	99
Former Yugoslav Republic of Macedonia	242	474	716	240	596	836
Georgia	553	127	680	397	184	581
Greece	356	148	504	49	-	49
Hungary	256	47	303	272	55	327
Jordan	307	389	696	228	207	435
Kazakhstan	1,651	823	2,474	1,370	657	2,027
Kosovo	38	114	152	16	90	106
Kyrgyz Republic	174	72	246	138	95	233
Latvia	107	2	109	90	23	113
Lithuania	31	-	31	22	-	22
Moldova	140	340	480	142	304	446
Mongolia	896	42	938	488	416	904
Montenegro	208	138	346	171	228	399
Morocco	289	425	714	228	418	646
Poland	1,541	752	2,293	1,584	561	2,145
Romania	1,009	201	1,210	1,326	243	1,569
Russia	1,731	174	1,905	2,753	381	3,134
Serbia	1,267	737	2,004	1,064	1,071	2,135
Slovak Republic	150	160	310	387	18	405
Slovenia	185	19	204	173	6	179
Tajikistan	108	265	373	98	237	335
Tunisia	151	94	245	178	38	216
Turkey	5,094	755	5,849	4,163	758	4,921
Turkmenistan	25	12	37	34	8	42
Ukraine	2,386	1,554	3,940	2,505	2,293	4,798
Uzbekistan	8	-	8	16	-	16
At 31 December	23,198	10,594	33,792	22,156	11,205	33,361

Concentration by industry sector

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

	Loans 2016 € million	Undrawn loan commitments and guarantees 2016 € million	Total 2016 € million	Loans 2015 € million	Undrawn loan commitments and guarantees 2015 € million	Total 2015 € million
Agribusiness	2,014	518	2,532	2,268	504	2,772
Depository credit (banks)	5,020	881	5,901	5,023	933	5,956
Information and communication technologies	602	91	693	295	21	316
Insurance, pension, mutual funds	57	-	57	55	2	57
Leasing finance	470	39	509	374	126	500
Manufacturing and services	2,474	341	2,815	2,486	319	2,805
Municipal and environmental infrastructure	1,443	1,102	2,545	1,323	998	2,321
Natural resources	2,249	748	2,997	1,814	883	2,697
Non-depository credit (non-bank)	239	31	270	498	52	550
Power and energy	2,688	990	3,678	2,804	797	3,601
Property and tourism	314	112	426	292	230	522
Transport	1,630	626	2,256	1,889	734	2,623
Non-sovereign	19,200	5,479	24,679	19,121	5,599	24,720
Sovereign	3,998	5,115	9,113	3,035	5,606	8,641
At 31 December	23,198	10,594	33,792	22,156	11,205	33,361

Concentration by counterparty

Maximum exposure (after risk transfers) to a non-sovereign economic group was €910 million at year-end 2016 (2015: €687 million). The Bank has a maximum nominal exposure limit as well as risk-based non-sovereign Banking counterparty exposure limits.

Credit risk in Treasury: Management

Key risk parameters for funding, cash management, asset and liability management and liquidity risk appetite are approved by the Board of Directors and articulated in the Treasury Authority and Liquidity Policy (TALP). The TALP is the document by which the Board of Directors delegates authority to the Senior Vice President, Chief Financial Officer and Chief Operating Officer to manage and the Vice President Risk & 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 and Risk Management Guidelines (TRMG) are approved by the Senior Vice President, Chief Financial Officer and Chief Operating Officer and the VP Risk & 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 rated between 1.0 and 3.3 (approximately equivalent to S&P AAA to A– ratings), with the exception of counterparties approved for local currency activities in the countries where the Bank invests. These activities support the Bank's initiatives to provide local currency financing to Banking clients and to develop local capital markets. In cases where the creditworthiness of an issuer or counterparty deteriorates to levels below the standard of eligibility for new exposures, Risk Management and Treasury jointly recommend actions for the approval of the VP Risk & Compliance, CRO and the Senior Vice President, Chief Financial Officer and Chief Operating Officer. Any decision to retain ineligible exposures is reported to the Audit Committee.

The TRMG state the minimum rating and maximum tenor by type of eligible counterparty and set the maximum credit limits per rating. The internal credit rating scale is the same as that used for Banking exposure. The actual credit limit and/or tenor approved for individual counterparties by Risk Management may be smaller or shorter than the ceilings defined in the TRMG, based on the likely direction of creditworthiness over the medium term, or on sector considerations. The limits apply across the range of eligible Treasury products for the relevant counterparty with exposures measured on a risk-adjusted basis. All individual counterparty and investment credit lines are monitored and reviewed by Risk Management at least annually.

The Bank's exposure measurement methodology for Treasury credit risk uses a "Monte Carlo" simulation technique that produces, to a high degree of confidence, maximum exposure amounts at future points in time for each counterparty (in practice, 95 per cent eVaR).[33] This includes all transaction types and is measured out to the maturity of the longest dated transaction with that counterparty. These potential future exposures (PFE) are calculated and controlled against approved credit limits on a daily basis with exceptions escalated to the relevant authority level for approval.

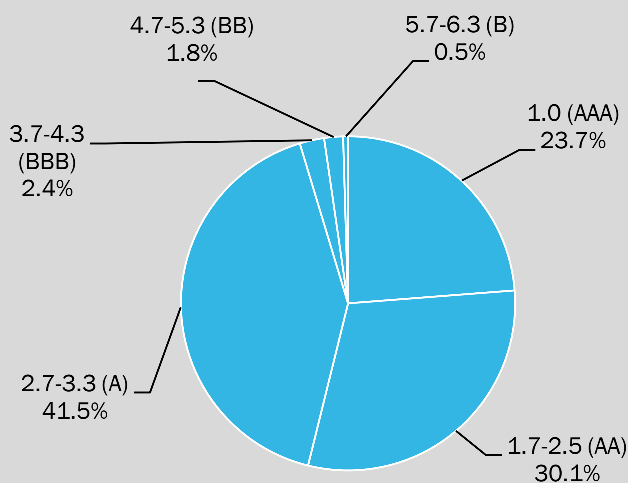
Risk mitigation techniques (such as netting and collateral) and risk transfer instruments reduce calculated credit exposure. For example, Credit Support Annexes (CSA) for OTC derivatives activity reduce PFE in line with collateral posting expectations.

Credit risk in Treasury: Treasury liquid assets

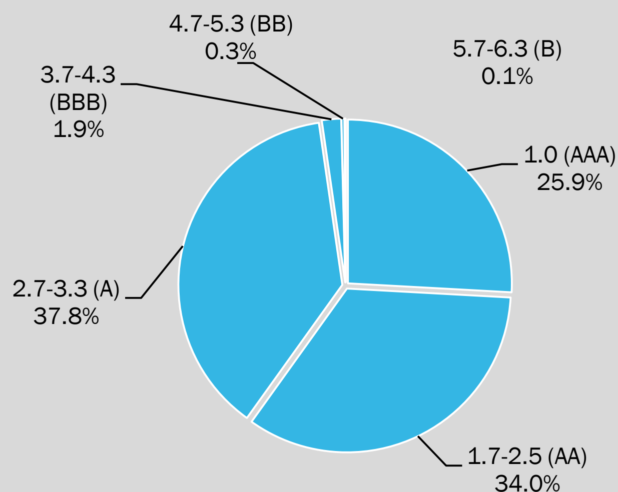
The carrying value of Treasury's liquid assets stood at €24.0 billion at 31 December 2016 (2015: €23.8 billion).[34]

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, deteriorated to 2.34 at 31 December 2016 (2015: 2.23)

Credit quality of Treasury's liquid assets
31 December 2016



Credit quality of Treasury's liquid assets
31 December 2015



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	2016 € million	2015 € million
1: Excellent	568	143
2: Very strong	2,238	2,619
3: Strong	10,384	8,498
4: Good	442	422
5: Fair	436	19
6: Weak	42	23
At 31 December	14,110	11,724

At 31 December 2016 there were no placements with and advances to credit institutions that were past due or impaired (2015: €nil).

[33] 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.

[34] Treasury liquid assets consist of placements with and advances to credit institutions, debt securities and, in 2015, collateralised placements.

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	2016 € million	2015 € million
1: Excellent	223	267
2: Very strong	502	401
3: Strong	-	-
4: Good	127	26
5: Fair	3	52
6: Weak	71	1
At 31 December	926	747

There were no debt securities at fair value past due in 2016 (2015: €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	2016 € million	2015 € million
1: Excellent	4,918	5,751
2: Very strong	2,790	3,709
3: Strong	1,273	1,869
At 31 December	8,981	11,329

There were no debt securities at amortised cost past due in 2016 (2015: €nil).

Treasury potential future exposure

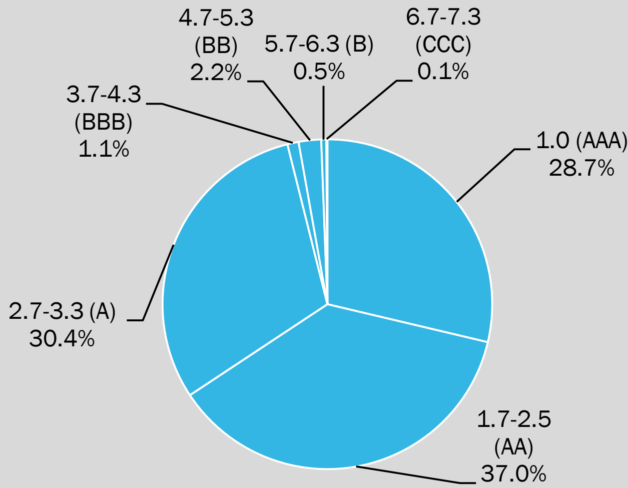
In addition to Treasury's liquid assets there are other products such as OTC swaps and forward contracts that are included within Treasury's overall PFE. PFE calculations show the future exposure throughout the life of a transaction or, in the case of collateralised portfolios, over the appropriate unwind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

Treasury PFE stood at €20.7 billion at 31 December 2016 (2015: €20.6 billion).

