



BLACK SEA TRADE AND DEVELOPMENT BANK

**Financial Statements for the Year Ended
31 December 2019**

Together with Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Governors of Black Sea Trade and Development Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Black Sea Trade and Development Bank (the Bank), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Greece, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Expected Credit Loss on Loans at amortized cost	
<p>Loans at amortized cost amounted to € 1,808 million as at 31 December 2019 (€ 1,318 million as at 31 December 2018) and loss impairment to € 43 million (€ 35 million as at 31 December 2018) as presented on the Statement of Financial Position. The charge for the period for impairment losses on loans amounted to € 1.8 million for the year ended 31 December 2019 (€ 6.3 million for the year ended 31 December 2018).</p> <p>The Bank establishes allowances for impairment on loans at amortized cost, for expected credit losses (ECL) on both an individual and collective basis.</p> <p>The estimation of ECL on loans at amortized cost is considered a key audit matter as it involves critical Management judgement and accounting estimates with high level of subjectivity and complexity.</p> <p>The most significant Management judgements and accounting estimates relate to:</p> <ul style="list-style-type: none"> • The criteria used for the staging assessment of loans at amortized cost. • The determination of credit risk parameters, such as Loss Given Default (LGD), Probability of Default (PD) and the Exposure at Default (EAD) and the data used to build and run the credit risk models to calculate ECL. • The use of a model for ECL calculation. <p>Management provided further information about principles and accounting policies for determining the allowance for impairment on loans at amortized cost, the management of credit risk and the review of impairment in notes 4, 11 and 14 to the financial statements.</p>	<p>Based on our risk assessment and following a risk based approach, we have evaluated the impairment methodologies applied and assumptions made by Management in relation to this key audit matter, which included, inter alia, the following audit procedures:</p> <ul style="list-style-type: none"> • We assessed the design and implementation of internal controls relevant to the ECL, including controls relevant to the determination of significant credit risk parameters, inputs applied into the impairment calculation engine, ECL results and relevant disclosures. • With the support of our credit and modelling specialists, we tested the appropriateness of the criteria (significant increase in credit risk, days past due) used for staging assessment of loans at amortized cost. We further performed substantive procedures and on a sample basis we tested the timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures. • With the support of our credit and modelling specialists, we assessed the appropriateness of the credit risk models used by performing recalculations on a sample basis and by challenging relevant Management significant assumptions. As part of our substantive procedures, we tested accuracy and completeness of critical data used in ECL calculation. • We assessed the completeness and accuracy of disclosures in accordance with the provisions of the relevant accounting standards.

Key audit matter	How the matter was addressed in our audit
Information Technology General Controls and controls over financial reporting	
<p>The Bank's financial reporting processes is highly dependent on Information Technology (IT) systems supporting automated accounting reconciliation procedures and calculations, thus leading to a complex IT environment pervasive in nature and in which a significant number of transactions are processed daily.</p> <p>This is a key audit matter since it is important that controls over access security, cyber risks, system change, data-center and network operations are designed and operate effectively to ensure complete and accurate financial records/information.</p> <p>Management has developed a system efficiency plan including aspects such as access, change management, data-center and network controls in applications, databases and operating systems in response to these risks, as described in detail in note 'Operational Risks'.</p>	<p>Based on our risk assessment, we have tested the design and operating effectiveness of Information Technology General Computer Controls (ITGCs) relevant for financial reporting.</p> <p>Our assessment included the evaluation of user access over applications, operating systems and databases, IT operations as well as the process followed over changes made to application systems/programs at all layers.</p> <p>Our IT audit procedures were performed with the support of IT specialists and included, among others, testing of:</p> <ul style="list-style-type: none"> • User access provisioning and de-provisioning process. • Privileged access to applications, operating systems and databases. • Periodic review of user access rights. • Change management process. • Data-center and network operations.

Other matters

For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to the auditors' report issued by other auditors on 19 April 2019.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Despina Xenaki.

Athens, 7 May 2020

The Certified Public Accountant

Despina Xenaki
Reg. No SOEL:14161
Deloitte Certified Public Accountants SA
3a Fragkokklisias & Granikou str.,
GR 151-25 Marousi, Athens, Greece
Reg. No SOEL:E 120

INCOME STATEMENT

For the year ended 31 December 2019

Presented in thousands of EUR	Note	2019	2018
Interest and similar income	7	93,969	78,717
Interest and similar expense	8	(53,274)	(37,974)
Net interest (expense) on derivatives		(4,113)	(7,599)
Net interest income		36,582	33,144
Net fees and commissions	9	967	1,652
Net gains from equity investments through profit or loss	15	268	572
Net gains from debt investment securities through OCI		119	29
Foreign exchange income (losses)		(1,067)	(1,352)
Other income (loss)		4	(3)
Operating income		36,873	34,042
Personnel expenses	10,25	(15,758)	(15,952)
Administrative expenses	10	(5,187)	(4,770)
Depreciation and amortization	17,18	(572)	(453)
Income before impairment		15,356	12,867
Impairment (losses) on loans at amortized cost	11	(1,841)	(6,292)
Impairment (losses) on debt investment securities through OCI	12	(111)	(368)
Fair value (losses) on loans through profit or loss	14	477	(446)
Fair value gains (losses) on equity investments through profit or loss	15	(217)	(585)
Net income for the year		13,664	5,176

The accompanying notes, on pages 12 to 65 are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

Presented in thousands of EUR	Note	2019	2018
Net income for the year		13,664	5,176
Other comprehensive income (expense):			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses) gains on defined benefit scheme	23	(3,020)	2,414
Gains on equity investments financial assets	23	4,219	713
Items that are or may be reclassified subsequently to profit or loss:			
Gains (losses) on investment securities financial assets	23	12,518	(8,929)
Other comprehensive income (expense)		13,717	(5,802)
Total comprehensive income (loss)		27,381	(626)

The accompanying notes, on pages 12 to 65 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2019

Presented in thousands of EUR	Note	2019	2018
Assets			
Cash and due from banks	24	82,621	48,598
Debt investment securities at amortized cost	12,24	-	49,339
Debt investment securities at fair value through other comprehensive income	12,24	420,591	346,640
Less: impairment losses	12	(765)	(644)
Debt investment securities net		419,826	395,335
Derivative financial instruments – assets	13	3,128	662
Loans at amortized cost	14,5	1,808,187	1,318,418
Less: deferred income	14	(8,170)	(3,052)
Less: impairment losses	11,5	(43,314)	(34,775)
Loans at fair value through profit or loss	14	12,754	12,277
Loans net of impairment		1,769,457	1,292,868
Equity investments at fair value through profit or loss	15,5	798	1,015
Equity investments at fair value through other comprehensive income	15,5	29,588	26,640
Equity investments at fair value		30,386	27,655
Other assets	16	35,853	29,541
Property and equipment	17	489	455
Intangible assets	18	422	653
Right of use assets	21	1,255	-
Total Assets		2,343,437	1,795,767
Liabilities			
Borrowings			
Amounts due to banks	19	246,437	227,109
Debts evidenced by certificates	19	1,238,718	726,921
Derivative financial instruments – liabilities	13	6,552	24,164
Payables and accrued interest	20	20,262	15,973
Lease liability	21	1,059	-
Total liabilities		1,513,028	994,167
Members' Equity			
Authorized share capital	22	3,450,000	3,450,000
Less: unallocated share capital	22	(1,161,500)	(1,161,500)
Subscribed share capital	22	2,288,500	2,288,500
Less: callable share capital	22	(1,601,950)	(1,601,950)
Less: payable share capital past due	22	-	(1,428)
Paid-in share capital		686,550	685,122
Reserves	23	54,009	32,957
Retained earnings		89,850	83,521
Total members' equity		830,409	801,600
Total Liabilities and Members' Equity		2,343,437	1,795,767
Off-balance-sheet items			
Commitments	5	353,496	252,801

The accompanying notes, on pages 12 to 65 are an integral part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2019

Presented in thousands EUR	Share capital			Reserves	Retained Earnings	Total
	Subscribed	Callable	Payable			
At 31 December 2017	2,288,500	(1,601,950)	(44,984)	33,583	83,521	758,670
Total comprehensive income	-	-	-	(5,802)	5,176	(626)
Members' contributions	-	-	43,556	-	-	43,556
Transfer to general reserve	-	-	-	5,176	(5,176)	-
At 31 December 2018	2,288,500	(1,601,950)	(1,428)	32,957	83,521	801,600
Total comprehensive income	-	-	-	13,717	13,664	27,381
Members' contributions	-	-	1,428	-	-	1,428
Transfer to general reserve	-	-	-	7,335	(7,335)	-
At 31 December 2019	2,288,500	(1,601,950)	-	54,009	89,850	830,409

The accompanying notes, on pages 12 to 65 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

Presented in thousands of EUR	Note	2019	2018
Cash flows from operating activities			
Net income for the year		13,664	5,176
Adjustment for:			
Depreciation and amortization	17,18	572	453
Impairment losses	11,12	1,952	6,660
Fair value (gains) losses on loans at FVTPL	14	(477)	446
Fair value (gains) losses on equity investments at FVTPL	15	217	585
Net interest income		(36,582)	(33,144)
Foreign exchange adjustment on provisions	11	198	1,073
Operating (loss) before changes in operating assets		(20,456)	(18,751)
Changes in:			
Derivative financial instruments	13	(20,078)	6,919
Other assets	16	(2,147)	(189)
Accounts payable	20,21	4,191	(808)
Deferred income	14	5,118	(3,167)
Fair value movements	23	16,737	(8,216)
Cash generated from operations		(16,635)	(24,212)
Proceeds from repayment of loans	14	381,756	377,988
Proceeds from repayment of equity investments		2,096	4,756
Funds advanced for loans	14	(871,130)	(572,966)
Funds advanced for equity investments		(825)	(859)
Foreign exchange and other adjustments		(4,874)	(827)
Interest income received		89,804	75,522
Interest expense paid		(52,117)	(44,214)
Net cash from / (used in) operating activities		(471,925)	(184,812)
Cash flows from investing activities			
Proceeds from investment securities at FVTOCI		812,753	409,139
Purchase of investment securities at FVTOCI		(759,717)	(523,141)
Purchase of property, software and equipment	17,18	(379)	(408)
Net cash from / (used in) investing activities		52,657	(114,410)
Cash flows from financing activities			
Proceeds received from share capital	22	1,428	43,556
Proceeds from borrowings	20	1,267,253	433,639
Repayments of borrowings	20	(736,128)	(202,201)
Net cash from / (used in) financing activities		532,553	274,994
Net increase in cash and cash equivalents		113,285	(24,228)
Cash and cash equivalents at beginning of year	24	172,253	196,481
Cash and cash equivalents at end of year	24	285,538	172,253

The accompanying notes, on pages 12 to 65 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ESTABLISHMENT OF THE BANK

Agreement Establishing the Bank

Black Sea Trade and Development Bank ('Bank'), whose headquarters are located at 1 Komnion Street, Thessaloniki, in the Hellenic Republic, was established as an international financial organization under the Agreement Establishing the Bank dated 30 June 1994 ('Establishing Agreement'). In accordance with Article 61 of the Establishing Agreement, following the establishment of the Bank the Establishing Agreement came into force on 24 January 1997. The Bank commenced operations on 1 June 1999.

The purpose of the Bank is to accelerate development and promote cooperation among its shareholder countries. As a regional development institution, the Bank is well placed to mobilize financial resources and to improve access to financing for businesses in the whole region as well as for those active only in its individual Member Countries. The Bank offers project and trade financing facilities, equity participations and guarantees. Bank financing of projects and programs is available directly or in cooperation with other national and international development institutions. The Bank may also, where appropriate, provide technical assistance to potential customers.

As at financial position date the Bank's shareholders comprised of the following 11 countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Turkey and Ukraine.

Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected therewith in the Hellenic Republic are defined in the Headquarters Agreement between the Government of the Hellenic Republic and the Bank ('Headquarters Agreement') signed on 22 October 1998.

Board of Governors and Board of Directors

Each of the Member States of the Bank is represented on the Board of Governors (BoG), with all powers of the Bank vested in the BoG. With the exception of certain reserved powers, the BoG has delegated the exercise of its powers to the Board of Directors (BoD), while retaining overall authority. At financial position date the members are: Republic of Albania, Erjon Luci, Deputy Minister of Finance; Republic of Armenia, Arthur Javadyan, Chairman, Central Bank of Armenia; Republic of Azerbaijan, Samir Sharifov, Minister of Finance; Republic of Bulgaria, Marinela Petrova, Deputy Minister of Finance; Georgia, Koba Gvenetadze, Governor National Bank of Georgia; Hellenic Republic, Adonis-Spyridon Georgiadis, Minister of Development & Investments; Republic of Moldova, Ion Chicu, Minister of Finance; Romania, Eugen Orlando Teodorovici, Minister of Public Finance; Russian Federation, Sergey Storchak, Deputy Minister of Finance; Republic of Turkey, Bulent Aksu, Deputy Minister of Treasury & Finance; Ukraine, Timofiy Mylovanov, Minister of Economic Development, Trade & Agriculture.

The BoD, chaired by the President of the Bank, is responsible for guiding the general operations of the Bank. Each of the Bank's Member States appoints a Director and an Alternate Director, who has full powers to act for the Director when the Director is not present. At financial position date the members are: Republic of Albania, Arian Kraja, Secretary General, Ministry of Finance & Economy; Republic of Armenia, Davit Ananyan, Chairman of the State Revenue Committee; Republic of Azerbaijan, Famil Ismayilov, Deputy Head, International Relations Department, Ministry of Finance; Republic of Bulgaria, Petya Kuzeva, Director, Government Debt Directorate, Ministry of Finance; Georgia, Nikoloz Gagaa, Deputy Minister of Finance; Hellenic Republic, Ioannis Tsakiris, Deputy Minister of Development & Investments; Republic of Moldova, Elena Matveeva, Head, Public Debt Department, Ministry of Finance; Romania, Diana Blindu, Head of Division, General Directorate for International Financial Relations, Ministry of Public Finance; Russian Federation, Evgeny Stanislavov, Director, Department of Economic Cooperation, Ministry of Foreign Affairs; Republic of Turkey, Kemal Cagatay Imirgi, Acting Director General, Foreign Economic Relations, Ministry of Treasury and Finance; Ukraine, Vitaliy Lisovenko, Governmental Envoy for Public Debt Management, Ministry of Finance.

BoG and BoD members can be changed at any time upon the discretion of the respective Member State.

Notes to the Financial Statements

The financial statements for the year ended 2019 were submitted by the Management to the Board of Directors (BoD) for approval on 7 May 2020, and were approved on that date.