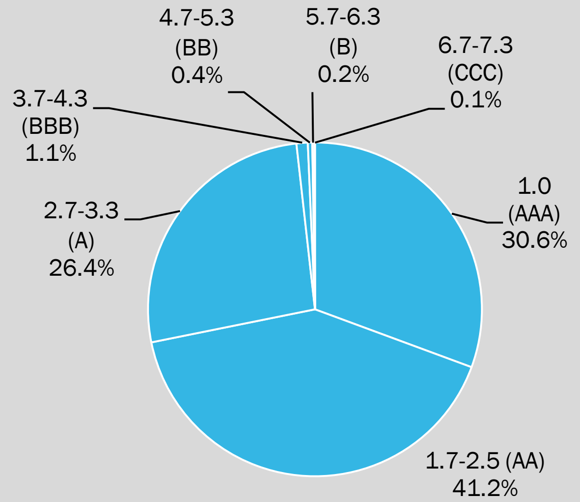
Treasury maintained a high quality average credit risk profile during 2016 by investing liquidity in AAA sovereign and other highly rated assets. However the WAPD rating, weighted by PFE exposures, deteriorated slightly to 2.19 at 31 December 2016 (2015: 2.08).

A very low proportion of Treasury exposures was below investment grade quality,[35] amounting to 2.8 per cent at 31 December 2016 (2015: 0.7 per cent). This comprised a small pool of local currency liquidity assets held with counterparties from the countries in which the Bank invests together with several financial sector bonds.

Credit quality of Treasury PFE
31 December 2016



Credit quality of Treasury PFE
31 December 2015



There were no impaired assets in the Treasury portfolio at 31 December 2016 (2015: €nil).

Derivatives

The Bank makes use of derivatives for different purposes within both its Banking portfolio and its Treasury activities. Within the Banking portfolio option contracts are privately negotiated with third parties to provide potential exit routes for the Bank on many of its unlisted share investments. Banking also has a limited portfolio of swaps with clients to hedge their market risks or to facilitate hard currency funding. Furthermore, Banking has a small number of currency swaps that are fully hedged and have been entered into with clients to assist them in the management of their market risks. Within Treasury, use of exchange-traded and OTC derivatives is primarily focused on hedging interest rate and foreign exchange risks arising from Bank-wide activities. Market views expressed through derivatives are also undertaken as part of Treasury's activities (within the tight market risk limits described on page 44), while the transactions through which the Bank funds itself in capital markets are typically swapped into floating-rate debt with derivatives.

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

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

The table below shows the fair value of the Bank's derivative financial assets and liabilities at 31 December 2016 and 31 December 2015.

	Assets 2016 € million	Liabilities 2016 € million	Total 2016 € million	Assets 2015 € million	Liabilities 2015 € million	Total 2015 € million
Portfolio derivatives not designated as hedges						
OTC foreign currency products						
Currency swaps	400	(82)	318	856	(52)	804
Spot and forward currency transactions	333	(151)	182	114	(139)	(25)
	733	(233)	500	970	(191)	779
OTC interest rate products						
Interest rate swaps	87	(170)	(83)	65	(166)	(101)
Caps/floors	1	-	1	-	-	-
Banking derivatives						
Fair value of equity derivatives held in relation to the Banking portfolio	567	(50)	517	489	(77)	412
Total portfolio derivatives not designated as hedges and Banking derivatives	1,388	(453)	935	1,524	(434)	1,090
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	1,195	(237)	958	1,510	(222)	1,288
Cross currency interest rate swaps	1,672	(1,357)	315	1,562	(2,203)	(641)
Embedded derivatives[36]	64	(121)	(57)	-	(134)	(134)
	2,931	(1,715)	1,216	3,072	(2,559)	513
Derivatives designated as cash flow hedges						
Forward currency transactions	-	(2)	(2)	-	-	-
Total derivatives held for hedging	2,931	(1,717)	1,214	3,072	(2,559)	513
Total derivatives at 31 December	4,319	(2,170)	2,149	4,596	(2,993)	1,603

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	2016 € million	2015 € million
1: Excellent	64	-
2: Very strong	760	767
3: Strong	2,800	3,298
4: Good	317	223
5: Fair	198	187
6: Weak	48	63
7: Special attention	132	58
At 31 December	4,319	4,596

There were no derivative financial assets past due in 2016 (2015: €nil).

Included in the valuation of derivatives is an overall positive value to the Bank of €44 million attributable to the counterparty portfolio-level adjustments for CVA/DVA/FVA. The Bank implemented valuation adjustments for CVA/DVA/FVA in 2016 in line with the latest market practice for fair valuing derivatives. There was therefore no comparable valuation adjustment made in 2015. The valuation adjustment may be analysed thus:

- CVA: the credit valuation adjustment which reflects the impact on the price of a derivative trade from changes in the credit risk associated with the counterparty; €14 million

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

- DVA: the debit valuation adjustment which reflects the impact on the price of a derivative trade from changes in the credit risk associated with the EBRD; €(11) million
- FVA: the funding valuation adjustment which reflects the costs and benefits arising when uncollateralised derivative exposures are hedged with collateralised trades; €41 million

In order to manage credit risk in OTC derivative transactions,[37] the Bank's policy is to approve, ex ante, each counterparty individually and to review its creditworthiness and eligibility regularly. Derivatives limits are included in overall counterparty credit limits. OTC derivative transactions are normally carried out only with the most creditworthy counterparties, rated at the internal equivalent of A and above. Furthermore, the Bank pays great attention to mitigating the credit risk of OTC derivatives through the negotiation of appropriate legal documentation with counterparties. OTC derivative transactions are documented under a Master Agreement (MA) and a CSA. These provide for close-out netting and the posting of collateral by the counterparty once the Bank's exposure exceeds a given threshold, which is usually a function of the counterparty's risk rating.

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

Collateral

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

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 2016 this exposure stood at €2.0 billion (2015: €2.4 billion). Against this, the Bank held collateral of €2.0 billion (2015: €2.4 billion), reducing its net credit exposure to €nil (2015: €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 2016 € million	Sold or repledged 2016 € million	Held collateral 2015 € million	Sold or repledged 2015 € million
Derivative financial instruments				
High grade government securities	640	-	990	-
Cash	1,336	1,336	1,384	1,384
	1,976	1,336	2,374	1,384
Reverse sale and repurchase transactions	4,912	-	4,887	-
At 31 December	6,888	1,336	7,261	1,384

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

	Recognised derivative assets 2016 € million	Recognised derivative liabilities 2016 € million	Net position 2016 € million	Collateral held 2016 € million
Subject to a master netting agreement				
Net derivative assets by counterparty	2,764	(809)	1,955	1,952
Net derivative liabilities by counterparty	904	(1,187)	(283)	24
	3,668	(1,996)	1,672	1,976
No master netting agreement				
Other derivatives	20	(3)	17	-
Embedded derivatives	64	(121)	(57)	-
Equity derivatives	567	(50)	517	-
	651	(174)	477	-
At 31 December	4,319	(2,170)	2,149	1,976

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

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

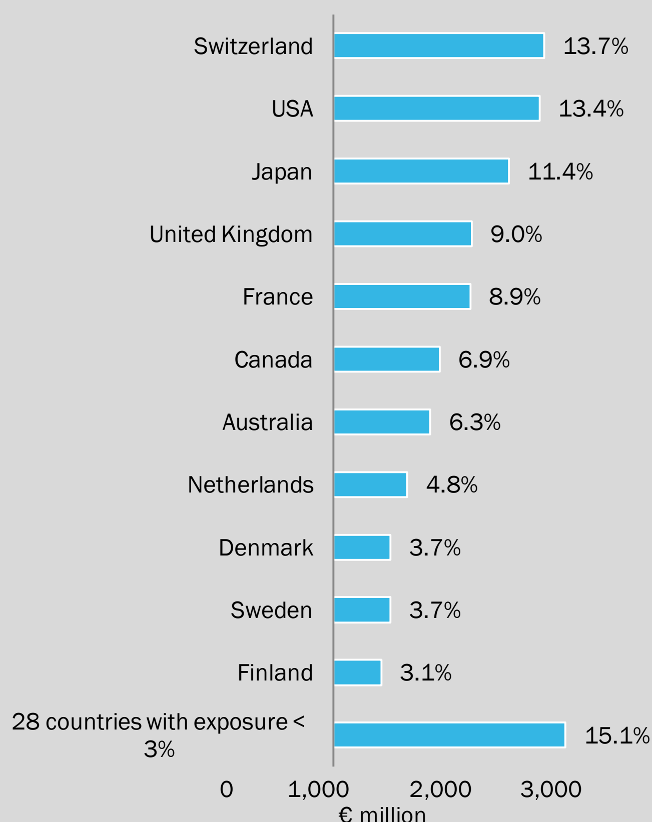
Credit risk in Treasury: Concentration

Concentration by country

At the end of 2016, Treasury credit risk exposure was spread across the following countries.