Pursuant to Article 23 of the Establishing Agreement, these financial statements shall be subject to approval by the Board of Governors (BoG) in their Annual Meeting to be held on 18 June 2020.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board (IASB).

Basis of measurement

The financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts, which have been measured at fair value in accordance with IFRS 9.

Functional and presentation currency

The Bank's functional currency is the Euro (EUR) as defined by the European Central Bank (ECB). The Euro is most representative of the Bank's operations and environment as a significant percentage of the Bank's lending operations are in Euro, and the administrative expenses and capital expenditures are primarily denominated and settled in this currency. The Bank's presentation currency is the EUR.

Judgments and assumptions

IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: impairment of loans-and-receivables, valuation of financial instruments not quoted in active markets, including OTC derivatives and certain debt securities, impairment of investment securities, estimation of retirement benefits obligation, and contingencies from litigation. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the Note 'Use of estimates'.

2.2 Going Concern

The financial statements have been prepared on a going concern basis. As disclosed in Note 27, 2020 began with the outbreak of a new strain of Coronavirus (COVID-19) pandemic, subsequent to the year-end Management have performed procedures to assess and monitor the financial and operational impacts of COVID-19 as detailed in Note 27. Management have not identified the need for asset impairments and are of the view that the Bank will continue to operate through this pandemic as a going concern.

2.3 Adoption of New and Amended Standards (IFRS) EU

New standards and amendments to standards as well as IFRIC 23 which were issued by the International Accounting Standards Board (IASB), applied on 1 January 2019:

Notes to the Financial Statements

- **Amendment to International Financial Reporting Standard 9 'Financial Instruments':** Prepayment Features with Negative Compensation.

On 12.10.2017 the International Accounting Standards Board issued an amendment to IFRS 9 that permits some pre-payable financial assets with negative compensation features, that would otherwise been measured at fair value through profit or loss, to be measured at amortized cost or at fair value through other comprehensive income. The amendment to IFRS 9 clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The adoption did not have any material impact on the Bank's financial statements.

- **International Financial Reporting Standard 16 'Leases'**

On 13.1.2016 the International Accounting Standards Board issued IFRS 16 'Leases' which supersedes:

- IAS 17 'Leases'
- IFRIC 4 'Determining whether an arrangement contains a lease'
- SIC 15 'Operating Leases – Incentives' and
- SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'.

The new standard significantly differentiates the accounting of leases for lessees while essentially maintaining the existing requirements of IAS 17 for the lessors. In particular, under the new requirements, the classification of leases as either operating or finance is eliminated. A lessee is required to recognize, for all leases with term of more than 12 months, the right-of-use asset as well as the corresponding obligation to pay the lease payments. The above treatment is not required when the asset is of low value.

At initial recognition, the right-of-use asset comprises the amount of the initial measurement of the lease liability, any initial direct costs, any lease payments made before the commencement date as well as an estimate of dismantling costs.

At initial recognition, the lease liability is equal to the present value of the lease payments that are not paid at that date. This has been adopted by the Bank with no significant impact on its financial position.

- **Amendments to International Accounting Standard 19 'Employee Benefits':** Plan Amendment, Curtailment or Settlement

On 7.2.2018 the International Accounting Standards Board issued an amendment to IAS 19 with which it specified how companies determine pension expenses when changes to a defined benefit pension plan occur. In case that an amendment, curtailment or settlement takes place IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments to IAS 19 require specifically a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, the amendment to IAS 19 clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The adoption did not have material impact on the Bank's financial statements.

- **Amendment to International Accounting Standard 28 'Investments in Associates':** Long-term Interests in Associates and Joint Ventures.

On 12.10.2017 the International Accounting Standards Board issued an amendment to IAS 28 to clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture—to which the equity method is not applied—should be accounted for using IFRS 9, including its impairment requirements. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The adoption did not have material impact on the Bank's financial statements.

Notes to the Financial Statements

- **Improvements to International Accounting Standards** – cycle 2015-2017.

As part of the annual improvements project, the International Accounting Standards Board issued, on 12.12.2017, non-urgent but necessary amendments to various standards.

- **IFRIC Interpretation 23** 'Uncertainty over Income Tax Treatments'.

On 7.6.2017 the International Accounting Standards Board issued IFRIC 23. The Interpretation clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation specifically clarifies the following:

- An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.
- The estimations for the examination by taxation authorities shall be based on the fact that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.
- For the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.
- An entity shall reassess an estimate if the facts and circumstances change or as a result of new information.

The adoption did not have material impact on the Bank's financial statements.

Except for the standards mentioned above, the following amendments to standards which are effective for annual periods beginning after 1 January 2019.

- **Amendment to International Financial Reporting Standard 9** 'Financial Instruments', to **International Accounting Standard 39** 'Financial Instruments' and to **International Financial Reporting Standard 7** 'Financial instruments: Disclosures': Interest rate benchmark reform.

Effective for annual periods beginning on or after 1.1.2020:

On 26.9.2019 the International Accounting Standards Board issued amendments to IFRS 9, IAS 39 and IFRS 7, according to which temporary exceptions from the application of specific hedge accounting requirements are provided in the context of interest rate benchmark reform.

In accordance with the exceptions, entities applying those hedge accounting requirements may assume that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. Relief is provided regarding the following requirements:

- The highly probable requirement in cash flow hedge,
- Prospective assessments,
- Separately identifiable risk components.

The adoption is not expected to have any material impact on the Bank's financial statements.

- **Amendments to International Accounting Standard 1** 'Presentation of Financial Statements' and to **International Accounting Standard 8** 'Accounting Policies, Changes in Accounting Estimates and Errors: 'Definition of material'.

Effective for annual periods beginning on or after 1.1.2020:

On 31.10.2018 the International Accounting Standards Board, as part of the Disclosure Initiative, issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

Notes to the Financial Statements

The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments include examples of circumstances that may result in material information being obscured. The IASB has also amended the definition of material in the Conceptual Framework to align it with the revised definition of material in IAS 1 and IAS 8.

The adoption is not expected to have any material impact on the Bank's financial statements.

- **Amendment to International Financial Reporting Standard 3** "Business Combinations": Definition of a Business.

Effective for annual periods beginning on or after 1.1.2020:

On 22.10.2018 the International Accounting Standards Board issued an amendment to IFRS 3 aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments:

- Clarify the minimum requirements required in order a business to have been acquired,
- The assessment for the acquisition of either a business or a group of assets is simplified and it is based on current condition of acquired elements rather than on the market participant's ability to integrate them into his own processes,
- The definition of outputs is amended so that apart from the revenue arising from ordinary activities falling within the scope of IFRS 15, it also includes other income from main activities such as income from investment services,
- Guidance is added to assess whether a production process is substantive both in cases where a product is produced at the date of acquisition and in cases where there is no product produced,
- An optional exercise is introduced based on the fair value of the assets acquired to assess whether a business or group of assets has been acquired.

The adoption is not expected to have any impact on the Bank's financial statements.

- **Amendment to International Financial Reporting Standard 10** 'Consolidated Financial Statements' and to **International Accounting Standard 28** 'Investments in Associates and Joint Ventures': Sale or contribution of assets between an investor and its associate or joint venture. Effective date: To be determined.

On 11.9.2014 the International Accounting Standards Board issued an amendment to IFRS 10 and IAS 28 in order to clarify the accounting treatment of a transaction of sale or contribution of assets between an investor and its associate or joint venture. In particular, IFRS 10 was amended in order to be clarified that in case that as a result of a transaction with an associate or joint venture, a parent loses control of a subsidiary, which does not contain a business, as defined in IFRS 3, it shall recognize to profit or loss only the part of the gain or loss which is related to the unrelated investor's interests in that associate or joint venture. The remaining part of the gain from the transaction shall be eliminated against the carrying amount of the investment in that associate or joint venture. In addition, in case the investor retains an investment in the former subsidiary and the former subsidiary is now an associate or joint venture, it recognizes the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former subsidiary in its profit or loss only to the extent of the unrelated investor's interests in the new associate or joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment retained in the former subsidiary.

In IAS 28, respectively, it was clarified that the partial recognition of the gains or losses shall be applied only when the involved assets do not constitute a business. Otherwise, the total of the gain or loss shall be recognized.

Notes to the Financial Statements

On 17.12.2015, the International Accounting Standards Board deferred the effective date for the application of the amendment that had been initially determined. The new effective date will be determined by the International Accounting Standards Board at a future date after taking into account the results of its project relating to the equity method.

The adoption is not expected to have any impact on the Bank's financial statements.

- **International Financial Reporting Standard 14** 'Regulatory deferral accounts'.

Effective for annual periods beginning on or after 1.1.2016:

On 30.1.2014 the International Accounting Standards Board issued IFRS 14. The new standard, which is limited-scope, addresses the accounting treatment and the disclosures required for regulatory deferral accounts that are maintained in accordance with local legislation when an entity provides rate-regulated goods or services. The scope of this standard is limited to first-time adopters that recognized regulatory deferral accounts in their financial statements in accordance with their previous GAAP. IFRS 14 permits these entities to capitalize expenditure that non-rate-regulated entities would recognize as expense.

The adoption is not expected to have any material impact on the Bank's financial statements.

- **International Financial Reporting Standard 17** "Insurance Contracts"

Effective for annual periods beginning on or after 1.1.2021:

On 18.5.2017 the International Accounting Standards Board issued IFRS 17 which replaces IFRS 4 'Insurance Contracts'. In contrast to IFRS 4, the new standard introduces a consistent methodology for the measurement of insurance contracts. The key principles in IFRS 17 are the following:

An entity:

- Identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder;
- Separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- Divides the contracts into groups that it will recognize and measure;
- Recognizes and measures groups of insurance contracts at:
 - i. A risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset);
 - ii. An amount representing the unearned profit in the group of contracts (the contractual service margin).
- Recognizes the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately;
- Presents separately insurance revenue, insurance service expenses and insurance finance income or expenses; and
- Discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

It is also noted that in November 2018 the International Accounting Standards Board proposed to defer the IFRS 17 effective date to 1.1.2022.

The adoption is not expected to have any impact on the Bank's financial statements.

- **Amendment to the International Accounting Standard 1** 'Presentation of Financial Statements': Classification of liabilities as current or non-current.

Notes to the Financial Statements

Effective for annual periods beginning on or after 1.1.2022:

On 23.1.2020, the International Accounting Standards Board issued amendments to IAS 1 relating to the classification of liabilities as current or non-current.

More specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if the liability must be classified as current or non-current.
- Management expectations about events after the balance sheet date must not be taken into account.
- The amendments clarify the situations that are considered settlement of a liability.

The adoption is not expected to have any material impact on the Bank's financial statements.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's accounting policies applied in the preparation of these financial statements are presented in this section. These policies have been consistently applied to all periods presented in the financial statements.

3.1 Foreign Currencies Translation

Foreign currency transactions being revenues, expenses, gains and losses are initially recorded in EUR by applying to the foreign currency amount the exchange rate between the EUR and the foreign currency at the rate prevailing at the date of transaction.

When preparing the financial statements exchange gains and losses arising from the translation of monetary assets and liabilities denominated in foreign currencies at the end of year are recognized in the income statement.

Non-monetary items that are measured at historical cost are translated using the historical exchange rate at the date of the transaction. Translation differences on non-monetary items which are held at FVTPL as prepayments are recognized in the income statement. Translation differences on non-monetary items which are at FVTOCI as equity investments are included in other comprehensive income.

The Bank uses the official exchange rates published for the EUR by the European Central Bank (ECB). The exchange rates used by the Bank at the financial position date were as follows.

		31 December 2019	31 December 2018
	= United States dollar	1.12340	1.14500
	= Pound sterling	0.85080	0.89453
	= Russian ruble	69.95630	79.71530
1 EUR	= Azerbaijan manat	1.90350	1.94680
	= Georgian lari	3.20950	3.07010
	= Armenian dram	537.26000	553.65000
	= Romanian leu	4.78300	4.66350

3.2 Recognition and Derecognition of Financial Instruments

The Bank recognizes a financial asset or financial liability in its statement of financial position when it becomes a party to the contractual rights or obligations.

The Bank derecognizes a financial asset or a portion of a financial asset when (i) loses control of the contractual rights that comprise the financial asset or a portion of the financial asset or (ii) the Bank retains the right to receive cash flows from the asset, but has assumed the obligation to pay it in full without material delay to a third party under a 'pass through' arrangement. The Bank derecognizes a financial liability when a liability is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires. The evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for derecognition transactions.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in net income or loss.

3.3 Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, placements with other financial institutions and debt securities with original maturities of three months or less. These are highly liquid assets that are readily convertible to a known amount of cash and are subject to insignificant risk of change in value due to the movements in market rates.

Notes to the Financial Statements

3.4 Financial Assets

The classification of financial assets defines how existing information is reflected in the financial statements. In particular, the valuation method and the impairment calculation are defined by this classification, which are based on criteria established by the Bank.

3.4.1 Classification

The Bank recognizes a financial asset in its financial statements at the time of the creation of the contractual claim (that is, the day the transaction took place). In recognition, the Bank determines the business model to which it belongs. Financial assets are classified in three categories:

1. *Financial assets measured at amortized cost (AC)*: this category classifies each asset or group of assets for which the Bank's business model constitutes its holding for the purpose of collecting contractual cash flows. The possible sale of financial assets should not be the result of business planning for their management. Financial assets are classified at AC only if both of the following criteria are met:
 - The objective of the Bank's business model is to hold the asset in order 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:
 - (i) Principal is the fair value of the financial asset at initial recognition.
 - (ii) Interest consist of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Bank's operations, which are non-derivative with fixed or determinable payments and with fixed maturities, meeting the above criteria are measured initially at fair value plus transaction costs and including any premium or discount that may arise on the date of acquisition. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. These financial assets are subsequently measured at AC using the effective interest method, less any provision for impairment or uncollectability. All other fees and relating income generated are reported in the income statement (see note 'Net fees and commissions'). All such financial assets are recognized on settlement date.

These financial assets include cash and cash equivalents, loans and advances on amounts disbursed to operations, receivables accrued, and certain debt investments that meet the above criteria.