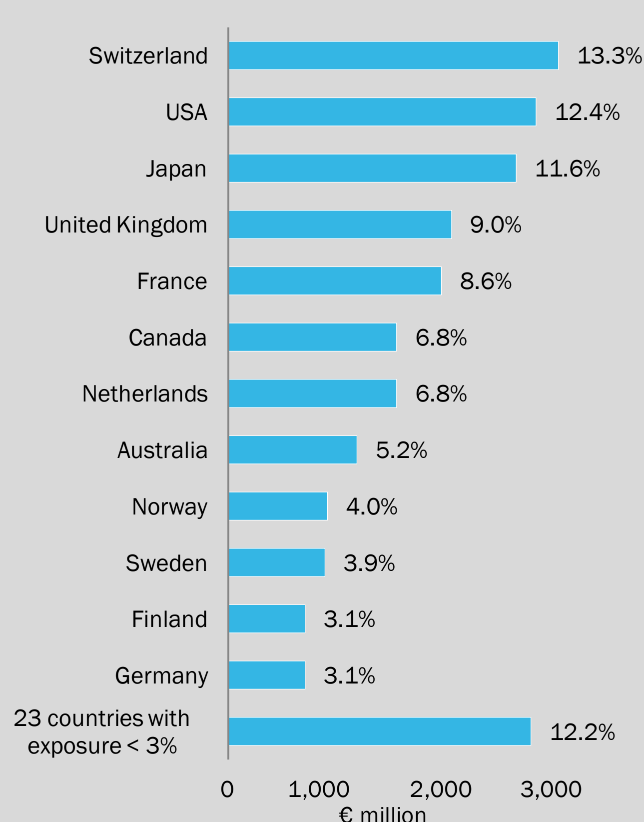
Concentration of Treasury peak exposure by country/region

31 December 2016



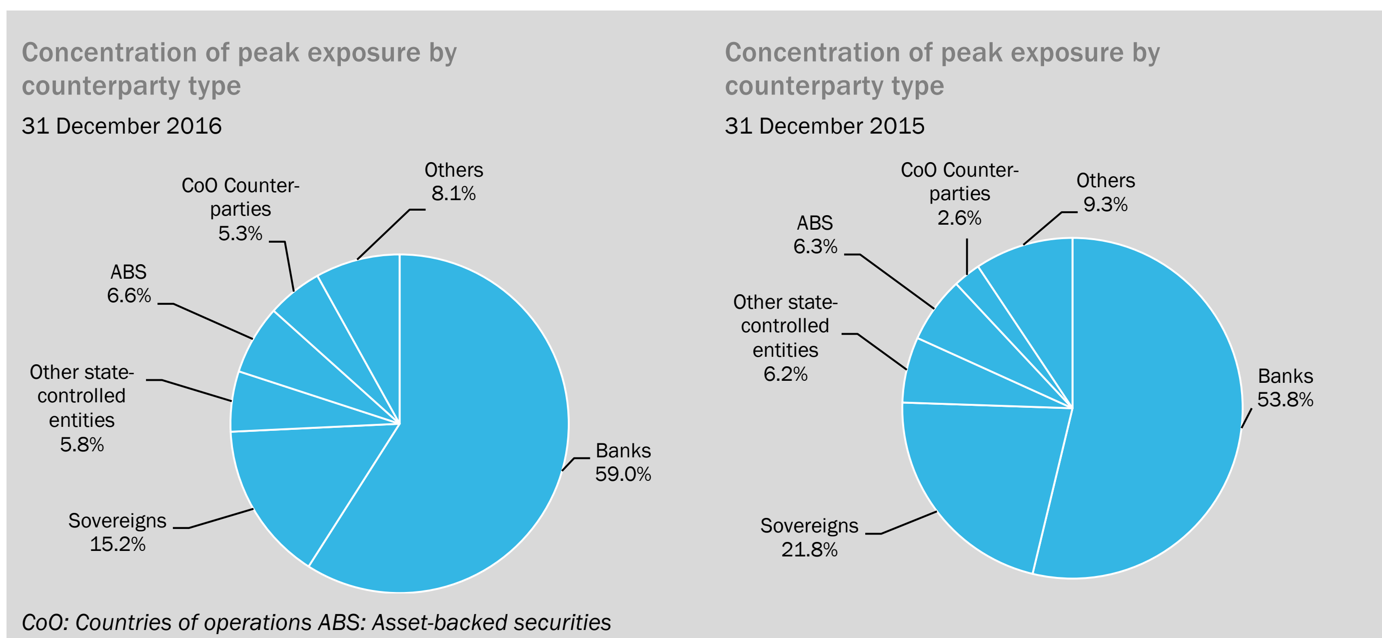
Concentration of Treasury peak exposure by country/region

31 December 2015



Concentration by counterparty type

The Bank continues to be largely exposed to banks in the Treasury portfolio which accounted for 59 per cent of the portfolio peak exposure (2015: 54 per cent). Direct sovereign exposure[38] decreased to 15 per cent (2015: 22 per cent), while exposure to counterparties in the countries in which the Bank invests increased to 5 per cent (2015: 3 per cent) on a PFE basis.



CoO: Countries of operations ABS: Asset-backed securities

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 euro the foreign exchange risk is hedged by Treasury. Likewise, interest rate risk to which the Banking loan portfolio would normally be exposed is managed through the Treasury portfolio. As such there is minimal residual foreign exchange or interest rate risk present in the Banking loan portfolio.

The main exposure to market risk in the Banking portfolio arises from the exposure of share investments to foreign exchange and equity price risk, neither of which is captured in the VaR figures discussed under “Market risk in the Treasury portfolio”. Additional sensitivity information for the Bank’s share investments has been included under “fair value hierarchy” later in this section of the report.

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

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

Foreign exchange risk

The Bank is subject to foreign exchange risks as it invests in equities that are denominated in currencies other than euro. Accordingly, the value of the equity investments may be affected favourably or unfavourably by fluctuations in currency rates. The table below indicates the currencies to which the Bank had significant exposure on its equity investments at 31 December 2016.[39] The sensitivity analysis summarises the total effect of a reasonably possible movement of the currency rate[40] against the euro on equity fair value and on profit or loss with all other variables held constant.

Share investments at fair value through profit or loss

	5-year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Euro	-	1,760	-
Hungarian forint	3.2	141	5
Polish zloty	3.3	375	12
Romanian leu	1.0	293	3
Russian rouble	20.5	871	178
Turkish lira	12.3	296	37
Ukrainian hryvnia	25.0	111	28
United States dollar	6.3	959	60
Other non-euro	10.6	459	49
At 31 December 2016		5,265	372

	5-year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Euro	-	1,646	-
Polish zloty	5.1	437	22
Romanian leu	1.2	312	4
Russian rouble	17.3	843	146
Turkish lira	12.5	332	41
Ukrainian hryvnia	23.6	89	21
United States dollar	6.4	899	58
Other non-euro	10.1	475	48
At 31 December 2015		5,033	340

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.

[39] The table reflects the currency in which shares are denominated. For most of the share investments denominated in euro (€1.76 billion) and in United States dollar (€959 million) the underlying risk exposures (and cash flows determining the equity values) are in the local currency of one of the countries of operations. As a result, the overall foreign exchange risk for these exposures also includes movements between the relevant local currency and either euro or United States dollar (but which is outside the scope of this disclosure).

[40] Based on a five-year rolling average movement in the exchange rate.

Equity price risk

Equity price risk is the risk of unfavourable changes in the fair values of equities as the result of changes in the levels of equity indices and the value of individual shares. In terms of equity price risk, the Bank expects the effect on net profit will bear a linear relationship to the movement in equity indices, for both listed and unlisted equity investments. The table below summarises the potential impact on the Bank's net profit from a reasonably possible change in equity indices.[41]

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
Georgia	BGAX Index	13.5	112	15
Greece	GREK Index	27.4	170	47
Poland	WIG Index	11.1	543	60
Romania	BET Index	11.2	294	33
Russia	MICEX Index	13.4	1,570	211
Serbia	BELEX15 Index	9.2	191	18
Turkey	XU100 Index	23.5	404	95
Ukraine	PFTS Index	24.8	132	33
Regional and other	Weighted average	15.0	1,849	277
At 31 December 2016			5,265	789

		5-year rolling average movement in benchmark index %	Fair value € million	Impact on net profit € million
Cyprus	CYSMMAPA Index	36.2	79	29
Greece	GREK Index	26.9	265	71
Hungary	CHTX Index	19.6	80	16
Kazakhstan	KASE Index	12.9	76	10
Poland	WIG Index	13.0	479	62
Romania	BET Index	14.5	323	47
Russia	MICEX Index	11.5	1,050	120
Serbia	BELEX15 Index	11.6	100	12
Turkey	XU100 Index	26.2	386	101
Ukraine	PFTS Index	31.8	124	39
Regional and other	Weighted average	17.1	2,071	354
At 31 December 2015			**5,033**	**861**

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

Commodity risk in the Banking portfolio

The Bank is exposed to commodity risk through some of its investments and due to the significant importance of commodities in a number of the countries in which it invests. The aggregate direct exposure to oil and gas extraction, metal ore mining and coal mining (and related support activities) amounts to 4.5 per cent (2015: 5.9 per cent) of the overall banking portfolio. Although the share of this portfolio is still a small percentage of the total, the potential overall risk can be more substantial, as several countries in which the Bank invests, most notably Russia, Kazakhstan, Azerbaijan and Mongolia, 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.

[41] Based on a five-year rolling average movement in the relevant equity market indices.

Market risk in the Treasury portfolio

Interest rate and foreign exchange risk

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

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the interest is fixed on a financial instrument indicates the extent to which it is exposed to interest rate risk. Interest rate risks are managed by synthetically hedging the interest rate profiles of assets and liabilities 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 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.[42] 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 €11.1 million at 31 December 2016 (2015: €30.6 million)[43] with an average eVaR over the year of €17.2 million (2015: €33.4 million). Year on year, the total eVaR was lower (mainly due to lower basis risk) and driven primarily by the Government bond spread risk, to which Treasury is exposed through its sovereign bond holdings. Interest rate option exposure remained modest throughout the year with option eVaR at €0.6 million at year-end (2015: €0.8 million), having peaked at €3.7 million during the year (2015: €1.9 million). The specific contribution from foreign exchange risk to the overall eVaR stood at €1.5 million at year-end (2015: €1.5 million). As in previous years, this contribution was small throughout 2016 and never exceeded €3.2million (2015: € 3.2 million).

Equity price risk

The Bank has direct exposure to equity risk of €75 million at 31 December 2016 through three Treasury share investments[44] (2015: €63 million). Indirect exposure to equity risk occurs in the form of linked structures that are traded on a back-to-back basis and therefore result in no outright exposure.

[42] 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.