2. *Financial assets measured at fair value through other comprehensive income (FVTOCI)*, and are after reclassified at fair value through profit or loss (FVTPL) on derecognition: gains or losses arising from the measurement are recorded in a separate members' equity account. This category classifies each asset or group of assets for which the Bank's business model recommends that it be held for the purpose of collecting contractual cash flows and selling them when the business planning of their acquisition has been achieved. Debt instruments are classified and subsequently measured at FVTOCI only if both of the following criteria are met:
 - The objective of the Bank's business model is achieved by both collecting the contractual cash flows and selling the financial asset; and
 - The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding:
 - (i) Principal is the fair value of the financial asset at initial recognition.
 - (ii) Interest consist of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Notes to the Financial Statements

This category includes Treasury financial assets such as euro commercial paper (ECP) or bonds that are intended to be held to maturity, which may or may not be sold in the future. Their fair value is determined by reference to quoted market bid prices. The unrealized gains and losses that arise from fluctuations in fair value are recognized as a separate component of member's equity until the financial asset is sold or derecognized for any other reason or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in member's equity is included in income. Foreign exchange gains or losses and any income accrued, by using the effective interest rate method are recognized directly in income. All such financial assets are recognized on trade date.

Financial assets not meeting the above criteria, as well as those financial assets designated shall be measured at FVTPL.

In order to classify assets in the above two categories, contractual cash flows should consist solely of payments of principal and interest (SPPIs).

3. *Financial assets (equity instruments) measured at FVTOCI.* On initial recognition the Bank can make an irrevocable election, on an instrument-by-instrument basis, to designate investments in an equity instrument not held for trading nor contingent consideration, as a financial asset measured at FVTOCI. Those not elected are measured at FVTPL. Dividends received are recorded in the income statement.

After initial recognition at cost, plus transaction costs, these financial assets are subsequently measured at fair value with all gains and losses arising from changes in fair value (realized and unrealized), including foreign exchange gains and losses, recognized in other comprehensive income as a separate component of members' equity. For those not purchased from an active market the fair value is determined using accepted valuation techniques. These valuation techniques used are net asset value and earnings-based valuations using comparable information and discounting cash flows. All such financial assets are recognized on settlement date.

The cumulative gains or losses are not reclassified, e.g. not recycled, to income on disposal of the investments and no provisions for impairments are recognized in the income statement. However, the cumulative gain or loss after the investment is subsequently derecognized can be transferred within members' equity.

4. *Financial assets measured at FVTPL:* this category classifies items that do not meet the SPPI criterion as well as the items that the Bank holds for trading. Their classification depends primarily on the following two important factors (i) the Bank's business model for these assets and (ii) the characteristics of the contractual cash flows of the asset.

These financial assets are initially measured at their fair value and subsequently carried at fair value on the statement of financial position with all changes in fair value gains and losses and foreign exchange gains and losses, recognized in the income statement in the period in which they occur. Transaction costs on these financial assets are expensed in the income statement. This category includes any treasury assets held for trading or resale to realize short-term fair value changes as well as any loans for which either of the criteria for recognition at AC is not met. It can also include a debt instrument or an equity instrument that is not within the category nor measured at FVTOCI. Derivative instruments are also categorized as financial assets at FVTPL. All such financial assets are recognized on trade date.

In addition, a debt instrument that could meet AC criteria can be designated and measured at FVTPL. Upon initial recognition, if such designation significantly reduces or eliminates a measurement or recognition inconsistency, referred to as an 'accounting mismatch', which would arise from measuring assets or recognizing the gains and losses on them on different bases.

Notes to the Financial Statements

3.4.2 Measurement

The Bank measures financial assets at fair value on initial recognition, as detailed above. In the event the Bank considers that the fair value on initial recognition differs from the transaction price, that difference is recognized as a gain or loss on initial recognition but only if the fair value is based on a requested active market price for identical assets or is based on a valuation technique using data solely from identified markets. In all other cases the fair value is adjusted to the amount of the transaction price.

Financial assets that are subsequently measured at either AC or debt instruments at FVTOCI, are subject to provisions for impairment.

Based on the Bank's credit policy, the Bank does not originate credit-impaired financial assets, nor does the Bank purchase credit-impaired assets, exception being those loans would be acquired at a deep discount.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3.4.3 Business model assessment

The factor of the business model refers, amongst others, to the manner in which the Bank manages its financial assets by classifying them in portfolios that are part of its business model. The assessment process applied by the Bank through its business model, based on strategic objectives, classifies its assets in the following three categories in accordance with IFRS 9:

i) Hold to collect

Each asset or group of assets for which the Bank's business model recommends that it be held for the purpose of collecting contractual cash flows is classified as 'Hold to collect'.

ii) Hold to collect and sell

Each asset or group of assets for which the Bank's business model recommends that it be held for the purpose of collecting contractual cash flows and selling them when the strategic planning of their acquisition has been achieved is classified as 'Hold to collect and sell'.

iii) Trading portfolio

The financial assets held for trading are classified as 'Trading portfolio'.

The adopted business model determines the source of revenue, as it arises from individual portfolios either through the collection of contractual cash flows or from the sale of financial assets or the combination of the above.

The assessment of the business model reflects the Bank's strategy under normal business conditions. The assessment is not affected by actions required in 'emergency situations' (e.g. liquidity needs, non-inherent capital requirements for credit risk, etc.). Also, Management decisions taken to comply with new regulatory guidelines are not included in the assessment.

In general, the Bank has included the majority of its loan portfolios in the hold-to-collect business model. The assessment of a business model is made within the definition of operational objectives as defined by the Bank's Management, as well as in the operational management of its assets. The assessment is effected at portfolio level rather than at individual asset levels.

The Business Model applied to loan portfolio, treasury portfolio and equity investment portfolio is reassessed at each reporting period. The reassessment of the Business Model has been established in order to determine if evidence initially used has changed.

Notes to the Financial Statements

3.4.4 Loans

Loans originated by the Bank, is where money is provided directly to the borrower. Loans are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (e.g. syndication commission, front-end, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method.

Loans that are designated as at FVTPL are recognized at a value arrived at by using a combination of discounted cash flow models. These models incorporate market data pertaining to interest rates, a borrower's credit rating, and underlying assets. Where unobservable inputs have been used, a sensitivity analysis has been included under 'fair value hierarchy' described within the 'Risk Management' section of this report.

3.5 Impairment

3.5.1 Financial assets

The impairment requirements of IFRS 9 apply to financial instruments that are measured at AC or FVTOCI, and off-balance-sheet lending commitments such as loan commitments and financial guarantees. These financial assets will be tested to determine whether their credit quality has changed significantly since the date of their creation. This resulted in the classification of the data in 3 stages, which in ascending order indicates the credit risk and corresponding provisioning charge of each item. As such, stage 1 includes assets whose credit quality is not significantly degraded and the impairment that they will incur will be equal to a 12-month Expected Credit Loss (ECL). Stage 2 includes assets whose credit quality has been substantially downgraded and are subject to lifetime ECL. The same applies to the items classified in Stage 3, where all the impaired items, including non-performing loans (NPLs), fall.

Financial instruments, including equity instruments, carried at FVTPL are not subject to impairment requirements as their fair value reflects the credit of these exposures. Additionally, equity investments measured at FVTOCI are also not subject to impairment requirements, but a negative reserve balance in relation to the carrying amount of that equity investment, e.g. representing an impairment loss, shall be recognized in other comprehensive income and shall not be recycled (reclassified and transferred) to net income or loss.

The Bank measures impairment losses on an individual basis. Similarly, the assessment for transferring financial assets between Stages 1, 2 and 3, are also made on an individual basis. The Bank applies three main components to measure expected credit losses which are a LGD, PD and EAD. In order to perform the ECL calculation, the Bank uses the Moody's Analytics IFRS ImpairmentCalc tool. Within the tool, the Bank provides probabilities of default and loss given defaults and assigns scenarios for potential credit risk deterioration. There can be transfers of exposures from one stage to another, depending on whether there is a change in the credit risk of that exposure. Probability of default is an estimate of the likelihood of default over a given time horizon.

The Bank uses information obtained from the Global Emerging Markets (GEMs) database in order to assign PDs to its lending asset classes. GEMs is an IFI-wide initiative designed to pool default and recovery rates experienced by IFIs in emerging markets. Treasury asset classes derive their PDs from the assigning rating agency. LGD is an estimate of the loss arising on default. The Bank uses information obtained from the GEMs database to assign LGDs to its lending asset classes, and treasury asset classes derive their LGDs from the assigning rating agency.

Calculation of expected credit loss

The Bank recognizes allowance for ECLs that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, debt securities, and loan commitments. No ECLs are recognized on equity investments. ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial

Notes to the Financial Statements

recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. The expected credit losses are weighted on the basis of three macroeconomic scenarios (adverse, basic and favorable).

Classification of loans into stages based on credit risk (Staging)

The Bank has introduced a number of criteria for the classification of financial assets in stages. These criteria are intended to check whether there has been a significant deterioration in the credit quality of financial assets since inception. Essentially, the Bank examines:

- Days past due;
- If there has been a significant downgrade of the credit rating of the assets;
- Qualitative parameters indicating a change in credit quality (e.g. dealing with financial difficulties); and
- Whether a financial asset characterized as credit-impaired.

Basic parameters used for the calculation of expected credit loss

The calculation of expected credit losses is based on the probability of default (PD), loss given default (LGD), exposure at default (EAD) and other parameters such as the credit conversion factor (CCF) and the prepayment rate. The Bank has obtained from an external provider a system of calculating expected credit losses. The basic parameters have been drawn from statistical models developed in cooperation with the external provider, utilizing the existing risk management infrastructure and practices of the Bank and the know-how and experience of the provider.

PD represents the probability that a debtor will default on his debt obligations either over the next 12 months or over the remaining maturity of his debt. In accordance with IFRS 9, the Bank uses non-discriminatory point-in-time PDs that adjust to macroeconomic assumptions using the ECL.

EAD is defined as the estimate of the exposure in the event of a default of the debtor. The EAD of a financial asset represents its gross carrying amount in the event of a default.

LGD represents the extent of the loss that the Bank expects for exposures that are in default and is defined as the difference between the contractual cash flows and those that the Bank expects to collect, including collateral amounts. LGD, which is usually expressed as a percentage of the EAD, varies according to the category of the counterparty, the category and priority of the claim, the existence of collateral and other credit enhancements.

CCF is used to convert credit lines and other off-balance sheet exposures into EAD amounts. It is considered as an assumption representing the percentage of undrawn exposures expected to be disbursed prior to the occurrence of the default event. The prepayment rate is an estimate of premature repayments of a financial exposure that exceeds contractual repayments on the basis of the repayment schedule and is expressed as a percentage of the EAD in each reporting period, resulting in a reduction in the EAD.

The Bank has made use of three macroeconomic scenarios (adverse, basic and favorable) taking into account the relative chances of each of the scenarios. The baseline scenario is the most likely scenario and is in line with the Bank's information for strategic planning and budgeting purposes.

Significant increase in credit risk

At each reporting date, the Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Notes to the Financial Statements

Generally, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs. The assessment of significant increase in credit risk is key in transferring an exposure from Stage 1 to Stage 2 or to Stage 3 and the respective change in the ECL measurement from 12-month to lifetime ECL. A combination of quantitative and qualitative factors structured as primary and secondary drivers will be considered and are also supplemented with backstop options. The backstop triggers automatic stage transfers even though the primary and secondary indicators may not trigger such transfer, unless this result is due to a data error, operational issues, or timing difference in applying cash received up to 30 days to the customer account.

Credit-impaired

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Definition of default

The definition of default used for determining the risk of a default occurring shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument. The Bank's definition of default is based on the regulatory definition under Article 178 of the 'Regulation (EU) No 575/2013 of the European Parliament and of the Council of the European Union of 26 June 2013 on prudential requirements for credit banks and investment firms and amending Regulation (EU) 648/2012' (CRR). A default is considered to have occurred when either of the following conditions had taken place.

i) Qualitative

Unlikelihood to Pay (UTP) criterion: the Bank considers that the obligor is unlikely to pay its credit obligations to the Bank without recourse by the Bank to actions such as realizing security. Below there are some elements that are taken as indications of unlikelihood to pay (in line with CRR (Article 178)).

- The Bank puts the credit obligation on non-accrued status.
- The Bank recognizes a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the institution taking on the exposure.
- The Bank has filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the Bank, the parent undertaking or any of its subsidiaries.
- The obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the Bank, the parent undertaking or any of its subsidiaries.

ii) Quantitative

Past due criterion: the exposure is past due more than 90 days on any credit obligation to the Bank.

Notes to the Financial Statements

Impairment losses for guarantees are recognized while a guarantee is in effect and the amounts are determined based on the level of utilization of the guarantee. The methodology is consistent to that of loan commitments, and such losses are included in 'Other liabilities'.

Interest income is calculated on the gross carrying amount for financial assets in Stage 1 and 2. As the primary definition for credit-impaired financial assets moving to Stage 3, the Bank applies the definition of default, and interest income is calculated on the net carrying amount for these financial assets only.

If the amount of impairment subsequently decreases due to an event occurring after a write-down, the release (i.e. reverse) of the impairment is credited to the provision for impairment asset losses. Unwinding of the discount is treated as income and remaining provision is then reassessed.

3.5.2 Non-financial assets

At each financial position date, the Bank reviews the carrying value of the non-financial assets and assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the book value of the specific assets can be recovered. The recoverable amount is the higher amount between the net value of sale (value of sale reduced by sale expenses) and of the value in use (as calculated from the net cash flows). If the carrying value of an intangible asset exceeds its recoverable value, then an impairment loss is recorded in the income statement.

3.5.3 Renegotiated financial assets

When necessary, the Bank seeks to restructure a financial asset that may involve extending the payment arrangements and the agreement of new loan terms and conditions. These are generally renegotiated in response to an adverse change in the financial condition of the borrower.

Modifications occur when the contractual cash flows of a financial asset are renegotiated or otherwise modified. Some modifications result in derecognition of the existing asset and recognition of a new asset, while other modifications do not result in derecognition. Modifications that result in derecognition are considered to be substantial modifications. A significant or substantial change is defined when the customer enters into a new loan contract (i.e. completely new product and new pricing) that has a different interest rate type, loan amount, term period (temporary term extension is excluded), and/or customer (e.g. from single customer to joint or change in one of the joint customer names).

A distressed restructuring is an indication of unlikeliness to pay where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement of either principal, interest or, where relevant fees. Distressed restructuring occurs when forbearance measures have been extended towards a debtor. Therefore, those forbore exposures where the forbearance measures are likely to result in a diminished financial obligation are classified as defaulted.

Restructured operations will be considered cured and normalized after two successful repayments and could therefore be subject to a Stage movement.

3.5.4 Write-offs

According to the IFRS 9 (B5.4.9), the gross carrying amount of a financial asset may be directly reduced when there is no reasonable expectation of recovering the financial asset in its entirety or a portion of it. As such, the Bank may record a write-off of Stage 3 loans. The Bank may also, on an ad-hoc basis, examine the need for any further write-offs of Stage 2 loans if there is relevant evidence.

3.5.5 Write-backs

Recoveries (write-backs) of an asset, or part thereof, are credited to the income statement if previously written off.

Notes to the Financial Statements

3.6 Financial Liabilities

The Bank recognizes a financial liability in its financial statements at the time of the arising from the item (that is, the day the transaction took place). Financial liabilities primarily include (a) borrowings and (b) other liabilities.

3.6.1 Borrowings

Borrowing transactions which are amounts due to financial institutions and debts evidenced by certificates, are recognized in the statement of financial position at the time the funds are transferred to the Bank. They are measured initially at cost, which comprises the fair value of the funds transferred, less any transaction costs. In instances where the Bank uses derivative instruments to hedge the fair value of borrowing transactions, such borrowings are subsequently carried in the statement of financial position at fair value where the AC value is adjusted to fair value by the hedged risks, with any changes in value recognized in income. Relevant interest expenses are reported in the income statement using the effective interest rate method.

3.6.2 Other liabilities

Other liabilities that are not derivatives or designated at FVTPL, are recorded at AC. The amounts include accrued finance charges on borrowings and other accounts payable.

3.7 Offsetting of Financial Assets and Liabilities

Offsetting of financial assets and liabilities in the financial statements is permitted if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.8 Derivatives

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The Bank primarily makes use of derivatives for the below strategic purposes:

- Many 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.
- To manage the net interest rate risks and foreign exchange risks arising from all financial assets and liabilities.
- Through currency swaps, to manage funding requirements for the Bank's loan portfolio.

Derivatives can include interest rate and cross currency swaps, forward foreign exchange contracts, interest rate future contracts, and options on interest rates and foreign currencies. Such financial instruments are initially recognized in the statement of financial position at cost and are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in fair value of derivatives are included in the income statement. Fair values are obtained from quoted market prices, to the extent publicly available, discounted cash flows and options pricing models as appropriate.

IFRS 9 introduces a new general hedge accounting model, which links hedge accounting to risk management activities by the Bank's Management. According to the new model, additional hedging strategies may meet the hedge accounting criteria, new requirements apply to the effectiveness of hedging, while terminating hedge accounting will be permissible only under certain conditions. The International Accounting Standards Board with regard to the macro-hedging accounting is carrying out a separate work that is in progress. Until such work is completed as an accounting policy, the Bank will continue to apply the requirements of IAS 39 for hedge accounting.

Notes to the Financial Statements

3.8.1 Hedge accounting

The Bank has chosen to continue to apply the hedge accounting requirements of IAS 39, instead of the requirements of IFRS 9, and has applied this accounting policy to all its hedging relationships.

In order to manage particular risks, the Bank applies hedge accounting for derivative transactions which meet specified criteria relative to debt securities issued by the Bank. A valid hedge relationship exists when a specific relationship can be identified between two or more financial instruments in which the change in value of one instrument (the hedging instrument) is highly negatively correlated to the change in value of the other (the hedged item). The Bank only applies hedge accounting treatment to individually identified hedge relationships on a one-to-one basis.

The Bank's policies on risk management are not take significant interest rate or foreign exchange risks, and aims where possible to match assets and liabilities and derivatives that can only be used for hedging. The majority of the Bank's lending activities is at floating rates linked to USD LIBOR or EURIBOR. When lending at a fixed rate the Bank will often use interest rate swaps to produce floating rate interest payments. The Bank's borrowings, particularly by bond issuance, tend to be fixed rate and sometimes not in EUR or USD and the Bank will use either interest rate swaps or cross currency interest rate swaps to produce floating rate liabilities in USD or EUR. All the Bank's interest rate or cross currency swaps are explicitly tied to a balance sheet asset or liability. Typically, the fixed rate on the swap and the matching asset or liability have the same characteristics (term, payment dates etc.). Foreign exchange forwards (paired purchases and sales of currencies on different dates) of maturities typically less than three months are not tied to specific assets or liabilities. These are undertaken to manage surpluses and shortfalls in EUR and USD and are not undertaken for speculative purposes. All derivatives are documented under an ISDA agreement with a CSA and marked to market and collateralized daily.

When hedge accounting is applied, the Bank designates and documents the relationship between the hedging instrument and the hedged item as well as its risk management objective and strategy for undertaking the hedging transactions and the nature of the risk being hedged. This documentation includes a description of how the Bank will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed at inception, even when the terms of the derivative and hedged item are matched.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. Any fair value adjustment is recognized immediately in the income statement. At the financial position date the Bank did not have any cash flow hedge.

i) Fair value hedge

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 as fair value hedges under 'net gains or losses at fair value on hedging activities', along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

3.8.2 Financial impact

Before the impact of derivatives and hedge accounting adjustments the Bank returned a net income of EUR 17,777 thousand in 2019 compared with EUR 12,775 thousand in 2018. After allowing for derivative and hedge accounting adjustments the Bank's net income for 2019 was EUR 13,664 thousand (2018: EUR 5,176 thousand). All contracts that are considered derivatives for accounting purposes are carried at fair value in the statement of financial position.

The Department of Treasury, under the guidance of ALCO, is responsible for the primary usage and managing interest rate and currency risks in the Bank's statement of financial position.

Notes to the Financial Statements

3.9 Financial Guarantees

Issued financial guarantees are initially recognized at their fair value, being the premium (fee) received and subsequently measured at the higher of the unamortized balance of the related fees received and deferred, and the expenditure required to settle the commitment at the financial position date. The latter is recognized when it is both probable that the guarantee will require to be settled and that the settlement amount can be reliably estimated. Financial guarantees are recognized within other financial assets and other financial liabilities.

3.10 Property and Equipment

Property and equipment include leasehold improvements and transportation and other equipment. Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into operating condition. Subsequently to initial recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs incurred subsequently to the acquisition of an asset, which is classified as property and equipment are capitalized, only when it is probable that they will result in future economic benefits to the Bank beyond those originally anticipated for the asset, otherwise they are expensed as incurred.

At each reporting date the Bank assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining net income or loss.

Depreciation is provided to write off the cost of each asset to their residual values on a straight-line basis over their estimated useful lives. The annual depreciation rates applied were as follows:

- Expenditure on leasehold buildings and improvements are depreciated over the remaining term of the lease	-
- Transportation vehicles	20.0%
- Furniture and office accessories	20.0%
- Personal computers	33.3%
- Office and telecommunication equipment	20.0%

3.11 Intangible Assets

Intangible assets comprise software expenditures and other intangible assets. These assets are amortized on a straight-line basis over the best estimate of their useful lives, which is software for desktops of three years and software for servers of five years. At each reporting date, management reviews intangible assets and assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

3.12 Right of Use Assets

Right-of-use assets comprise those assets that the Bank, as the lessee, has control of the underlying assets during the term of the lease. Control is considered to exist if the Bank has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Bank provides for the recognition of a right-of-use asset and a lease liability upon lease commencement in case that there is a contract, or part of a contract, that conveys to the Bank the right to use an asset for a period of time in exchange for a consideration. More details are provided within the lease accounting policy Note 3.20.

Notes to the Financial Statements

3.13 Taxation

In accordance with Article 52 of the Establishing Agreement, the Bank, its assets, property, income and its operations and transactions are exempt from all taxation and all customs duties in all Member Countries.

The Bank is also exempt from any obligation for payment, withholding or collection of any tax or duty. Also, no tax shall be levied on salaries or emoluments paid by the Bank to employees. These tax exemptions are also included and elaborated upon in Article 12 of the Headquarters Agreement with the Hellenic Government, ratified by Greek Law 2380/No.38/7.3.1996.

3.14 Provisions

The Bank records provisions for potential obligations and risks when the following circumstances exist (a) there is an existing legal or constructive obligation as a result of past events (b) for the obligation to be settled an outflow of resources embodying economic benefits is possible and (c) a reliable estimate of the amount of the obligation can be made.

3.15 Share Capital and Dividends

In accordance with Article 36 of the Establishing Agreement, the Board of Governors shall determine annually what part of net income or surplus of the Bank from operations shall be allocated to reserves, provided that no part of the net income or surplus of the Bank shall be distributed to members by way of profit until the general reserves of the Bank shall have attained the level of 10% of the subscribed capital including all paid, unpaid but payable, and unpaid but callable share capital.

3.16 Reserves and Retained Earnings

In accordance with the Establishing Agreement of the Bank the general reserve is created from the profits of the Bank for meeting any unforeseeable risks or contingencies.

The revaluation reserve represents the accumulated change in fair value of those financial assets that are measured at fair value through other comprehensive income of the Bank.

The retained earnings of the Bank is the accumulated undistributed and unallocated net income over the years.

3.17 Income and Expense

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

When calculating the EIR for financial instruments other than purchased or originated credit-impaired assets the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not the ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted EIR is calculated using estimated future cash flows including the ECL.

The calculation of the EIR includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

i) Amortized cost and gross carrying amount

The AC of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

Notes to the Financial Statements

The gross carrying amount of a financial asset' is the AC of a financial asset before adjusting for any ECL allowance.

ii) Calculation of interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, coupons earned on fixed income investment securities and accrued discount and premium on treasury bills and other instruments.

Fees and direct costs relating to a loan origination or acquiring an investment security, financing or restructuring and to loan commitments are deferred and amortized to interest income over the life of the instrument using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The EIR of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the EIR is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the AC of the liability. The EIR is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The EIR is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted EIR to the AC of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the financial asset improves.

iii) Fees and commissions

Fee and commission income and expense that are integral to the EIR on a financial asset or financial liability are included in the EIR. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee and commission income from contracts with customers under the scope of IFRS 15 is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer. The adoption of IFRS 15 had no impact on the Bank's financial statements as the execution and completion of the transaction requested by a customer is done at point in time, and this is consistent with the Bank's existing accounting policy.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Notes to the Financial Statements

3.18 Staff Retirement and Termination Benefits

The Bank has established a pension plan, where the fund's assets are held separately from the Bank's own assets, for all its eligible employees, consisting of three pillars:

- a. The first pillar is a defined post-employment benefit scheme financed entirely by the Bank. The scheme's funding level and the Bank's contributions are determined on the basis of actuarial valuations performed by qualified, independent actuaries on an annual basis at the end of each annual reporting period. The actuarial valuation uses the projected unit credit method and a number of financial and demographic assumptions. The most significant assumptions include age, years of service or compensation, life expectancy, the discount rate, expected salary increases and pension rates. The actuarial liability is the present value of the defined benefit obligation as at the reporting date minus the fair value of the plan assets. The Bank is under the obligation to maintain the scheme fully funded, and to this effect, has always liquidated any past service deficit over the course of the year following the relevant actuarial valuation.

Actuarial and asset gains or losses are recognized in 'Other comprehensive income', and net gains or losses are included in remeasurements where any change in the effect of the asset ceiling, excluding those amounts that have been already included in personnel expenses, are also included.

- b. The second pillar is a defined post-employment contribution scheme to which both the employee and the Bank contribute equally at a rate of 0-12% of basic salary. The Bank has no obligation to pay further contribution if the employee discontinues their contribution. Each employee determines his/her contribution rate and the mode of investment of the contributions.
- c. The third pillar is a defined contribution scheme funded entirely by each employee, up to 40% of basic salary and is recorded in the Bank's financial statements.

As an alternative, staff are entitled to retirement benefits from the Greek State Social Insurance Fund (EFKA), which is a defined contribution scheme.

Current service costs in respect of both the pension plan (a) and (b) and EFKA are recognized as an expense in the period which they relate and are included in 'Personnel expenses'.

The Bank may offer termination benefits to employees that are separated based on the Bank's separation policy. These benefits, including indemnities and any related retirement benefits, are recognized in income as an expense in the same period they are incurred.

3.19 Related Parties

Related parties include entities, which the Bank has the ability to exercise significant influence in making financial and operational decisions. Related parties include key management personnel, and close family members of key management personnel.

3.20 Leases – the Bank as a Lessee

On 1 January 2019 the Bank adopted IFRS 16, 'Leases'. This Standard has established the principles for the recognition, measurement and presentation of leases, and provides a single lessee accounting model that is required at the commencement date of the lease. The objective is to report information that (a) faithfully represents lease transactions and (b) provides a basis for the amount, timing and uncertainty of cash flows arising from leases. The Bank as a lessee is required to recognize right-of-use assets (representing the Bank's right to use the underlying leased assets) and a lease liability (representing the Bank's obligation to make lease payments), in the statement of financial position.

The Bank applied the practical expedient in IFRS 16 to contracts that were identified as leases in order to determine whether an arrangement contains a lease, on transition to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Consequently, the Bank's leases are only for office space;

Notes to the Financial Statements

it does not lease land, corporate vehicles, or technical or IT equipment, nor does it have any sale-and-leaseback transactions. The Bank elected to apply the modified retrospective transition approach, without restatement of comparative figures. Under this approach, the Bank was able to choose on a lease by lease basis to measure the right-of-use asset at the same amount as the lease liability.

The Bank's leases for right-of-use assets are initially recognized and measured at cost similarly to other non-financial assets, and the lease liability is initially recognized and measured at the present value of future lease payments that are not paid at that date similarly to other financial liabilities. The lease payments can be discounted using the interest rate implicit in the lease, if such is available, or alternatively the Bank's incremental borrowing rate. The Bank will apply this measurement – except for those with lease term of 12 months or less, making use of the short-term leases and leases of low value, exemptions under this Standard.

Regarding subsequent measurement, the Bank acting as a lessee, has applied the cost model for the measurement of the right-of-use asset; where this asset is measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for the remeasurement of the lease liability. The lease liability is measured by increasing the carrying amount to reflect any interest on it and

that is separately recognized as an expense; the lease liability's carrying amount is reduced to reflect the lease payments made. In case of any reassessments (e.g. a change in future lease payments resulting from a change in an index or rate used to determine those payments) or lease modifications (e.g. a change in the lease term, lease conditions or any penalty) specified, the carrying amount of the lease liability will be remeasured to reflect revised lease payments.

4. USE OF ESTIMATES

The preparation of financial statements involves Management in critical judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expense in the Bank's financial statements and accompanying notes. The Bank believes that the critical judgments, estimates and assumptions used in the preparation of the its financial statements are appropriate given the factual circumstances as of the date of preparation. The most significant areas, for which critical judgments, estimates and assumptions are required in applying the Bank's accounting policies, are the following:

- a. Provisions for the impairment of Loan operations. Management is required to exercise judgment in making assumptions and estimates when calculating loan impairment provisions on both individually and collectively assessed loans. The methodology and assumptions used are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. The estimation methods used by the Bank's management for collective impairment allowances, include the use of statistical analyses of historical information, supplemented with significant judgment, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience. In determining the provision amounts the Bank takes into consideration PD and LGD factors extracted from the GEMs database.