[43] Note that the numbers reported in Financial Statements 2015 pertained to 99%, 10-day VaR (not eVaR). For reference, the total VaR (99%, 10-day) of the Bank's Treasury portfolio stood at €12.6 million at 31 December 2016 (2015: €34.5 million).

[44] See note 18 to the financial statements on page 62.

C. Operational risk

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

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

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

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

- the Bank's Codes of Conduct
- disaster recovery/contingency planning
- the Public Information Policy
- the Environment and Social Policy
- client and project integrity due diligence procedures, including anti-money-laundering measures
- procedures for reporting and investigating suspected staff misconduct
- the Bank's Enforcement Policies and Procedures
- the information security framework
- the Procurement Policies and Rules.

Responsibility for developing the operational risk framework and for monitoring its implementation resides within the Risk Management department. Risk Management is responsible for the overall framework and structure to support line managers who control and manage operational risk as part of their day-to-day activities.

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

Departments within the Bank identify their operational risk exposures and evaluate the mitigating controls that help to reduce the inherent or pre-control risk. Each risk (both inherent and post-control) is assessed for its impact, according to a defined value scale and the likelihood of occurrence, based on a frequency-by-time range. Operational risk incident losses or near misses above €5,000 are required to be reported. The collection of such data is primarily to improve the control environment by taking into account the cost of control strengthening and perceived potential future losses. The Bank is a member of the Global Operational Risk Loss Database, the external loss database where members "pool" operational risk incident information over a monetary threshold. This provides the Bank with access to a depth of information wider than its own experience and supplements its own analysis on reported internal incidents.

D. 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.[45]

The Bank typically holds liquidity above its minimum policy levels to allow flexibility in the execution of its borrowing programme. The Bank exceeded the minimum requirements under the new liquidity policy at 31 December 2016 and consistently exceeded the prevailing liquidity policy requirements throughout the year. The average weighted maturity of assets managed by Treasury at 31 December 2016 was 1.3 years (2015: 1.3 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 2016 and consistently throughout the year.

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

The Bank has a proven record of access to funding in the capital markets via its global medium-term note programme and commercial paper facilities. In 2016 the Bank raised €5.6 billion of medium- to long-term debt with an average tenor of 3.8 years (2015: €4.2 billion and 4.8 years). The Bank's AAA credit rating with a stable outlook was affirmed by the three major rating agencies in 2016.

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

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

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

Financial liabilities at 31 December 2016	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	(2,207)	(309)	-	-	-	(2,516)
Debts evidenced by certificates	(1,927)	(4,444)	(5,736)	(13,638)	(12,089)	(37,834)
Other financial liabilities	(12)	(5)	(333)	(18)	(2)	(370)
At 31 December 2016	(4,146)	(4,758)	(6,069)	(13,656)	(12,091)	(40,720)
Trading derivative cash flows						
Net settling interest rate derivatives	(2)	(3)	(34)	(53)	(94)	(186)
Gross settling interest rate derivatives – outflow	(13)	(360)	(381)	(871)	(284)	(1,909)
Gross settling interest rate derivatives – inflow	1	332	355	796	245	1,729
Foreign exchange derivatives – outflow	(1,147)	(1,845)	(888)	-	-	(3,880)
Foreign exchange derivatives – inflow	1,108	1,739	840	-	-	3,687
At 31 December 2016	(53)	(137)	(108)	(128)	(133)	(559)
Hedging derivative cash flows						
Net settling interest rate derivatives	(200)	11	(602)	(482)	(53)	(1,326)
Gross settling interest rate derivatives – outflow	(28)	(308)	(1,258)	(2,695)	(2,432)	(6,721)
Gross settling interest rate derivatives – inflow	37	268	1,055	2,264	2,044	5,668
At 31 December 2016	(191)	(29)	(805)	(913)	(441)	(2,379)
Total financial liabilities at 31 December 2016	(4,390)	(4,924)	(6,982)	(14,697)	(12,665)	(43,658)
Other financial instruments						
Undrawn commitments						
Financial institutions	(2,361)	-	-	-	-	(2,361)
Non-financial institutions	(9,714)	-	-	-	-	(9,714)
At 31 December 2016	(12,075)	-	-	-	-	(12,075)

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

E. Capital management

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

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

As a result of the assessment of capital requirements in CRR4, in May 2010 the Board of Governors approved a two-step increase in the authorised capital stock of the Bank: an immediate €1.0 billion increase in authorised paid-in shares (Resolution No. 126), and a €9.0 billion increase in authorised callable capital shares (Resolution No. 128). This amounts to an aggregate increase in the authorised capital stock of the Bank of €10.0 billion (collectively referred to as the second capital increase). The increase in callable capital became effective on 20 April 2011 when subscriptions were received for at least 50 per cent of the newly authorised callable capital. The callable shares were issued subject to redemption in accordance with the terms of Resolution No. 128. At 31 December 2016, €8.9 billion of the callable capital increase had been subscribed (2015: €8.9 billion).

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

The Bank does not have any other classes of capital.

The Bank's capital usage is guided by statutory and financial policy parameters. Article 12 of the Agreement establishes a 1:1 gearing ratio which limits the total amount of outstanding loans, share investments and guarantees made by the Bank in the countries in which it invests to the total amount of the Bank's unimpaired subscribed capital, reserves and surpluses. This capital base incorporates unimpaired subscribed capital (including callable capital), the unrestricted general reserves, loan loss reserve, special reserve and adjustments for general loan impairment provisions on Banking exposures and unrealised equity losses. Reflecting a change in interpretation in 2015, specific provisions are not included in the statutory capital base. The capital base for these purposes amounted to €39.7 billion[46] at 31 December 2016 after 2016 net income allocation decisions (2015: €39.2 billion).

The Bank interprets the gearing ratio on a 'disbursed Banking assets' or 'operating assets' basis. To ensure consistency with the statutory capital base, specific provisions are deducted from total operating assets for the purposes of the ratio.[47] At 31 December 2016, the Bank's gearing ratio on an aggregated basis was 73 per cent (2015: 71 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 (2015: none).

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

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

One of the main objectives of the Capital Adequacy Policy is to manage the Bank's capital within a medium-term planning framework, providing a consistent measurement of capital headroom over time. The Bank's objective is to prevent the need to call on subscribed callable capital and to use only available risk capital including paid-in capital and reserves.

At 31 December 2016 the ratio of required capital to available capital was 77 per cent (2015: 80 per cent) compared with a policy threshold for this ratio of 90 per cent. The Bank's risk-based capital requirement under this policy is managed alongside the Bank's statutory capital constraint.

The Bank's prudent approach to capital management is reflected in the key financial ratios presented on page 7. At 31 December 2016, the ratio of members' equity to total assets was 27 per cent (2015: 27 per cent) and the ratio of members' equity to Banking assets was 56 per cent (2015: 56 per cent).

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

[47] This reflects a change in the interpretation of the ratio in 2015. Previously specific provisions were included in the capital base and the operating assets exposure was prior to the impact of specific provisions.

F. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial assets at 31 December 2016	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	926	926
– Derivative financial instruments	4,319	4,319
– Banking loans at fair value through profit or loss	313	313
– Banking portfolio: Share investments at fair value through profit or loss	5,265	5,265
– Treasury portfolio: Share investments at fair value through other comprehensive income	75	75
	10,898	10,898
Financial assets measured at amortised cost:[48]		
– Placements with and advances to credit institutions	14,110	14,110
– Debt securities	8,981	9,000
– Other financial assets	214	214
– Banking loan investments at amortised cost	21,841	22,610
	45,146	45,934
Total	56,044	56,832

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

[48] 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 2016	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	-	-	-	(2,478)	(2,478)	(2,478)
Debts evidenced by certificates	-	-	-	(35,531)	(35,531)	(35,429)
Derivative financial instruments	(403)	(50)	(1,717)	-	(2,170)	(2,170)
Other financial liabilities	-	-	-	(540)	(540)	(540)
Total financial liabilities	(403)	(50)	(1,717)	(38,549)	(40,719)	(40,617)

Financial liabilities at 31 December 2015	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	-	-	-	(2,590)	(2,590)	(2,590)
Debts evidenced by certificates	-	-	-	(34,280)	(34,280)	(34,191)
Derivative financial instruments	(357)	(77)	(2,559)	-	(2,993)	(2,993)
Other financial liabilities	-	-	-	(577)	(577)	(577)
Total financial liabilities	(357)	(77)	(2,559)	(37,447)	(40,440)	(40,351)

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

At 31 December 2016, the Bank's balance sheet approximates to fair value in all financial asset and liability categories, with the exception of loan investments at amortised cost.

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

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

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

Banking loan investments whereby the objective of the Bank's business model is to hold these investments to collect the contractual cash flow, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest, are recognised at amortised cost. The fair value of these loans was calculated using Level 3 inputs by discounting the cash flows at a year-end interest rate applicable to each loan and further discounting the value by an internal measure of credit risk.

Debts evidenced by certificates represents the Bank's borrowings raised through the issuance of commercial paper and bonds.[49] 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

[49] Adjusted for hedge accounting as applicable.

the short-tenor nature of commercial paper, amortised cost approximates fair value. The fair value of the Bank's issued commercial paper is determined based on the observable market valuation of similar assets and liabilities and therefore relies on Level 2 inputs.

The table below provides information at 31 December 2016 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 2016			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	926	-	926
Derivative financial instruments	-	3,742	577	4,319
Banking loans	-	-	313	313
Share investments (Banking portfolio)	1,810	-	3,455	5,265
Share investments (Treasury portfolio)	-	75	-	75
Total financial assets at fair value	1,810	4,743	4,345	10,898
Derivative financial instruments	-	(2,119)	(51)	(2,170)
Total financial liabilities at fair value	-	(2,119)	(51)	(2,170)

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

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

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 2016.