For loans that are individually assessed which have a lifetime ECL and that are credit-impaired, the impairment allowance results from the impairment test that is conducted on the basis of objective evidence obtained through a risk asset review process. An impairment test includes projected cash in-flows and out-flows, available for debt service until maturity, which are discounted at the EIR to reach a net present value for a particular operation, less any collateral that can be realized.

Provisions for impairment of investment securities is assessed collectively, using the same methodology as loans.

- b. In reaching estimates of fair value instruments Management judgment needs to be exercised. Management judgment is required in determining the category to which certain instruments should be allocated. This specifically arises when the valuation is determined by a number of parameters some of which are observable while others are not. The Bank provides a sensitivity analysis of the impact upon the level 3 financial instruments of using a reasonably possible alternative for the unobservable parameter.

Notes to the Financial Statements

- c. Staff retirement benefits. The Bank's has established a pension plan for its staff which is described in 'Staff retirement and termination benefits' accounting policy and is detailed under staff retirement plan in Note 'Employee benefits'. The present value of retirement benefit obligations is sensitive to the actuarial and financial assumptions used, including the discount rate applied. At the end of each year, the Bank determines the appropriate discount rate and other assumptions to be used to determine the present value of estimated future pension obligations, based on interest rates of suitable long-term bonds and on the EUR currency.

5. RISK MANAGEMENT

The Bank's activities are subject to a variety of risks, some of which are not within the Bank's control: including risks relating to changes in interest rates, foreign exchange rates, declines in liquidity and deterioration in the credit quality of its loan portfolio. The Bank monitors and manages the maturities of its loans, its interest rate and exchange rate exposure, its liquidity position and the credit quality of each individual loan and equity investment in order to minimize the effects of changes in them relative to the Bank's profitability and liquidity position. The BoD has approved risk management policies and guidelines that are delegated to the Management of the Bank for the identification and measurement of risk, as well as being subject to risk limits and controls.

To manage risks the Bank has established an Asset and Liability Committee (ALCO), a Credit Committee that implement the Bank's credit and lending policies, the Office of the General Counsel, the Department of Risk Management and the Department of Financial Analysis, which together are responsible for devising, implementing and monitoring the Bank's risk management policies, including financial, credit and market risks.

The ALCO is responsible for monitoring and managing the Bank's overall asset and liability position in accordance with the Bank's treasury policies. It monitors and manages the Bank's liquidity position, maturity gaps, interest income and expense and the condition of the international financial markets and is responsible for assigning market risk limits. The ALCO consists of members of the Bank's Management and a member of the Department of Treasury that has regular monthly meetings.

The Credit Committee is responsible with respect to credit matters. Its key responsibilities include: approval of lending operations for submission to the BoD for final approval, establishing specific parameters (e.g. policies, limits, targets, guidelines) for operational decision-making, approval of changes to the manuals that prescribe how operations are to be analyzed, approved, administered and monitored and approval of any amendments, restructuring and other operation-related matters. The Credit Committee consists of members of the Bank's Management, and has regular meetings as required to monitor and manage overall risk concentration by reference to borrower and industry exposure and critically reviews each individual loan and equity investment proposals made by the lending business areas. A major function of the Credit Committee is to minimize the credit risk presented by each individual loan and equity investment proposal, and the overall portfolio risk of the Bank.

Once an operation is approved and disbursed, it is then monitored to ensure thorough and regular evaluations of its credit quality. Operations are monitored according to a schedule coordinated by the Department of Project Implementation and Monitoring, with inputs from the originating Operation Teams regarding the availability of financial data. Monitoring reports are completed by the Bank's Department of Project Implementation and Monitoring based on financial analysis prepared by the Department of Financial Analysis. Risk asset reviews, based on the previously mentioned monitoring reports, are performed by the Department of Risk Management, and may result in a downgrade or upgrade of an operation's status and, if a significant deterioration is noted, trigger an impairment test.

Should an operation display signs of weakness during the regular monitoring and/or through risk asset reviews, an impairment test is immediately carried out by the Department of Risk Management and appropriate remedial actions are taken, as required. These measures include, but are not limited to, a detailed assessment of the financial and operational performance of the operation, additional due diligence, stopping disbursement of any undisbursed amounts, preparation of remedial strategies and carrying out further impairment tests. Besides, in addition to regular site visits carried out by the Operations Teams, such a visit can be conducted by the Department of Project Implementation and Monitoring and, when appropriate, accompanied by the Department of Financial Analysis.

Notes to the Financial Statements

For the Bank a conservative approach to risk taking together with effective risk management, are critical to the Bank's continuing operations. The application of sound banking principles in the Bank's credit process seeks to ensure that the significant credit risks are properly identified and managed while other risks resulting from its activities are mitigated to the extent possible.

Importantly, the Bank is recognized as an international financial institution, and as such can expect to benefit from the preferred creditor status customarily and historically afforded to such institutions. This preferred creditor status serves to provide an additional layer of comfort against the risks of non-payment on sovereign debt or by private sector borrowers as a result of local laws creating a delay or freeze on foreign-currency exchanges. The Bank is exposed to the following risks discussed below.

Financial Risk

The Bank's exposure to financial risk is through its financial assets and financial liabilities including any receivables from these financial assets. The key aspects of the Bank's financial risk are (i) credit risk (ii) liquidity risk and (iii) market risk.

a) Credit risk

The Bank is subject to credit risk, which is the risk that customers or counterparties will be unable to meet their obligations as they fall due. Credit risk arises principally from the Bank's lending activities as well as other activities where the Bank is exposed to counterparty default risk. Regular reviews by the departments of Risk Management, Financial Analysis and Project Implementation and Monitoring are conducted of all exposures within the lending portfolios, typically on a semi-annual basis, though exposures that are perceived to be more vulnerable to possible default are reviewed more frequently.

At each review there is (i) an assessment of whether there has been any change in the risk profile of the exposure (ii) recommendations of actions to mitigate risk and (iii) reconfirming or adjusting the risk ratings, and for equity investments, reviewing of fair value. Where relevant, the level of the expected credit loss is evaluated and reconfirmed or adjusted. Responsibility for operations considered to be in jeopardy may be transferred from the original lending department to a corporate recovery team in order to most effectively manage the restructuring and recovery process.

For credit risks incurred by the Bank's Treasury in its investment and hedging activities, the BoD has approved policies and guidelines for the determination of counterparty and investment exposure limits in bonds, that includes member state bonds, and euro commercial paper. The Bank's Risk Management Department assigns and monitors these counterparty and issuer credit risk limits. Treasury credit risks are also reviewed on a regular basis by the Bank's Asset and Liability Committee.

The table below summarizes the maximum exposure to credit risk and indicates the worst-case scenario, without taking into consideration collateral, other credit enhancements or provisions of impairment.

	At 31 December 2019	At 31 December 2018
Presented in EUR (000)		
Cash and due from financial institutions	82,621	48,598
Debt investment securities	420,591	395,979
Derivative financial instruments	3,128	662
Loans	1,820,941	1,330,695
Other assets	35,853	29,541
On-balance-sheet	2,363,134	1,805,475
Undrawn commitments	353,496	252,801
Total	2,716,630	2,058,276

Notes to the Financial Statements

a1. Analysis by rating agency

The tables below provide an analysis of financial investments in accordance with their Moody's rating as follows.

Presented in EUR (000)	2019				Total
	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	
Analysis by Moody's rating					
Cash and bank balances	82,621	-	-	-	82,621
Debt investment securities	177,917	50,213	192,461	-	420,591
Equity investments	-	-	-	30,386	30,386
At 31 December	260,538	50,213	192,461	30,386	533,598

Of which issued by

Corporates/Governments	177,917	50,213	192,461	30,386	450,977
Cash deposits at banks	82,621	-	-	-	82,621
At 31 December	260,538	50,213	192,461	30,386	533,598

Of which classified as

Fair value through profit or loss	-	-	-	798	798
Fair value through other comprehensive income	177,917	50,213	192,461	29,588	450,179
Amortized cost	82,621	-	-	-	82,621
At 31 December	260,538	50,213	192,461	30,386	533,598

Presented in EUR (000)	2018				Total
	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	
Analysis by Moody's rating					
Cash and bank balances	48,598	-	-	-	48,598
Debt investment securities	21,813	105,979	268,187	-	395,979
Equity investments	-	-	-	27,655	27,655
At 31 December	70,411	105,979	268,187	27,655	472,232

Of which issued by

Corporates/Governments	21,813	105,979	268,187	27,655	423,634
Cash deposits at banks	48,598	-	-	-	48,598
At 31 December	70,411	105,979	268,187	27,655	472,232

Of which classified as

Fair value through profit or loss	-	-	-	1,015	1,015
Fair value through other comprehensive income	21,813	105,979	218,848	26,640	373,280
Amortized cost	48,598	-	49,339	-	97,937
At 31 December	70,411	105,979	268,187	27,655	472,232

Notes to the Financial Statements

a2. Credit risk analysis

The tables below provide an analysis of the Bank's internal expected credit loss rating scale from 1 (lowest risk) to 15 (highest risk) and how it corresponds to the external ratings of Moody's credit rating service.

Risk rating	Internal risk rating category	External rating equivalent	Grade of investment
1	Excellent	Aaa	Investment
1	Very strong	Aa1 – Aa3	Investment
2	Strong	A1 – A3	Investment
3,4,5	Good	Baa1 – Baa3	Investment
6,7,8	Fair	Ba1 – Ba3	Investment
9,10,11	Weak	B1 – B3	Investment
12,13,14	Special attention	Caa1 – Caa3	Classified
15	Expected loss	Ca – C	Classified

a3. Credit risk in loans portfolio

The table provides overview of the exposure amount and allowance for credit losses by financial asset class broken down into stages as per IFRS 9 requirements, including movements of non-performing. Internally, loans that are within the 12-month ECL are categorized as standard.

Presented in EUR (000)

Internal risk rating category	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	Provisions for impairment			Total
					12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Excellent	-	-	-	-	-	-	-	-
Very strong	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	6,751	-	-	6,751	1	-	-	1
Fair	645,612	-	-	645,612	680	-	-	680
Weak	807,563	214,986	-	1,022,549	2,118	4,618	-	6,736
Special attention	25,073	57,304	50,898	133,275	92	1,368	34,437	35,897
Expected loss	-	-	-	-	-	-	-	-
At 31 December 2019	1,484,999	272,290	50,898	1,808,187	2,891	5,986	34,437	43,314

Presented in EUR (000)

Internal risk rating category	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	Provisions for impairment			Total
					12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Excellent	-	-	-	-	-	-	-	-
Very strong	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	8,442	-	-	8,442	1	-	-	1
Fair	669,613	44,020	-	713,633	1,461	891	-	2,352
Weak	372,775	139,822	-	512,597	2,058	1,985	-	4,043
Special attention	-	42,009	41,737	83,746	-	1,398	26,981	28,379
Expected loss	-	-	-	-	-	-	-	-
At 31 December 2018	1,050,830	225,851	41,737	1,318,418	3,520	4,274	26,981	34,775

	At 31 December 2019	At 31 December 2018
Presented in EUR (000)		
At 1 January	-	9,164
Classified as non-performing	-	-
Write-off	-	(9,164)
At end of year	-	-

Notes to the Financial Statements

a4. Credit risk by country and sector

The Bank uses international best practices for lending activities in order to diversify risk by country and by sector, while also preserving the needs of the Bank's Member States in accordance with the Bank's mandate to promote economic development in the Black Sea Region.

The concentration of credit risk in lending portfolios is presented below, also including the undrawn amounts. The Bank is generally well diversified by country and by sector.

Presented in EUR (000)	At 31 December 2019		At 31 December 2018	
	Outstanding balance	Undrawn commitments	Outstanding balance	Undrawn commitments
Concentration by instrument				
Loans	1,820,941	335,959	1,330,695	233,099
Equity investments	30,386	7,905	27,655	8,680
Guarantees	-	9,632	-	11,022
At end of year	1,851,327	353,496	1,358,350	252,801
Concentration by country				
Albania	40,136	67	37,629	87
Armenia	92,731	387	91,730	431
Azerbaijan	121,519	387	53,867	6,544
Bulgaria	116,447	32,386	153,265	32,418
Georgia	116,119	28,712	113,856	20,802
Greece	386,898	12,503	202,146	2,953
Moldova	38,022	18,555	38,909	2,181
Romania	136,841	684	172,322	7,707
Russia	217,662	56,367	128,113	59,940
Turkey	420,399	134,229	306,218	70,322
Ukraine	164,553	69,219	60,295	49,416
At end of year	1,851,327	353,496	1,358,350	252,801
Concentration by sector				
Consumer discretionary	59,671	41,214	13,634	30,247
Consumer staples	89,200	28,856	103,029	118
Energy	228,050	-	155,586	-
Financial institutions	612,049	38,743	537,037	85,109
Health care	91,060	26,138	75,021	42,177
Industrials	269,758	102,000	182,167	-
Information technology	4,129	-	5,734	-
Materials	123,231	55,919	110,200	33,987
Real estate	3,480	32,000	2,617	32,000
Telecom services	-	-	16,665	-
Utilities	370,699	28,626	156,660	29,163
At end of year	1,851,327	353,496	1,358,350	252,801

The Bank is restricted to operating in its 11 Member States and individual country limits are set as a maximum at 30% of planned commitments. This limit is calculated on the basis of the BoD approved operations, minus repayments and cancellations. Individual operations are further constrained by the Single Obligor Limit and by monitoring of Sectoral Exposure.

Notes to the Financial Statements

a5. Collateral and credit enhancements

The Bank mitigates credit risk by holding collateral and other credit enhancements against exposure to customers and counterparties where it believes such security is necessary. The Bank defines security as mechanisms, procedures and assets negotiated in transactions that are meant to protect it against loss in case of non-performance. Security includes, but is not limited to, material assets, financial instruments, guarantees, covenants and comfort letters.

- Loans and advances. The BoD approved guidelines for taking security under lending operations set the levels and types of collateral and other credit enhancements recommended for a given risk profile.

The main types of collateral that may be obtained by the Bank are: mortgages on properties and equipment, pledges of equity shares and investment instruments, assignment of rights on certain contracts, cash or blocked deposits and other third party guarantees. If necessary, the Bank reassesses the value of collateral in order to determine if additional collateral is needed to be provided by the borrower. At 31 December 2019 the secured portfolio was 57.2% (2018: 52.4%) of the outstanding loans balance.

- Other financial instruments. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Bonds and euro commercial paper held by the Bank as investment securities are generally unsecured. The Bank may hold cash or government securities as collateral against its derivative contract counterparties. At 31 December 2019 the Bank had pledged cash collateral in an amount of EUR 1,350 thousand (2018: EUR 22,810 thousand).
- For loans that are credit-impaired at the reporting date the Bank has collateral held as security an amount of EUR 38,864 thousand to mitigate credit risk. The types of collateral with approximate values are real estate EUR 21,782 thousand, machinery and equipment EUR 6,175 thousand, and pledged shares EUR 10,907 thousand.

b) Liquidity risk

Liquidity risk arises in the general funding of the Bank's financing and investment activities and in the management of positions. It concerns the ability of the Bank to fulfill its financial obligations as they become due and is a measure of the extent to which the Bank may require funds to meet those obligations. It involves both the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The Bank's liquidity policy aims to balance the term and currency structure of the Bank's assets and liabilities. Liquidity management is concentrated on the timing of cash in-flows and out-flows, as well as the adequacy of available cash and liquid securities. The Bank maintains liquid assets at prudential levels to ensure that cash can quickly be made available to honor all its obligations, even under adverse conditions, the Bank has access to the funds necessary to satisfy customer needs, maturing liabilities and its own working capital requirements. For this, the Bank estimates and relates all expected cash flows from assets and liabilities.

The Bank takes into consideration, to the extent feasible, the guidance documents issued by the Basel Committee on Banking Supervision. The Bank sets limits to control its liquidity risk exposure and vulnerabilities and regularly reviews such limits. The limit framework includes also measures ensuring that in a period of market stress, available liquidity exceeds liquidity needs and that the Bank can continue to operate.

The Bank's commitment to maintaining a strong liquidity position is established in policies approved by the BoD. The liquidity policy requires that the Bank maintain its liquidity position at a minimum of 50% of the following 12 months' net cash requirement, including committed, undisbursed project and trade finance loans.

Notes to the Financial Statements

The Bank's liquidity position is monitored regularly, and the ALCO is primarily responsible for the management of liquidity risk and the liquidity profile of the Bank. The Bank's liquid assets are maintained in short-term and negotiable securities that primarily are: (i) cash and bank balances (ii) short term deposits with investment grade rated counterparties (iii) Euro-denominated commercial paper issued by investment grade parties and (iv) investment grade bonds.

The table below presents the cash flows payable on financial liabilities placed into relevant maturity groups, based on the remaining period from the financial position date to the contractual maturity date. It indicates the earliest maturity dates that the Bank's counterparties have the ability to demand repayment.

The figures represent undiscounted cash flows, and include estimated interest amounts, and therefore do not match to the statement of financial position.

Presented in EUR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Borrowings	6,603	39,443	136,427	1,421,627	19,769	1,623,869
Derivative financial instruments	-	6,552	-	-	-	6,552
Payables and accrued interest	-	13,785	7,536	-	-	21,321
Financial Liabilities at 31 December 2019	6,603	59,780	143,963	1,421,627	19,769	1,651,742
Borrowings	18,240	24,107	232,861	754,250	27,958	1,057,416
Derivative financial instruments	-	24,164	-	-	-	24,164
Payables and accrued interest	-	12,002	3,971	-	-	15,973
Financial Liabilities at 31 December 2018	18,240	60,273	236,832	754,250	27,958	1,097,553

For the Bank's financial assets, the majority mature from one year and over taking into consideration the latest possible repayment date.

c) Market Risk

Market risk is the risk that changes in foreign exchange rates, interest rates or market prices of financial instruments may result in losses to the Bank. Market risk arises on such instruments that are valued at current market prices (mark to market basis) or those valued at cost plus any accrued interest (accruals basis).

The Bank funds its operations by using the Bank's own share capital and by borrowing in the international capital markets. The Bank aims to match, wherever possible, the currencies, tenors and interest rate characteristics of its borrowings with those of its lending portfolios. When necessary, the Bank uses derivative instruments to reduce its exposure to exchange rate and interest rate risks.

The Board has approved risk management policies and limits within which exposure to market risk is monitored, measured and controlled. The ALCO monitors and manages these risks while the asset and liability function within the Department of Treasury has primary responsibility for ensuring compliance with these policies and limits.

Notes to the Financial Statements

c1. Foreign exchange risk

The Bank's risk management policies seek to minimize currency exposures or any unanticipated changes, favorable or unfavorable, in foreign exchange rates that could affect the income statement, by requiring net liabilities in any one currency to be matched closely with net assets in the same currency. The Bank will not take discretionary currency positions. This is achieved primarily by holding or lending the proceeds of the Bank's borrowings in the currencies in which they were borrowed.

The Bank regularly monitors its assets and liabilities in order to ensure the Bank takes no significant foreign exchange risks and, after swap activities, adjusts the net asset currency composition to the Bank's functional currency to maintain a matched foreign exchange position. As a matter of policy, the Bank aims to keep foreign exchange exposure as close to zero as possible, with exceptions to this practice requiring approval from the ALCO. For local currency transactions the Bank matches the operation's currency with borrowings in the same currency, as such there is no material exposure. The tables below provide a currency breakdown of the Bank's assets and liabilities, showing that the effect of any currency fluctuations on the net exposure is minimal.

Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other	Total
Assets					
Cash and bank balances	73,948	7,776	-	897	82,621
Debt investment securities	149,277	271,314	-	-	420,591
Impairment losses on debt investment securities	(765)	-	-	-	(765)
Derivatives financial instruments	3,128	-	-	-	3,128
Loans	1,069,985	590,485	-	160,471	1,820,941
Deferred income	(2,541)	(4,854)	-	(775)	(8,170)
Impairment losses on loans	(36,476)	(2,417)	-	(4,421)	(43,314)
Equity investments	12,463	17,691	-	232	30,386
Other assets	19,509	12,965	156	3,223	35,853
Total	1,288,528	892,960	156	159,627	2,341,271
Liabilities					
Borrowings	96,477	1,029,024	184,366	175,288	1,485,155
Derivative financial instruments	6,552	-	-	-	6,552
Payables and accrued interest	10,612	7,911	44	2,754	21,321
Total	113,641	1,036,935	184,410	178,042	1,513,028
Net financial instruments	1,174,887	(143,975)	(184,254)	(18,415)	828,243
Derivative financial instruments	(351,342)	152,023	184,264	18,820	3,765
Currency balance at 31 December 2019	823,545	8,048	10	405	832,008

Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other	Total
Assets					
Cash and bank balances	46,266	1,691	-	641	48,598
Debt investment securities	165,120	230,859	-	-	395,979
Impairment losses on debt investment securities	(103)	(541)	-	-	(644)
Derivatives financial instruments	662	-	-	-	662
Loans	744,365	466,721	-	119,609	1,330,695
Deferred income	1,454	(3,483)	-	(1,023)	(3,052)
Impairment losses on loans	(13,342)	(17,263)	-	(4,170)	(34,775)
Equity investments	12,988	14,667	-	-	27,655
Other assets	15,095	12,732	141	1,573	29,541
Total	972,505	705,383	141	116,630	1,794,659
Liabilities					
Borrowings	126,794	595,473	88,860	142,903	954,030
Derivative financial instruments	24,164	-	-	-	24,164
Payables and accrued interest	6,134	8,595	51	1,193	15,973
Total	157,092	604,068	88,911	144,096	994,167
Net financial instruments	815,413	101,315	(88,770)	(27,466)	800,492
Derivative financial instruments	11,376	(103,351)	88,739	22,568	19,332
Currency balance at 31 December 2018	826,789	(2,036)	(31)	(4,898)	819,824

Notes to the Financial Statements

c2. Interest rate risk

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

The Bank's interest rate risk management activities aim to enhance profitability, by limiting the effect on asset values of adverse interest rate movements in order to increase net interest income by managing interest rate exposure. The majority of the Bank's loan portfolio is variable interest rate and the Bank has a policy aimed at minimizing interest rate mismatches between its assets and liabilities that seeks to ensure that the interest rate payment periods for its liabilities are matched as closely as possible to interest rate payment periods for the Bank's assets. As a matter of policy, the Bank does not take discretionary interest rate positions.

The tables below provide information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of the financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date as at the financial position date.

Presented in EUR (000)	Interest bearing				Non-interest bearing	Total
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years		
Assets						
Cash and bank balances	82,617	-	-	-	4	82,621
Debt investment securities	153,278	55,000	29,085	183,228	-	420,591
Derivative financial instruments	-	-	-	-	3,128	3,128
Loans	274,438	412,265	648,712	485,526	-	1,820,941
Equity investments	-	-	-	-	30,386	30,386
Other assets	-	-	-	-	35,853	35,853
Total	510,333	467,265	677,797	668,754	69,371	2,393,520
Liabilities						
Borrowings	189,828	294,970	153,646	846,711	-	1,485,155
Derivative financial instruments	-	-	-	-	6,552	6,552
Payables and accrued interest	-	-	-	-	21,321	21,321
Total	189,828	294,970	153,646	846,711	27,873	1,513,028
Derivative financial instruments	(3,854)	(129,074)	(652,087)	785,015	-	-
Interest rate risk at 31 December 2019	316,651	43,221	(127,936)	607,058	41,498	880,492

Presented in EUR (000)	Interest bearing				Non-interest bearing	Total
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years		
Assets						
Cash and bank balances	48,581	-	-	-	17	48,598
Debt investment securities	72,407	45,000	76,451	202,121	-	395,979
Derivative financial instruments	-	-	-	-	662	662
Loans	200,385	273,619	617,183	239,508	-	1,330,695
Equity investments	-	-	-	-	27,655	27,655
Other assets	-	-	-	-	29,541	29,541
Total	321,373	318,619	693,634	441,629	57,875	1,833,130
Liabilities						
Borrowings	36,698	185,835	207,952	523,545	-	954,030
Derivative financial instruments	-	-	-	-	24,164	24,164
Payables and accrued interest	-	-	-	-	15,973	15,973
Total	36,698	185,835	207,952	523,545	40,137	994,167
Derivative financial instruments	1,250	(109,698)	(310,072)	418,520	-	-
Interest rate risk at 31 December 2018	285,925	23,086	175,610	336,604	17,738	838,963

Notes to the Financial Statements

c3. Sensitivity analysis

Currency risk sensitivity

The Bank is marginally sensitive to exchange rate fluctuations of the US dollar and the Euro. The Bank's paid-in capital is held in Euro and the Bank's loan portfolio is typically denominated between 50% US dollar and 50% Euro. In addition, the Bank's administrative expenses are denominated in Euro, and its income is typically denominated between 50% US dollar and 50% Euro. The Bank has addressed this sensitivity to currency risk by increasing its percentage of loans denominated in Euro, and therefore increasing its Euro denominated income.

Interest rate sensitivity

The Bank's interest rate sensitivity analysis comprises two elements. Firstly, there is the differential between the interest rate the Bank earns on its assets and the cost of borrowing to fund these assets. For this element the Bank does, as closely as possible, match interest rate periods, thus minimizing or even eliminating sensitivity. Secondly, there is the absolute rate earned on assets that are funded by the Bank's member's equity resources. The majority of the Bank's member's equity resources are currently invested in the Bank's loan portfolio at floating rates; therefore, subjecting earnings on member's equity resources to minor degree of fluctuation.

The table below details the re-pricing gap by currency. A parallel upward or downward shift in the EUR and USD curves of 50 basis points would have generated the maximum loss or gain respectively.

	At 31 December 2019	At 31 December 2018
Presented in EUR (000)		
Euro	1,124,000	936,000
United states dollar	128,000	191,000
Total re-pricing gap	1,252,000	1,127,000
Shift of 50 basis points in the EUR curve	6,259	5,637

c4. Equity price risk

The Bank has a small equity investments portfolio and as such does not have significant market risk exposure concerning foreign exchange or equity price risk on this portfolio. At 31 December 2019 the Bank's equity investments are classified at FVTOCI, except for one, and which are primarily unlisted.

The Bank takes a long-term approach of its equity investments and has no intention of exiting to any, therefore accepts the short-term volatilities in value from exchange rate and price risk. The Bank expects the effect on net income to be of little to no impact.

Additional sensitivity information for the Bank's equity investments has been included under 'fair value hierarchy' later in this section and in Note 'Equity investments'.

Notes to the Financial Statements

Operational Risk

Like all financial institutions, the Bank is exposed to operational risks arising from its systems and processes. Operational risks include the risks of losses resulting from inadequate or failed internal processes, people, systems, legal, and from external events which could have a negative financial or adverse reputational impact. The Bank has a low tolerance for losses arising from the operational risks the Bank is exposed to.

The Office of Compliance and Operational Risk Management (CORMO) has oversight on operational risk activities across the Bank. The Bank's operational risk framework is a network of processes, procedures, reports and responsibilities that are used to identify, manage and monitor the operational risks of the Bank. These include committees, working groups, day-to-day practices such as the collection and analysis of key risks, risk of loss incidents and both strategic and work cultural practices. This provides a structured approach to managing operational risk and seeks to apply consistent standards and techniques for evaluating risks across the Bank. The Bank has a comprehensive set of policies and procedures that indicate how operational risks should be managed throughout the Bank.

The sources of operational risk emerge in various ways, including business interruptions, inappropriate behavior of employees (including fraud), failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their contractual arrangements. These events could result in financial losses, as well as reputational damages to the Bank. The Bank's operational risk management focuses on proactive measures to mitigate the operational risk.

Where any incident may occur the Bank systematically collects, analyses and reports data on that incident to ensure the Bank understands the reasons it occurred and how controls can be improved to reduce or better avoid the risk of any future incident.

The Bank's risk and control assessments are comprehensive, primarily bottom-up, of the key operational risks in each business area. They are based on Bank-wide operational risk definitions, that classifies risks under a standardize approach, covers the inherent risks of each business area and control function, provides an evaluation of the effectiveness of the controls in place to mitigate these risks, determines the residual risk ratings and requires a decision to either accept or remediate any remaining risk.

Concerning cyber crime, which is risk of loss or damage to the Bank's business areas and customers as a result of actions committed or facilitated through the use of networked information systems, the Bank's Department of Information Technologies (IT) and information security policies and procedures ensure that all servers and computers have up to date antivirus software. Backups are made regularly and regular access control checks, system penetration and vulnerability tests along with disaster recovery tests are performed.

The Bank's anti-cyber attack controls are checked and aligned with industry best practice by the IT Department.

The Bank produces regularly management information reports covering the key inputs and outputs of operational risk. These reports are used to monitor outcomes against agreed targets and tolerance levels. The Bank utilizes the Bank's IT systems and other information tools to ensure operational risks are identified and managed properly.

Overall, the Bank is committed to follow the best practices and market standards in the area of accountability, transparency and business ethics. Due diligence on customers and counterparties take into consideration the Anti-Fraud Corruption and Monetary Laundering Policy and Know-Your Customer Procedures. The Bank also has a contingency and business continuity plans, and a disaster recovery off-site which aims to ensure the continuity of its operations and protect the interests of all the key stakeholders of the Bank, namely, the member countries, bondholders and other creditors as well as employees and their families, in the event of any disturbance in office locations.