	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total assets € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2015	498	339	3,214	4,051	(78)	(78)
Total gains/(losses) for the year ended 31 December 2016 in:						
Net profit/(loss)	180	48	(250)	(22)	27	27
Deferred profit	25	-	-	25	-	-
Purchases/issues	-	108	746	854	-	-
Sales/settlements	(126)	(233)	(303)	(662)	-	-
Write offs	-	-	(25)	(25)	-	-
Reclassification	-	51	(8)	43	-	-
Transfers out of Level 3	-	-	81	81	-	-
Balance at 31 December 2016	577	313	3,455	4,345	(51)	(51)
Total gains/(losses) for the period included in net profit from assets and liabilities held at 31 December 2016	260	38	(147)	151	(48)	(48)

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

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

Level 3 – sensitivity analysis

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2016, the main valuation models/techniques[50] 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 2016		
Treasury derivative financial instruments	DCF models	9	-	(1)
Banking loans	DCF and option pricing models	313	11	(20)
Banking share investments & associated derivatives[51]	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models	3,972	520	(573)
At 31 December		4,294	531	(594)

	Main valuation models/techniques	Carrying amount € million	Favourable change € million	Unfavourable change € million
		Impact on net profit in 2015		
Treasury derivative financial instruments	DCF models	8	-	(1)
Banking loans	DCF and option pricing models	339	10	(16)
Banking share investments & associated derivatives	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models	3,626	610	(528)
At 31 December		3,973	620	(545)

Treasury debt securities and derivative financial instruments

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

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

Banking loans

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

Banking share investments and derivatives

The Bank's unlisted equity portfolio comprises direct share investments, equity derivatives and equity funds. The main valuation models/techniques used to fair value these financial instruments are NAV multiples, EBITDA multiples and DCF models.

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

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

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

Notes to the financial statements

1. Establishment of the Bank

i Agreement Establishing the Bank

The European Bank for Reconstruction and Development (the Bank), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 (the Agreement). At 31 December 2016, the Bank's members comprised 65 countries, together with the European Union and the European Investment Bank.

ii Headquarters Agreement

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

2. Segment information

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

Information on the financial performance of Banking and Treasury operations is prepared regularly and provided to the 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 year ended 31 December 2016 and 31 December 2015 is as follows:

	Banking 2016 € million	Treasury 2016 € million	Aggregated 2016 € million	Banking 2015 € million	Treasury 2015 € million	Aggregated 2015 € million
Interest income	1,007	126	1,133	1,127	81	1,208
Other income	476	90	566	266	118	384
Total segment revenue	1,483	216	1,699	1,393	199	1,592
Interest expense and similar charges[52]	(260)	23	(237)	(301)	161	(140)
Net interest expense on derivatives	-	(81)	(81)	-	(170)	(170)
Allocation of the return on capital	-	-	-	1	-	1
General administrative expenses	(418)	(27)	(445)	(377)	(24)	(401)
Depreciation and amortisation	(21)	(1)	(22)	(28)	(2)	(30)
Segment result before provisions and hedges	784	130	914	688	164	852
Fair value movement on non-qualifying and ineffective hedges	-	131	131	-	(171)	(171)
Provisions for impairment of loan investments and guarantees	(60)	-	(60)	121	-	121
Net profit/(loss) for the year	724	261	985	809	(7)	802
Transfers of net income approved by the Board of Governors			(181)			(360)
Net profit after transfers approved by the Board of Governors			804			442
Segment assets						
Total assets	28,195	27,955	56,150	26,880	28,146	55,026
Segment liabilities						
Total liabilities	416	40,303	40,719	360	40,080	40,440

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

Segment revenues – Geographic

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

	Segment revenue 2016 € million	Segment revenue 2015 € million
Advanced countries[53]	163	207
Early/Intermediate countries[54]	604	527
Russia	497	503
SEMED	57	43
Turkey	162	113
OECD[55]	216	199
Total	1,699	1,592

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

3. Net interest income

	2016 € million	2015 € million
Banking loans at amortised cost	1,007	1,127
Debt securities	75	54
Reverse repurchase agreements	3	1
Cash and short-term funds	46	26
Other	2	-
Interest and similar income	1,133	1,208
Debts evidenced by certificates	(194)	(111)
Amounts owed to credit institutions	(42)	(27)
Other	(1)	(1)
Interest expense and similar charges	(237)	(139)
Net interest expense on derivatives	(81)	(170)
Net interest income	815	899

Interest income accrued on impaired financial assets during 2016 was €31 million (2015: €30 million).[56]

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

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

[55] Other member countries of the Organisation for Economic Co-operation and Development which are not classed as Advanced or Early/Intermediate. www.oecd.org/about/membersandpartners/

[56] 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:

	2016 € million	2015 € million
Trade finance fees	8	14
Syndication and agency fees	4	11
Administration fees	5	4
Prepayment fees	4	3
Front end and commitment charges	3	-
Other	3	(1)
Equity fees	2	(3)
Net fee and commission income	29	28

Front-end, appraisal and commitment fees of €117 million (2015: €109 million) received in 2016, together with related direct costs of €4 million (2015: €6 million), have been deferred on the balance sheet. They will be recognised in interest income over the period from disbursement to repayment of the related loan, in accordance with IAS 18. In 2016, €90 million (2015: €160 million) of previously deferred fees and direct costs were recognised in interest income.

5. Net gains from share investments at fair value through profit or loss

	2016 € million	2015 € million
Net realised gains from share investments and equity related derivatives	21	250
Net unrealised gains/(losses) from share investments and equity related derivatives	305	(53)
Net gains from share investments at fair value through profit or loss	326	197

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

	2016 € million	2015 € million
Loan write-off	-	(1)
Net unrealised gains/(losses) from changes in fair value	8	(43)
Net unrealised foreign exchange gains	1	-
Net gains/(losses) from loans at fair value through profit or loss	9	(44)

7. Net gains from Treasury assets held at amortised cost

	2016 € million	2015 € million
Net realised gains from debt securities at amortised cost	6	4
Net gains from Treasury assets held at amortised cost	6	4

During the year the Bank sold €1.3 billion of debt securities held at amortised cost (2015: €1.1 billion).

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

	2016 € million	2015 € million
Debt buy-backs and termination of related derivatives	34	8
Balance sheet management	43	99
Internally managed dealing portfolio designated at fair value	7	7
Net gains from Treasury activities at fair value through profit or loss	84	114

Treasury balance sheet management activities are primarily concerned with the management of market and currency risks across the Bank's balance sheet together with short-term liquidity management. The financial performance of these activities is affected by the currency basis spreads used in the valuation of swaps through which Treasury funds the Bank's local currency denominated loan portfolio.[57] These swaps are used for funding purposes and so will be held to maturity; any unrealised valuation losses or gains caused by the volatility in currency basis spreads will reverse over time. A €12 million loss was recognised in 2016 relating to these spreads (2015: €24 million gain).

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

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

The hedging practices and accounting treatment are disclosed under "Derivative financial instruments and hedge accounting" on page 21 in the Accounting Policies section of the report.

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

The Bank applies hedge accounting where there is an identifiable, one-to-one relationship between a hedging derivative instrument and a hedged cash instrument. These relationships predominantly arise within the context of the Bank's borrowing activities in which the Bank's issued bonds are combined with swaps to achieve floating-rate debt in the currency sought by the Bank. While such hedges are matched in cash flow terms, accounting rules may require different valuation methodologies to be applied to such cash flows. In particular, a pricing component of currency swaps (known as the basis swap spread) is not applied to the related hedged bond. This component is a feature of supply and demand requirements for other currencies relative to the US dollar or the euro. Such differences can create hedge ineffectiveness or hedge failures under IFRS, the combined effect of which is reported within this line of the income statement. For the year this resulted in a gain of €89 million, comprising gains of €514 million on the derivative hedging instruments and losses of €425 million on the hedged items (2015: a loss of €166 million comprising losses of €740 million on the derivative hedging instruments and gains of €574 million on the hedged items).

In addition to the one-to-one hedge relationships for which the Bank applies hedge accounting, the Bank also hedges interest rate risk across total assets and liabilities on a portfolio basis, for which hedge accounting is not applied. This activity results in the gains or losses arising on the hedging derivative instruments being recognised in the periods in which they occur while the offsetting impact deriving from the hedged cash instruments will accrue over a different timescale in keeping with the interest rates applicable to the specific periods for those instruments. For the year this resulted in a gain of €42 million (2015: gain of €1 million).

The combined effect of all the hedging activities described above was a gain of €131 million for the year (2015: loss of €165 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 2016 no gain or loss was recognised as ineffectiveness in the income statement arising from cash flow hedges (2015: loss of €6 million).

[57] The loans funded in this manner are predominantly denominated in Russian rouble and Turkish lira.

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

(Charge)/release for the year	2016 € million	2015 € million
Portfolio provisions for unidentified impairment of loan investments[58]		
Non-sovereign loan investments	3	329
Sovereign loan investments	4	8
Specific provisions for identified impairment of loan investments[59]	(64)	(209)
Associated hedging costs[60]	-	(8)
Provisions for impairment of Banking loan investments at amortised cost	(57)	120

Movement in provisions	2016 € million	2015 € million
At 1 January	(1,083)	(1,209)
(Charge)/release for the year to the income statement[61]	(57)	128
Reversal of accrued interest income on newly impaired loans	3	-
Loans sold	-	20
Unwinding of the discount relating to identified impairment of assets	29	27
Foreign exchange adjustments	(15)	(89)
Release against amounts written off	79	40
At 31 December	(1,044)	(1,083)
Analysed between		
Portfolio provisions for unidentified impairment of loan investments:		
Non-sovereign loan investments	(250)	(252)
Sovereign loan investments	(29)	(32)
Specific provisions for identified impairment of loan investments	(765)	(799)
At 31 December	(1,044)	(1,083)

11. General administrative expenses

	2016 € million	2015 € million
Personnel costs	(311)	(292)
Overhead expenses	(138)	(115)
General administrative expenses	(449)	(407)
Deferral of direct costs related to loan origination	4	6
Net general administrative expenses	(445)	(401)

The Bank's expenses are predominantly incurred in pound sterling. The pound sterling equivalent of the Bank's general administrative expenses, excluding depreciation and amortisation, totalled £326 million (2015: £308 million).

Direct costs of €4 million (2015: €6 million) relating to loan origination in 2016 have been deferred on the balance sheet in accordance with IAS 18. These figures will be recognised in interest income over the period from disbursement to repayment of the related loans.

[58] The net release of general provisions on sovereign and non-sovereign loan investments in 2015 of €337 million included a one-off release of €329 million due to a change in estimation techniques.

[59] Comprised of €192 million of new provisions against €128 million of released provisions (2015: €266 million against €57 million respectively).

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

[61] Excludes provisions for guarantees which are recorded in other assets.

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

Audit and assurance services	2016 € 000	2015 € 000
Services as auditor of the Bank	(308)	(345)
Internal controls framework assurance	(147)	(164)
Retirement plan audit	(25)	(28)
Tax recovery audit	(12)	(13)
Audit and assurance services	(492)	(550)

The fall in the fees for audit and assurance services paid to the Bank's external auditor from 2015 to 2016 is attributable to movements in the value of pound sterling. The pound sterling equivalent of these fees increased to £402,000 (2015: £397,000).

12. Placements with and advances to credit institutions

Analysed between	2016 € million	2015 € million
Cash and cash equivalents	8,517	7,533
Other current placements and advances	5,593	4,191
At 31 December	14,110	11,724

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

	2016 € million	2015 € million
Debt securities at fair value through profit or loss	926	747
Debt securities at amortised cost	8,981	11,329
At 31 December	9,907	12,076
Analysed between		
Current	3,394	5,178
Non-current	6,513	6,898
At 31 December	9,907	12,076

There were no impairment losses relating to debt securities in 2016 (2015: €nil).

14. Other financial assets

	2016 € million	2015 € million
Fair value of derivatives designated as fair value hedges	2,931	3,072
Fair value of portfolio derivatives not designated as hedges	821	1,035
Fair value of derivatives held in relation to the banking portfolio	567	489
Interest receivable	218	231
Paid-in capital receivable	12	12
Other	(16)	92
At 31 December	4,533	4,931
Analysed between		
Current	954	1,334
Non-current	3,579	3,597
At 31 December	4,533	4,931

Included within "Other" above are deferred fair value amounts related to banking derivative instruments that have a determinable return. Specifically, these relate to banking derivatives that are valued using valuation techniques other than observable market data. On initial recognition, the difference between the transaction price and the value derived from the valuation technique is deferred. These amounts are recognised in profit when market data becomes observable, when the underlying equity is exited or when the derivative is either exercised or attributed with no value. At 31 December 2016, net gains of €112 million were deferred, the deferred gains being a negative adjustment to the balance sheet (2015: €88 million).

15. Banking loan investments at amortised cost

	2016 Sovereign loans € million	2016 Non-sovereign loans € million	2016 Total loans € million	2015 Sovereign loans € million	2015 Non-sovereign loans € million	2015 Total loans € million
At 1 January	3,033	18,784	21,817	2,920	17,438	20,358
Movement in fair value revaluation[62]	-	21	21	-	(14)	(14)
Disbursements	2,185	7,561	9,746	519	7,163	7,682
Repayments and prepayments	(1,230)	(7,646)	(8,876)	(485)	(6,289)	(6,774)
Foreign exchange movements	23	262	285	71	496	567
Movement in net deferral of front end fees and related direct costs	(13)	(9)	(22)	8	49	57
Reclassification	-	(7)	(7)	-	-	-
Written off	-	(79)	(79)	-	(59)	(59)
At 31 December	3,998	18,887	22,885	3,033	18,784	21,817
Impairment at 31 December	(29)	(1,015)	(1,044)	(32)	(1,051)	(1,083)
Total net of impairment at 31 December	3,969	17,872	21,841	3,001	17,733	20,734
Analysed between						
Current			2,981			2,899
Non-current			18,860			17,835
Total net of impairment at 31 December	3,969	17,872	21,841	3,001	17,733	20,734

At 31 December 2016 the Bank categorised 101 loan investments at amortised cost as impaired, with operating assets totalling €1.2 billion (2015: 85 loans totalling €1.2 billion).

[62] This movement in fair value relates to a hedge adjustment to fixed rate loans that qualify for hedge accounting for interest rate risk.

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

Non-sovereign loans	2016 € million	2015 € million
At 1 January	339	338
Movement in fair value revaluation	13	(44)
Disbursements	108	61
Repayments and prepayments	(233)	(44)
Foreign exchange movements	35	-
Reclassification	51	28
At 31 December	313	339
Analysed between		
Current	31	36
Non-current	282	303
At 31 December	313	339

17. Share investments at fair value through profit or loss

	2016 Fair value Unlisted € million	2016 Fair value Listed € million	2016 Fair value Total € million	2015 Fair value Unlisted € million	2015 Fair value Listed € million	2015 Fair value Total € million
Outstanding disbursements						
At 1 January	4,162	1,966	6,128	4,120	2,065	6,185
Transfer between unlisted and listed	(179)	179	-	(77)	77	-
Disbursements	709	65	774	665	417	1,082
Disposals	(421)	(314)	(735)	(466)	(593)	(1,059)
Reclassification	(25)	-	(25)	(28)	-	(28)
Written off	(8)	-	(8)	(52)	-	(52)
At 31 December	4,238	1,896	6,134	4,162	1,966	6,128
Fair value adjustment						
At 1 January	(1,068)	(27)	(1,095)	(1,165)	49	(1,116)
Transfer between unlisted and listed	63	(63)	-	39	(39)	-
Movement in fair value revaluation	(75)	301	226	58	(37)	21
At 31 December	(1,080)	211	(869)	(1,068)	(27)	(1,095)
Fair value at 31 December	3,158	2,107	5,265	3,094	1,939	5,033

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 2016 (venture capital associates), is detailed under note 29, "Related parties" on page 74.

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

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

	2016 € million	2015 € million
Share investment designated at fair value through other comprehensive income		
The Currency Exchange Fund N.V.	67	55
The Frontier Clearing Fund	8	8
SWIFT	-	-
At 31 December	75	63

No dividend income was received on these share investments during 2016 (2015: €nil).

19. Intangible assets

	Computer software development costs 2016 € million	Computer software development costs 2015 € million
Cost		
At 1 January	102	216
Additions	16	38
Disposals	(3)	(152)
At 31 December	115	102
Amortisation		
At 1 January	(39)	(173)
Charge	(13)	(18)
Disposals	-	152
At 31 December	(52)	(39)
Net book value at 31 December	63	63

20. Property, technology and office equipment

	Property 2016 € million	Property under construction 2016 € million	Technology and office equipment 2016 € million	Total 2016 € million	Property 2015 € million	Property under construction 2015 € million	Technology and office equipment 2015 € million	Total 2015 € million
Cost								
At 1 January	65	15	18	98	67	2	16	85
Additions	4	3	2	9	8	13	3	24
Transfers	13	(13)	-	-	-	-	-	-
Disposals	(5)	(5)	(2)	(12)	(10)	-	(1)	(11)
At 31 December	77	-	18	95	65	15	18	98
Depreciation								
At 1 January	(35)	-	(13)	(48)	(33)	-	(12)	(45)
Charge	(8)	-	(1)	(9)	(10)	-	(2)	(12)
Disposals	4	-	1	5	8	-	1	9
At 31 December	(39)	-	(13)	(52)	(35)	-	(13)	(48)
Net book value at 31 December	38	-	5	43	30	15	5	50

21. Borrowings

	2016 € million	2015 € million
Amounts owed to credit institutions and other third parties		
Amounts owed to credit institutions	(420)	(264)
Amounts held as collateral	(1,343)	(1,387)
Amounts managed on behalf of third parties[63]	(715)	(939)
At 31 December	**(2,478)**	**(2,590)**
Of which current:	**(2,478)**	**(2,590)**

22. Debts evidenced by certificates

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

	Bond denominations 2016 € million	Currency after swap 2016 € million	Bond denominations 2015 € million	Currency after swap 2015 € million
Armenian dram	-	-	(4)	-
Australian dollar	(810)	-	(763)	-
Canadian dollar	(34)	-	(32)	-
Euro	(3,553)	(5,968)	(3,255)	(4,477)
Georgian lari	(47)	(47)	(29)	(29)
Japanese yen	(1,985)	-	(1,307)	-
Kazakh tenge	(200)	(200)	-	-
Mexican peso	(120)	-	(140)	-
New Turkish lira	(768)	-	(1,236)	-
New Zealand dollar	(15)	-	(14)	-
Norwegian krone	(100)	-	(97)	-
Pound sterling	(2,534)	(1,609)	(3,650)	(2,727)
Romanian leu	(57)	(26)	(59)	(22)
Russian rouble	(653)	(202)	(544)	(233)
Serbian dinar	(20)	(20)	-	-
Slovak koruna	(43)	-	(43)	-
South African rand	(403)	-	(287)	-
Swiss franc	-	-	(1)	-
United States dollar	(24,189)	(27,459)	(22,819)	(26,792)
At 31 December	(35,531)	(35,531)	(34,280)	(34,280)

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	2016 € million	2015 € million
Current	(11,692)	(8,714)
Non-current	(23,839)	(25,566)
Debts evidenced by certificates at 31 December	(35,531)	(34,280)

During the year the Bank redeemed €1.6 billion of bonds and medium-term notes prior to maturity (2015: €0.5 billion), generating a net gain of €34 million (2015: €8 million).

[63] See note 30 on page 75 for details of third parties.