Notes to the Financial Statements

Financial Assets and Liabilities

The tables below identify the Bank's financial assets and financial liabilities in accordance with their categories. The fair value of the financial assets and financial liabilities is disclosed as equal to the carrying value, plus accrued interest, as all bear a variable interest rate and are given at market terms and conditions.

Presented in EUR (000)	At 31 December 2019			
	Fair value through profit or loss	Fair value through OCI	Amortized cost	Carrying amount
Assets				
Cash and bank balances	-	-	82,621	82,621
Debt investment securities	-	420,591	-	420,591
Loans	12,754	-	1,808,187	1,820,941
Deferred income	-	-	(8,170)	(8,170)
Impairment losses on loans	-	-	(43,314)	(43,314)
Equity investments	798	29,588	-	30,386
Other assets	-	-	35,853	35,853
Total financial assets	13,552	450,179	1,875,177	2,338,908
Liabilities				
Borrowings	-	-	1,485,155	1,485,155
Payables and accrued interest	-	-	21,321	21,321
Total financial liabilities	-	-	1,506,476	1,506,476

Presented in EUR (000)	At 31 December 2018			
	Fair value through profit or loss	Fair value Through OCI	Amortized cost	Carrying amount
Assets				
Cash and bank balances	-	-	48,598	48,598
Debt investment securities	-	346,640	49,339	395,979
Loans	12,277	-	1,318,418	1,330,695
Deferred income	-	-	(3,052)	(3,052)
Impairment losses on loans	-	-	(34,775)	(34,775)
Equity investments	1,015	26,640	-	27,655
Other assets	-	-	29,541	29,541
Total financial assets	13,292	373,280	1,408,069	1,794,641
Liabilities				
Borrowings	-	-	954,030	954,030
Payables and accrued interest	-	-	15,973	15,973
Total financial liabilities	-	-	970,003	970,003

Notes to the Financial Statements

Fair Value Hierarchy

For those above financial instruments measured at fair value, the Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

The tables below identify the Bank's financial instruments measured at fair value.

Presented in EUR (000)	Level 1	Level 2	Level 3	Carrying amount
Derivative financial instruments – assets	-	3,128	-	3,128
Fair value through profit or loss:				
Loans	-	12,754	-	12,754
Equity investments	-	-	798	798
Fair value through other comprehensive income:				
Debt investment securities	420,591	-	-	420,591
Equity investments	-	-	29,588	29,588
Derivative financial instruments – liabilities	-	(6,552)	-	(6,552)
At 31 December 2019	420,591	9,330	30,386	460,307

There have been no transfers between Level 1 and Level 2 during the year. For Level 1 market prices are used whereas for Level 2 the valuation techniques used are broker quotes and observable market data. For Level 3 the valuation technique used is the net asset value ('NAV'), and equity calculations based on EBITDA and market data.

Presented in EUR (000)	Level 1	Level 2	Level 3	Carrying amount
Derivative financial instruments – assets	-	662	-	662
Fair value through profit or loss:				
Loans	-	12,277	-	12,277
Equity investments	-	-	1,015	1,015
Fair value through other comprehensive income:				
Debt investment securities	346,640	-	-	346,640
Equity investments	-	-	26,640	26,640
Derivative financial instruments – liabilities	-	(24,164)	-	(24,164)
At 31 December 2018	346,640	(11,225)	27,655	363,070

Notes to the Financial Statements

Fair Value Measurement in Level 3

The table provides a reconciliation of the fair values of the Bank's Level 3 financial assets of the fair value hierarchy.

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
At 1 January	27,656	31,361
Total gains or (losses) recognized in the income statement	(217)	(585)
Total gains or (losses) recognized in other comprehensive income	4,219	713
Purchases, sales, issues and settlements	(1,272)	(3,834)
At end of year	30,386	27,655

Sensitivity Analysis for Level 3

The table below indicates a possible impact on net income for the Level 3 financial instruments carried at fair value at the financial position date, on an estimated 5% increase or decrease in net assets value of the equity investments based on the Bank's participation.

Presented in EUR (000)	Carrying amount	Favorable change	Unfavorable change
Equity investments	30,386	1,519	(1,519)

Capital Management

At the inception of the Bank, initial authorized share capital was SDR 1 billion, which was fully subscribed by the Member States. In December 2007 the BoG approved an increase of the Bank's authorized share capital to SDR 3 billion and authorized the offering of SDR 1 billion to the existing Member States for subscription, with the objective of increasing subscribed capital to a total of SDR 2 billion. The increase allows the Bank to implement its operational strategy to a substantial degree. The Bank does not have any other classes of capital.

In October 2008 the above new shares in the amount of SDR 1 billion that were offered for subscription to the Bank's Member States were fully subscribed and allocated. Accordingly, the Bank's paid-in share capital was doubled from SDR 300 million to SDR 600 million. The remaining SDR 1 billion of authorized share capital has not yet been allocated.

Pursuant to Resolution 131 of the BoG a unanimously adopted the first amendment to the Establishing Agreement, which became effective on 21 June 2013. As of this effective date, and as per Resolution 131 of the BoG, the unit of account of the Bank became the EUR and all of the Bank's authorized share capital was redenominated from SDR to EUR. The conversion rate applied was SDR to EUR fixed at 1:1.15.

The share capital usage of the Bank is guided by statutory and financial policy parameters. Article 15 of the Establishing Agreement limits the total amount of outstanding loans, equity investments and guarantees made for ordinary operations to 150% of the Bank's unimpaired subscribed capital, reserves and surpluses, establishing a 1.5:1 institutional gearing ratio. Additionally, disbursed equity investments shall not at any time exceed an amount corresponding to the Bank's total unimpaired paid-in capital, surpluses and general reserve.

At the 36th meeting of the BoD in 2008, the operational gearing ratio was set at 100% of the Bank's unimpaired paid-up capital, reserves and surpluses, and the usable portion of the callable capital. This limit on the total amount of operations which includes all callable capital is approximately EUR 2.45 billion.

Notes to the Financial Statements

The Bank preserves an actively managed capital stock to prudently cover risks in its activities. As a multilateral financial institution, the Bank is not subject to regulatory capital requirements. However, the Bank uses standards proposed by the Basel II Capital Accord as a benchmark for its risk management and capital framework. Pursuant to Article 5 of the Establishing Agreement, the BoG shall at intervals of not more than five years review the capital stock of the Bank. In substance, the primary objective of the Bank's capital management is to ensure adequate share capital is available to support the Bank's operations.

6. OPERATING SEGMENTS

The Bank is a multilateral financial institution, which in accordance with the Establishing Agreement, is dedicated to accelerating development and promoting co-operation among the Bank's shareholder countries. The Bank operates in a specific geographical area and the primary reporting format for business segments are the Lending and Treasury operations. Lending activities represent investments in projects such as loans, equity investments and guarantees. Treasury activities include raising debt finance, investing surplus liquidity, and managing the Bank's foreign exchange, liquidity and interest rate risks.

Presented in EUR (000)	2019			2018		
	Lending	Treasury	Total	Lending	Treasury	Total
Income statement						
Interest income	82,707	11,262	93,969	70,129	8,588	78,717
Net fees and commissions	947	20	967	1,652	-	1,652
Other income (expense)	272	119	391	569	29	598
Total segment revenues	83,926	11,401	95,327	72,350	8,617	80,967
Less: interest expense	(52,762)	(512)	(53,274)	(37,513)	(461)	(37,974)
Less: net interest expense on derivatives	-	(4,113)	(4,113)	-	(7,599)	(7,599)
Foreign exchange	-	(1,067)	(1,067)	-	(1,352)	(1,352)
Less: personnel and other admin. expenses	(19,474)	(1,471)	(20,945)	(19,283)	(1,439)	(20,722)
Less: depreciation and amortization	(563)	(9)	(572)	(442)	(11)	(453)
Segment income before impairment	11,127	4,229	15,356	15,112	(2,245)	12,867
Less: impairment / fair value (losses)	(1,581)	(111)	(1,692)	(7,323)	(368)	(7,691)
Net income for the year	9,546	4,118	13,664	7,789	(2,613)	5,176

Presented in EUR (000)	31 December 2019			31 December 2018		
	Lending	Treasury	Total	Lending	Treasury	Total
Financial position						
Segment assets	1,837,862	505,575	2,343,437	1,351,172	444,595	1,795,767
At end of year			2,343,437			1,795,767
Segment liabilities	1,506,476	6,552	1,513,028	970,003	24,164	994,167
Members' equity	-	-	830,409	-	-	801,600
At end of year			2,343,437			1,795,767

7. INTEREST AND SIMILAR INCOME

Interest and similar income is analyzed as follows:

Presented in EUR (000)	Year to	Year to
	31 December	31 December
	2019	2018
From loans and advances	82,707	70,129
From placements with financial institutions	41	126
From investment securities at amortized cost	-	51
From investment securities at fair value through OCI	11,221	8,411
Interest and similar income	93,969	78,717

Notes to the Financial Statements

8. INTEREST AND SIMILAR EXPENSE

Interest and similar expense is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2019	Year to 31 December 2018
From borrowed funds	7,770	6,435
From issued debt	43,691	29,619
From amortized issuance and arrangement costs	1,301	1,459
From other charges	512	461
Interest and similar expense	53,274	37,974

9. NET FEES AND COMMISSIONS

Net fees and commissions is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2019	Year to 31 December 2018
Guarantee fees	356	276
Management fees	408	371
Appraisal fees	30	195
Administration fees	26	36
Arrangement fees	-	132
Surveillance fees	57	54
Prepayment / cancellation fees	20	489
Other fees	70	99
Net Fees and commissions	967	1,652

10. PERSONNEL AND ADMINISTRATIVE EXPENSES

Administrative expenses is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2019	Year to 31 December 2018
Salaries and benefits	12,819	12,672
Staff retirement plans	2,939	3,280
Personnel expenses	15,758	15,952
Professional fees and related expenses	1,328	1,094
Utilities and maintenance	1,606	1,474
Other administrative	2,253	2,202
Administrative expenses	5,187	4,770

The average number of staff employed during the year was 112 (2018: 111). The number of staff at 31 December 2019 was 113 (2018: 110). Further analysis of the staff retirement plan is presented in the Note 'Employee benefits'.

Notes to the Financial Statements

11. IMPAIRMENT LOSSES ON LOANS

Loans that are measured at amortized cost are stated net of provisions for impairment, which includes also their related provisions for impairment on undrawn commitments. A summary of the movements in provisions for impairment is as follows:

Presented in EUR (000)	Stage 1	Stage 2	Stage 3	Total
At 31 December 2017	1,453	1,088	45,455	47,996
Charge	3,284	3,239	7,221	13,744
Release	(1,656)	(2,608)	(3,188)	(7,452)
Against write-offs	-	-	(20,586)	(20,586)
Foreign exchange adjustments	439	2,555	(1,921)	1,073
At 31 December 2018	3,520	4,274	26,981	34,775
Charge	-	1,423	1,573	2,996
Release	(4)	(691)	(460)	(1,155)
Upon initial recognition	-	-	6,181	6,181
Foreign exchange adjustments	(625)	980	162	517
At 31 December 2019	2,891	5,986	34,437	43,314

At each reporting date, the Bank recognizes loss allowances based on either 12-month ECL or lifetime ECL, depending on whether there has been a significant movement in credit risk of the financial instrument since its initial recognition.

Total impairment losses on loans have increased by an amount of EUR 8,539 thousand compared to the previous year. An amount of EUR 1,083 thousand has increased for Stages 1 and 2, primarily due to the increase in the Bank's loan portfolio. The remaining amount of EUR 7,456 thousand was due to the deterioration of a few loans in Stage 3 to reducing their carrying amount and the purchase of a loan at deep discount.

Staging Criteria 12-month ECL (Stage 1)

As IFRS 9 does not distinguish between individually significant or not individually significant financial instruments, the Bank measures potential credit losses for all non-impaired operations (Stage 1 and Stage 2) on an individual operation basis based on the asset class. Their PD and LGD are multiplied by general market scenarios assigned within the Moody's Analytics IFRS ImpairmentCalc tool. Provisions for impairment in Stage 1 are therefore affected by the specifics of any particular operation together with general market scenarios. They are meant to protect against potential risks that are considered present, or within a 12-month horizon, and derived from potentially adverse developments in operating conditions beyond the control of individual borrowers.

Staging Criteria lifetime ECL (Stages 2 and 3)

When an operation deteriorates substantially in credit quality, it enters Stage 2 and an expected credit loss calculation is performed on a Lifetime Expected Credit Loss (LECL) basis. Stage 2 operations are those that have experienced an overall credit quality downgrade but are still performing. They are not considered credit-impaired.

Stage 3 operations have objective evidence of impairment that immediately impacts the ECL.

Revolving facilities and undrawn commitments

Revolving credit facilities have no fixed term and they can be cancelled at the discretion of the Bank at any point in time. These facilities are subject to, at a minimum, an annual credit review. In this regard, the date of the latest credit review provides the relevant date to assess if there is any increase in credit risk, as at that point in time. The Bank may amend the terms and conditions of the exposure.

Notes to the Financial Statements

The estimate of the ECLs on irrevocable loan commitments is consistent with its expectations of drawdowns on that loan commitment. Therefore, the Bank considered (i) the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12-month expected credit losses and (ii) the expected portion of the loan commitment that will be drawn down over the expected life of the reporting date when estimating lifetime expected credit losses. At 31 December 2019 the amount of expected credit losses was EUR 311 thousand (2018: EUR 376 thousand).

12. DEBT INVESTMENT SECURITIES

Debt investment securities are analyzed as follows:

Presented in EUR (000)	At	At
	31 December 2019	31 December 2018
Bonds	217,674	282,311
Commercial papers	202,917	113,668
Debt investment securities	420,591	395,979
Less: impairment losses	(765)	(644)
Debt investment securities net of impairment	419,826	395,335

At each reporting date, the Bank recognizes loss allowances based on either 12-month ECL or LECL. All debt investment securities are recognized only on a 12-month ECL as there has been no significant movement in their credit risk since their initial recognition.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the Bank's outstanding forward foreign exchange contracts. The first column shows the sum of notional amounts, which is the amount of a derivative's nominal value, and is the basis upon which changes in the value are measured. The second column shows the market value of the notional amounts and also the net valuation attributable to fair value hedges.