23. Other financial liabilities

	2016 € million	2015 € million
Fair value of derivatives designated as fair value hedges	(1,715)	(2,559)
Fair value of derivatives designated as cash flow hedges	(2)	-
Fair value of portfolio derivatives not designated as hedges	(403)	(357)
Fair value of other derivatives held in relation to the banking portfolio	(50)	(77)
Interest payable	(157)	(283)
Net income allocations payable	(220)	(115)
Other	(163)	(179)
At 31 December	(2,710)	(3,570)

Analysed between	2016 € million	2015 € million
Current	(1,043)	(1,625)
Non-current	(1,667)	(1,945)
At 31 December	(2,710)	(3,570)

24. Subscribed capital

	2016 Number of shares	2016 Total € million	2015 Number of shares	2015 Total € million
Authorised shared capital	3,000,000	30,000	3,000,000	30,000
of which				
Subscriptions by members – initial capital	994,055	9,941	993,055	9,931
Subscriptions by members – first capital increase	989,055	9,891	988,055	9,881
Subscriptions by members – second capital increase	987,225	9,871	986,325	9,862
Subscribed capital	2,970,335	29,703	2,967,435	29,674
Unsubscribed capital	29,665	297	32,565	326
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, is made over a period of years determined in advance. Payment for the paid-in shares issued under the second capital increase was by way of a reallocation of net income previously allocated to surplus for other purposes, namely for the payment of such paid-in shares, pursuant to Article 36.1 of the Agreement and approved by Board of Governors Resolution No. 126, dated 14 May 2010. Article 6.4 of the Agreement states that payment of the amount subscribed to the callable capital is subject to call by the Bank, taking account of Articles 17 and 42 of the Agreement, only as and when required by the Bank to meet its liabilities. Article 42.1 states that in the event of the termination of the Bank's operations, the liability of all members for all uncalled subscriptions to the capital stock will continue until all claims of creditors, including all contingent claims, have been discharged.

The Agreement allows for a member to withdraw from the Bank, in which case the Bank is required to repurchase the former member's shares. No member has ever withdrawn its membership. The stability in the membership reflects the fact that the members are 65 countries and two inter-governmental organisations, and that the purpose of the Bank is to foster the transition process in politically qualifying countries from central Europe to Central Asia and the SEMED region.

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

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

On 15 January 2016, the People's Republic of China was admitted to membership of the Bank, subscribing to 2,900 shares of the Bank's capital stock. This stock consisted of 1,000 shares from initial capital (700 callable shares and 300 paid-in), 1,000 shares from the first capital increase (775 callable shares and 225 paid-in), and 900 shares from the second tranche of the second capital increase (all callable shares). A capital contribution of €5.25 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 amount of unallocated shares and votes, is set out in the following table. Under Article 29 of the Agreement, the voting rights of members that have failed to pay any part of the amounts due in respect of their capital subscription are proportionately reduced until payment is made.

Statement of capital subscriptions

At 31 December 2016 Members	Total shares (number)	Resulting votes[64] (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Albania	3,001	2,511	30	24	6
Armenia	1,499	1,499	15	12	3
Australia	30,014	30,014	300	237	63
Austria	68,432	68,432	684	541	143
Azerbaijan	3,001	3,001	30	24	6
Belarus	6,002	6,002	60	47	13
Belgium	68,432	68,432	684	541	143
Bosnia and Herzegovina	5,071	5,071	51	40	11
Bulgaria	23,711	23,711	238	188	50
Canada	102,049	102,049	1,020	807	213
China	2,900	2,900	29	24	5
Croatia	10,942	10,942	109	86	23
Cyprus	3,001	3,001	30	24	6
Czech Republic	25,611	25,611	256	203	53
Denmark	36,017	36,017	360	285	75
Egypt	2,101	2,101	21	15	6
Estonia	3,001	3,001	30	24	6
European Investment Bank	90,044	90,044	900	712	188
European Union	90,044	90,044	900	712	188
Finland	37,518	37,518	375	297	78
Former Yugoslav Republic of Macedonia	1,762	1,762	17	13	4
France	255,651	255,651	2,557	2,024	533
Georgia	3,001	3,001	30	24	6
Germany	255,651	255,651	2,557	2,024	533
Greece	19,508	19,508	195	154	41
Hungary	23,711	23,711	237	188	49
Iceland	3,001	3,001	30	24	6
Ireland	9,004	9,004	90	71	19
Israel	19,508	19,508	195	154	41
Italy	255,651	255,651	2,557	2,024	533
Japan	255,651	255,651	2,557	2,024	533
Jordan	986	986	10	8	2
Kazakhstan	6,902	6,902	70	55	15
Korea, Republic of	30,014	30,014	300	237	63
Kosovo	580	580	6	5	1
Kyrgyz Republic	2,101	1,010	21	15	6
Latvia	3,001	3,001	30	24	6
Liechtenstein	599	599	6	5	1
Lithuania	3,001	3,001	30	24	6
Luxembourg	6,002	6,002	60	47	13
Malta	210	210	2	1	1
Mexico	4,501	4,501	46	35	11
Moldova	3,001	2,781	30	24	6
Mongolia	299	299	3	2	1

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

Statement of capital subscriptions

At 31 December 2016	Total shares (number)	Resulting votes (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Montenegro	599	599	6	5	1
Morocco	1,478	1,478	15	11	4
Netherlands	74,435	74,435	744	589	155
New Zealand	1,050	1,050	11	7	4
Norway	37,518	37,518	375	297	78
Poland	38,418	38,418	384	304	80
Portugal	12,605	12,605	126	100	26
Romania	14,407	14,407	144	114	30
Russia	120,058	120,058	1,201	951	250
Serbia	14,031	14,031	140	111	29
Slovak Republic	12,807	12,807	128	101	27
Slovenia	6,295	6,295	63	50	13
Spain	102,049	102,049	1,020	807	213
Sweden	68,432	68,432	684	541	143
Switzerland	68,432	68,432	684	541	143
Tajikistan	2,101	602	21	15	6
Tunisia	986	986	10	8	2
Turkey	34,515	34,515	345	273	72
Turkmenistan	210	164	2	1	1
Ukraine	24,011	24,011	240	190	50
United Kingdom	255,651	255,651	2,557	2,024	533
United States of America	300,148	300,148	3,001	2,376	625
Uzbekistan	4,412	4,134	44	31	13
Capital subscribed by members	2,970,335	2,966,711	29,703	23,496	6,207

25. Reserves and retained earnings

	2016 € million	2015 € million
Special reserve		
At 1 January	306	306
At 31 December	306	306
Loan loss reserve		
At 1 January	1,159	738
Transferred from retained earnings	12	421
At 31 December	1,171	1,159
Net income allocation		
At 1 January	10	1,952
Transferred from/(to) retained earnings	180	(1,582)
Distributions	(181)	(360)
At 31 December	9	10
General reserve – other reserve		
Revaluation reserve		
At 1 January	7	14
Net gains/(losses) arising on revaluation of share investments at fair value through other comprehensive income	12	(7)
At 31 December	19	7
Hedging reserve – cash flow hedges		
At 1 January	-	-
Losses from changes in fair value of hedges recognised in equity	(2)	-
At 31 December	(2)	-
Other		
At 1 January	219	211
Internal tax for the year	6	8
At 31 December	225	219
General reserve – other reserve at 31 December	242	226
General reserve – retained earnings		
At 1 January	6,683	4,726
Net profit before transfers of net income approved by the Board of Governors	985	802
Transferred to loan loss reserve	(12)	(421)
Transferred (to)/from net income allocation	(180)	1,582
Actuarial gains/(losses) on defined benefit scheme	20	(6)
General reserve retained earnings at 31 December	7,496	6,683
Total reserves and retained earnings at 31 December	9,224	8,384

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

In 2005, the Bank created a **loan loss reserve** (LLR) within members' equity, to set aside an amount of retained earnings equal to the difference between the impairment losses expected over the life of the loan portfolio and the amount recognised through the Bank's income statement on an incurred loss basis. In 2015 in a one-off adjustment additional reserves of €660 million were moved to the LLR. In 2016 the LLR increased marginally by €12 million.

The **general reserve** represents all reserves except those amounts allocated to the special and loan loss reserves and it primarily comprises retained earnings. It also includes the retention of internal tax paid in accordance with Article 53 of the Agreement. This requires that all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank and which is retained for its benefit. At the end of the year internal tax amounted to €116 million (2015: €109 million).

The **hedging reserve** includes foreign exchange revaluation amounts on designated hedging instruments held by the Bank for the purposes of hedging its estimated future pound sterling operating expenditure. At 31 December 2016 there was a loss of €2 million 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.

Reserves and retained earnings	2016 € million	2015 € million
Special reserve	306	306
Loan loss reserve	1,171	1,159
Net income allocation	9	10
Contingent liability	-	81
Unrealised gains	1,182	955
Total restricted reserves	2,668	2,511
Unrestricted general reserves	6,556	5,873
At 31 December	9,224	8,384

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 (2015: €3.0 billion).

During 2016, the Board of Governors approved the transfer of €181 million of net income to be allocated to other purposes. This amount was reflected in the 2016 income statement, below net profit from continuing operations. Under Resolution No. 195 *2015 Net Income Allocation* €140 million was allocated to the EBRD Shareholder Special Fund (including an amount of €35 million required to support the Bank's specific operational response for refugee-hosting countries), €40 million was allocated as a further grant to State Specialised Enterprise Chernobyl Nuclear Power Plant in relation to the Interim Spent Fuel Storage Facility project (as discussed below) and €1 million was allocated to the EBRD Community Special Fund.

On 12 May 2016, the Board of Governors adopted Resolution No. 196 *Use of Allocated Net Income for Chernobyl Projects*. This varied elements of Resolution No. 175 related to a €100 million contingent liability originally recognised in 2014, of which €81 million remained in 2015. In 2016, €40 million was paid as a contribution from the Bank to the Interim Spent Fuel Storage Facility project. The remaining portion of the contingent liability of up to €60 million was subject to receipts from other donors exceeding the amount of €40 million. Under paragraph 1(a) of Resolution No. 196 the Bank's remaining potential obligations were automatically cancelled on 31 December 2016, removing the Bank's contingent liability.

26. Undrawn commitments and guarantees

Analysis by instrument	2016 € million	2015 € million
Undrawn commitments		
Loans	10,029	10,629
Share investments	1,481	1,754
At 31 December	11,510	12,383
Guarantees		
Trade finance guarantees	455	451
Other guarantees	110	125
At 31 December	565	576
Undrawn commitments and guarantees at 31 December	12,075	12,959

27. Operating lease commitments

The Bank leases its Headquarters building in London and some of its Resident Office buildings in the countries in which it invests. These are standard operating leases and include renewal options, periodic escalation clauses and are mostly non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant lease is that for the Bank's Headquarters building. Rent payable under the terms of this lease is reviewed every five years and is based on market rates. The latest review is due to commence in 2017 with its terms applicable from December 2016.

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

Payable	2016 € million	2015 € million
Not later than one year	27	35
Later than one year and not later than five years	96	119
Later than five years	16	45
At 31 December	139	199
Expenditure incurred in the current year	30	32

28. 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 interim valuation was carried out on 30 June 2016 which, for the purposes of IAS 19: Employee Benefits, was rolled forward to 31 December. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

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

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

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

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

Amounts recognised in the balance sheet are as follows:

	2016 € million	2015 € million
Fair value of plan assets	422	390
Present value of the defined benefit obligation	(418)	(403)
Net defined benefit asset/(liability) at 31 December	4	(13)
Movement in the net defined benefit liability (included in "Other liabilities"):		
At 1 January	(13)	-
Contributions paid[65]	28	31
Total expense as below	(31)	(38)
Remeasurement effects recognised in other comprehensive income	20	(6)
At 31 December	4	(13)
The amounts recognised in the income statement are as follows:		
Current service cost	(33)	(38)
Foreign exchange movements	2	-
Total included in staff costs	(31)	(38)

[65] Contributions for 2017 are expected to be €30 million.

Principal actuarial assumptions used:

	2016	2015
Discount rate	2.50%	3.50%
Expected return on plan assets	2.50%	3.50%
Price inflation	3.25%	2.75%
Future salary increases	3.25%	3.75%
Weighted average duration of the defined benefit obligation	11 years	11 years

Sensitivity analysis on the key actuarial assumptions:

	Assumption	Sensitivity	(Decrease)/ Increase in DBO € million
Discount rate	2.50%	+/- 0.5% pa	(19)/21
Price inflation	3.25%	+/- 0.25% pa	10/(10)

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

Plan asset allocation	2016 Listed € million	2016 Unlisted € million	2016 Total € million	2015 Listed € million	2015 Unlisted € million	2015 Total € million
Equities	200	41	241	185	39	224
Index-linked bonds	144	-	144	130	-	130
Commodities	-	-	-	-	16	16
Other	-	37	37	-	20	20
Fair value of plan assets	344	78	422	315	75	390

Changes in the present value of the defined benefit obligation are as follows:	2016 € million	2015 € million
Present value of defined benefit obligation at 1 January	(403)	(359)
Service cost	(33)	(38)
Interest cost	(12)	(12)
Effect of exchange rate movement	57	(20)
Actuarial (loss)/gain arising due to changes in assumptions[66]	(42)	13
Benefits paid	15	13
Present value of defined benefit obligation at 31 December	(418)	(403)

Changes in the fair value of plan assets are as follows:	2016 € million	2015 € million
Present value of plan assets at 1 January	390	359
Interest income on plan assets	12	12
Return on assets greater/(less) than discount rate	62	(19)
Effect of exchange rate movement	(55)	20
Contributions paid	28	31
Benefits paid	(15)	(13)
Present value of plan assets at 31 December	422	390

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

Experience gains and losses	2016 € million	2015 € million
Defined benefit obligation	(418)	(403)
Plan assets	422	390
Surplus/(deficit)	4	(13)
Experience losses on plan assets:		
Amount	(15)	-
Percentage of the present value of the plan assets	(3.6%)	(0.1%)
Actual return less expected return on plan assets:		
Amount	62	(19)
Percentage of the present value of the plan assets	14.7%	(4.9%)

Defined contribution scheme

The charge recognised under the MPP was €18 million (2015: €19 million) and is included in "General administrative expenses".

Other long-term employee benefits

The Bank maintains a medical retirement benefit plan to provide staff retiring from the Bank, aged 50 or over and with at least seven years' service, with a lump sum benefit to help purchase medical insurance cover. The total charge for the year was €3 million (2015: €3 million).

29. 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 2016 amounted to €17 million (2015: €19 million). This comprises salary and employee benefits of €13 million (2015: €15 million) and post-employment benefits of €4 million (2015: €4 million).

In pound sterling terms, the salaries and other benefits paid to key management personnel in 2016 amounted to £14 million (2015: £14 million), comprising salary and employee benefits of £11 million (2015: £11 million) and post-employment benefits of £3 million (2015: £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 2016, according to the 2015[67] 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 €21.7 billion (2015: €33.1 billion) and total liabilities of €15.4 billion (2015: €24.5 billion). For the year ended 31 December 2016, these associates had income of €4.8 billion (2015: €5.1 billion) and made nil net gain or loss before tax (2015: net loss before tax of €1.0 billion).

In addition, as at 31 December 2016, the Bank had outstanding €30 million (2015: €45 million) of financing to these companies on which it had received €1 million (2015: €1 million) of interest income during the year.

There were no venture capital associates deemed material to the Bank at 31 December 2016.

[67] The 2015 financial statements are the most recent available.

Special Funds

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered under the terms of the rules and regulations for each such Special Fund. At 31 December 2016 the Bank administered 17 Special Funds (2015: 18 Funds) with aggregate pledged contributions amounting to €1.5 billion (2015: €1.6 billion).

The Bank acts as manager and administrator of the Special Funds for which it receives management and cost recovery fees. In 2016 these fees amounted to €2.3 million (2015: €3.6 million) of which €1.1 million was payable at 31 December 2016 (2015: €2.3 million).

The Bank pays for guarantees from certain Special Funds in respect of specific exposures arising in its trade finance portfolios for which it paid €0.1 million in 2016 (2015: €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 2016 the Bank had €2.9 million of such exposure (2015: €2.0 million).

Audit fees payable to the Bank's auditor for the 2016 audits of the Special Funds totalled €0.1 million (2015: €0.1 million).

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

30. Other fund agreements

Cooperation Funds

In addition to the Bank's ordinary operations and the Special Funds programme, the Bank administers numerous bilateral and multilateral contribution agreements to provide technical assistance and investment support grants in the existing and potential countries in which it invests. These grants focus primarily on project preparation, project implementation (including goods and works), advisory services and training. The Bank also acts as a fund manager for donor-financed grants that can be accessed by other international financial institutions (IFIs). This fund manager function of the Bank exists under the following funds: Eastern Europe Energy Efficiency and Environment Partnership Funds (E5P), European Western Balkans Joint Fund (EWBJF – under Western Balkans Investment Framework) and 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 subject to external audit.

In 2016 new agreements and replenishments of €517 million (2015: €264 million) were signed with donors. Contributions of €278 million (2015: €161 million) were received, and disbursements of €115 million (2015: €115 million) paid out during the year. At 31 December 2016, the total number of open Cooperation Funds was 192 (2015: 187).

Further details will be available in the 2016 Grant Co-financing report.

Nuclear Funds

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

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

In 1999, in pursuit of their policy to accede to the European Union, Lithuania, Bulgaria and the Slovak Republic gave firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 reactors by certain dates. In response to this, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants over a period of 8 to 10 years, and invited the Bank to administer three International Decommissioning Support Funds (IDSFs). On 12 June 2000, the Bank's Board of Directors approved the rules of the Ignalina, Kozloduy and Bohunice IDSFs and the role of the Bank as their administrator. The funds 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 2001, the Nordic Investment Bank hosted a meeting with participants from Belgium, Finland, Sweden, the European Commission and IFIs with activities in the Northern Dimension Area (NDA). At this meeting, participants agreed to establish the Northern Dimension Environmental Partnership (NDEP) to strengthen and coordinate financing of important environmental projects with cross-border effects in the NDA. On 11 December 2001, the Bank's Board of Directors approved the rules of the NDEP Support Fund and the role of the Bank as fund manager. A programme to finance projects remediating the nuclear legacy of the Soviet Northern Fleet became operational in 2004.

In 2013 the European Commission requested the Bank to set up a multi-lateral fund to finance projects dealing with the legacy of uranium mining 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.

The table below provides a summary of Nuclear Fund contributions.

	2016 Contributions pledged € million	2016 No. of contributors	2015 Contributions pledged € million	2015 No. of contributors
Nuclear Safety Account	376	17	368	17
Chernobyl Shelter Fund	1,586	28	1,451	28
Ignalina IDSF	778	15	778	15
Kozloduy IDSF	1,002	10	961	10
Bohunice IDSF	653	8	653	8
NDEP[68]	353	12	353	12
Environmental Remediation Account	16	1	16	1

The cash balances belonging to each of the funds in the table above are managed by the Bank on their behalf.[69]

Audit fees payable to the Bank's auditor for the 2016 audits of the Cooperation and Nuclear Safety funds amounted to €0.5 million (2015: €0.5 million).

31. Events after the reporting period

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

Since 31 December 2016 observable movements in the value of the Bank's listed equities in 2017 have resulted in a increase of approximately €27 million while movements in the exchange rate of the Russian rouble have increased the fair value of the Bank's unlisted equity investments and associated derivatives by approximately €52 million. These gains of €79 million will be recognised in the 2017 financial statements.

At 8 March 2017 there had been no other material events after the reporting period to disclose.

On 8 March 2017 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be submitted for approval to the Annual Meeting of the Board of Governors to be held on 9-11 May 2017.

[68] The NDEP includes a nuclear and non-nuclear programme.

[69] See note 21.