Presented in EUR (000)	At 31 December 2019			At 31 December 2018		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swap purchases	57,000	57,000	-	33,012	-	33,019
Currency swap sales	(56,840)	(56,525)	-	(33,569)	-	(33,569)
Designated fair value hedges	-	2,653	(6,552)	-	662	(23,614)
Derivative financial instruments	160	3,128	(6,552)	(557)	662	(24,164)

The above derivative financial instrument contracts with financial counterparties have been documented under International Swaps and Derivative Association (ISDA) Master Agreements with Credit Support Annexes (CSAs). Pursuant to such arrangements the Bank is eligible to offset assets and liabilities in the event of a counterparty default occurrence.

The Bank's hedge accounting is based on a clearly documented relationship between the item hedged and the hedging instrument, having a one-on-one relationship, which is documented at the time a hedge transaction is entered into. This relationship arises 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 a currency sought by the Bank.

Notes to the Financial Statements

14. LOANS

The Bank offers a range of loan facilities directed to investments for both project and trade financing, and tailored to meet an individual operation's requirements. Loans may be denominated in any convertible currency, or a combination of convertible currencies in which the Bank is able to fund itself.

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Loans at amortized cost:		
At 1 January	1,318,418	1,132,359
Disbursements	871,130	572,966
Less: repayments	(381,756)	(377,988)
Write-offs	-	(20,586)
Foreign exchange movements	395	11,667
Outstanding disbursements	1,808,187	1,318,418
Less: deferred income	(8,170)	(3,052)
Less: impairment losses	(43,314)	(34,775)
Loans at fair value:		
Outstanding disbursements	14,939	14,939
Fair value adjustment	(2,185)	(2,662)
Loans net of impairment	1,769,457	1,292,868

At 31 December 2019 the principal amount of outstanding disbursements was EUR 1,823,126 thousand (2018: EUR 1,333,357 thousand).

The carrying amount of loans with respect to their related Stages and allowance for impairment is analyzed as follows:

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Stage 1	1,484,999	1,050,830
Less: deferred income	(8,170)	(3,052)
Less: allowance for impairment	(2,891)	(3,520)
Carrying amount	1,473,938	1,044,258
Stage 2	272,290	225,851
Less: allowance for impairment	(5,986)	(4,274)
Carrying amount	266,304	221,577
Stage 3	50,898	41,737
Less: allowance for impairment	(34,437)	(26,981)
Carrying amount	16,461	14,756
Fair value through profit or loss	12,754	12,277
Carrying amount	1,769,457	1,292,868

Interest is generally based on Libor for USD loans and Euribor for EUR loans plus a margin. Margins are dependent on the risk category of each loan and typically range from 1.5% to 8.0%. The fair value of the loan portfolio is approximately equal to carrying value plus accrued interest as all loans bear a variable interest rate and are given at market terms and conditions. Further analysis of the loan portfolio is presented in Note 'Risk management'.

Notes to the Financial Statements

15. EQUITY INVESTMENTS

A primary focus of the Bank is to facilitate access to funding for those small and medium-size enterprises with the potential for positive economic developmental impact. With this objective in mind, the Bank, together with a number of other institutions has invested in the entities as detailed below.

Presented in EUR (000)	% of Investment	At 31 December 2019		At 31 December 2018	
		Cost	Fair Value	Cost	Fair value
Balkan Accession Fund	9.09	-	798	-	1,015
At fair value through profit or loss		-	798	-	1,015
SEAF Caucasus Growth Fund	21.39	5,423	4,270	5,488	4,289
Access Bank, Azerbaijan	0.06	792	232	14,759	-
A-Park Kaluga, Russia	19.99	1,714	785	1,714	340
Emerging Europe Accession Fund	10.14	2,204	5,524	2,303	5,981
Rusal	0.01	4	185	4	123
ADM Ceecat Recovery Fund	5.37	4,285	4,966	4,988	5,652
European Virgin Fund	21.05	7,673	13,236	8,264	10,255
Teamnet International	8.33	5,599	-	5,599	-
Natfood	37.98	-	-	-	-
EOS Hellenic Renaissance Fund	2.53	498	390	47	-
At fair value through other comprehensive income		28,192	29,588	43,166	26,640
Equity investments at fair value		28,192	30,386	43,166	27,655

The valuation of such investments, which are unlisted, has been estimated using the most recent management accounts or the latest audited accounts as of 31 December 2019, as Management considers that these provide the best available estimate of the investments' fair value. The techniques applied to perform these valuations include equity calculations based on EBITDA and market data.

During the year the Bank had realized a net income of EUR 237 thousand from its investment in the Balkan Accession Fund.

On disposal or exit of an equity investment for those at fair value through other comprehensive income, the cumulative gain or loss is realized with a corresponding reversal of the unrealized gain or loss that was recorded prior to the exit from that investment, and is not recycled to the income statement.

As of 31 December 2019 the Bank has a committed amount of EUR 7,905 thousand towards further participation in the above entities. Further analysis of the equity investment portfolio is presented in the Note 'Risk management'.

As of 31 December 2019 the Bank has few equity investments where it holds slightly more than 20 per cent of the investee share capital, but does not exert significant influence, hence the investment is not accounted for as an investment in an associate under IAS 28.

Notes to the Financial Statements

16. OTHER ASSETS

Other assets is analyzed as follows:

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Accrued interest	24,334	20,169
Advances and prepaid expenses	6,165	5,690
Other prepayments	187	187
Guarantee deposits	5,167	3,495
Other assets	35,853	29,541

17. PROPERTY AND EQUIPMENT

Property and equipment is analyzed as follows:

Presented in EUR (000)	Buildings (leasehold)	Vehicle	Furniture and office accessories	Computers and office equipment	Total
Cost					
At 31 December 2017	850	106	550	1,722	3,228
Additions	26	-	54	111	191
Disposals	-	-	(11)	(28)	(39)
At 31 December 2018	876	106	593	1,805	3,380
Additions	6	44	33	213	296
Disposals	-	-	(23)	(243)	(266)
At 31 December 2019	882	150	603	1,775	3,410
Accumulated depreciation					
At 31 December 2017	797	34	491	1,405	2,727
Charges	39	21	31	146	237
Disposals	-	-	(11)	(28)	(39)
At 31 December 2018	836	55	511	1,523	2,925
Charges	23	23	33	183	262
Disposals	-	-	(23)	(243)	(266)
At 31 December 2019	859	78	521	1,463	2,921
Net book value					
At 31 December 2019	23	72	82	312	489
At 31 December 2018	40	51	82	282	455
At 31 December 2017	53	72	59	317	501

Notes to the Financial Statements

18. INTANGIBLE ASSETS

Intangible assets comprising computer software is analyzed as follows:

Presented in EUR (000)	Total
Cost	
At 31 December 2017	4,342
Additions	217
At 31 December 2018	4,559
Additions	83
At 31 December 2019	4,642
Accumulated amortization	
At 31 December 2017	3,689
Charges	217
At 31 December 2018	3,906
Additions	314
At 31 December 2019	4,220
Net book value	
At 31 December 2019	422
At 31 December 2018	653
At 31 December 2017	653

Notes to the Financial Statements

19. BORROWINGS

Borrowing facilities and bond issues, arranged as at the financial position date, are analyzed below. In addition to medium- or long-term borrowings and bond issuance, the Bank utilizes short-term financing in the form of ECP issuance or borrowings from commercial banks for cash management purposes. At 31 December 2019 the Bank had issued debt securities in the amount of EUR 1,238,718 thousand.

Presented in EUR (000)	At 31 December 2019		At 31 December 2018	
	Amount used	Amount arranged	Amount Used	Amount arranged
Euro	96,477	146,477	126,794	146,794
United States dollar	1,029,024	1,118,039	595,473	595,473
Swiss franc	184,366	184,366	88,860	88,860
Romanian lei	82,023	82,023	56,227	56,227
Azerbaijan manat	5,415	5,415	-	-
Georgian lari	84,125	84,125	83,059	83,059
Armenian dram	3,725	3,725	3,617	3,617
Total	1,485,155	1,624,170	954,030	974,030

The interest rate on borrowings falls within an approximate range of Euribor or USD Libor of plus 0 to 375 basis points. There is no collateral against the above borrowed funds. The fair value of the borrowings is approximately equal to their carrying value.

20. PAYABLES AND ACCRUED INTEREST

Payables and accrued interest is analyzed as follows:

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Accrued interest	11,652	10,495
Social insurance fund (EFKA) contributions	3	4
Pension plan obligation	7,536	3,971
Suppliers and other accrued expenses	1,012	1,444
Other	59	59
Payables and accrued interest	20,262	15,973

21. LEASE LIABILITY

The Bank has entered into a lease contract only for its Headquarters premises, which includes renewal options and periodic escalation clauses. There are no other commitments at end of year arising from non-cancellable lease contract. On adoption of IFRS 16 the impact in the statement of financial position of the recognition of right-of-use asset and corresponding lease liability, together with the movement for 2019, is analyzed as follows:

Presented in EUR (000)	Total
Operating lease commitment at 31 December 2018	1,931
Discounting (weighted average incremental borrowing rate)	-
Lease liability due to initial application of IFRS 16 at 1 January 2019	1,931
Prepayment of rental	(196)
Interest expense on the lease liability	-
Lease payments recognized in other administrative expenses	(676)
Lease liability 31 December 2019	1,059

Notes to the Financial Statements

IFRS 16 indicates that at the commencement date, the lessee (the Bank) will discount the lease payment using (a) the interest rate implicit in the lease or (b) the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow the funds to obtain (i) an asset of a similar value to the underlying asset (ii) over a similar term (iii) with similar security (iv) in a similar economic environment. As the Bank has only one lease arrangement that is nearing maturity, Management concluded that any adjustment or any subsequent interest does not have a material impact on the financial statements.

The Bank presents right-of-use assets separately as property and equipment, and the lease liability separately within payables and accrued interest, in the statement of financial position. Consequently, the Bank recognizes lease payments and interest, if any on the lease liability on a straight-line basis over the period of the lease term, similarly to any benefits received or that are receivable, in the income statement. When a lease is terminated before the lease period has expired, any payments required to be made to the lessor, by way of penalty, are recognized as an expense in the period the termination takes place.

22. SHARE CAPITAL

From the Bank's inception, and in accordance with Article 4 of the Establishing Agreement, the Bank denominated its authorized share capital in the Special Drawing Right (SDR) as defined by the International Monetary Fund (IMF). Resolution 131 of the BoG unanimously adopted the requisite amendments to paragraph 1 of Article 4 and Articles 23 and 24 of the Establishing Agreement, to expressly include among the exclusive powers of the BoG the change of the unit of account of the Bank, and the redenomination of all capital stock of the Bank. These amendments to the Establishing Agreement became effective on 21 June 2013 (the 'Effective Date'). In accordance with such Resolution 131 of the BoG as of the Effective Date the unit of account of the Bank became the EUR and the authorized capital stock of the Bank was redenominated into three billion four hundred and fifty million EUR (3,450,000,000), divided into three million (3,000,000) shares having a par value of one thousand and one hundred and fifty EUR (1,150) each, inclusive of all subscribed and unallocated shares. Accordingly, as of the Effective Date, all outstanding share capital commitments of participating members in respect of their subscribed shares were converted into EUR.

The authorized capital stock of the Bank may be increased at such time and under such terms as may seem advisable.

The Bank's capital stock is divided into paid-in shares (fully paid and payable in installments) and callable shares. Payment for the paid-in shares subscribed to by members was made over a period of years in accordance with Article 6 of the Establishing Agreement for the initial capital raising purpose of the Bank, and as determined in advance by the Bank for capital increases (in the only capital increase of the Bank so far, the structure of payments specified was similar to the one in Article 6). The same Article states that payment of the amount subscribed to in respect of the callable shares is subject to call only as and when required by the Bank to meet its obligations.

Under Article 37 of the Establishing Agreement any member may withdraw from the Bank by transmitting a notice in writing to the Bank at its Headquarters. Withdrawal by a member shall become effective and its membership shall cease on the date specified in its notice, but in no event less than six months after such notice is received by the Bank. However, at any time before the withdrawal becomes finally effective, the member may notify the Bank in writing of the cancellation of its notice of intention to withdraw. Under Article 39 of the Establishing Agreement after the date on which a member ceases membership, it shall remain liable for its direct obligations to the Bank, and also remain responsible for its contingent liabilities to the Bank, incurred as of that date. No member has ever withdrawn its membership, nor has any ever indicated to the Bank it might do so. Were a member to withdraw from the Bank, at the time a member ceases membership, the Bank shall arrange for the repurchase of such a member's shares by the Bank as part of the settlement of accounts with such a member, and be able to impose conditions and set dates pursuant to the same Article 39 of the Establishing Agreement. Any amount due to the member for its shares shall be withheld so long as the member, including its central bank or any of its agencies, has outstanding obligations to the Bank, which may, at the option of the Bank, be applied to any such liability as it matures.

Notes to the Financial Statements

If losses are sustained by the Bank on any guarantees or loans which were outstanding on the date when a member ceased membership and the amount of such losses exceeds the amount of the reserves provided against losses on the date, the member concerned shall repay, upon demand, the amount by which the repurchase price of its shares would have been reduced if the losses had been taken into account when the repurchase price was determined.

Under Article 42 of the Establishing Agreement in the event of termination of the operations of the Bank, the liability of members for the unpaid portion of the subscribed capital of the Bank shall continue until all claims of creditors, including all contingent claims, have been discharged.

All participating members had fully subscribed to the initial authorized share capital in accordance with Article 5 of the Establishing Agreement. Subsequently, at the Sixth Annual Meeting of the Board of Governors held on 6 June 2004 three Member States, Armenia, Georgia and Moldova requested a 50% reduction of their portion of subscribed capital, from 2% to 1% of the initial authorized capital and the BoG approved their request. On 5 October 2008 the new shares pursuant to the capital increase of the Bank were offered in the same structure as the initial authorized share capital, in the amount of EUR 1.15 billion, and were fully subscribed by the Member States. Furthermore, Azerbaijan also subscribed to the 3% of the initial authorized share capital that remained unallocated, after the above mentioned participation reduction, while Romania subscribed both to their allocation of new shares and to those that would have been allocated to Georgia had it chosen to participate in the capital increase. This subscription process followed a decision taken by the BoG in December 2007 to triple the Bank's authorized capital to EUR 3.45 billion and to double the subscribed capital to EUR 2.3 billion, while leaving authorized capital of EUR 1.15 billion unallocated. On October 2011 the BoG approved the request from Moldova for a 50% reduction of its portion of subscribed capital, from 1% to 0.5%, and those shares were released to unallocated share capital.

The above share capital is analyzed as follows:

	At 31 December 2019	At 31 December 2018
Presented in EUR (000)		
Authorized share capital	3,450,000	3,450,000
Less: unallocated share capital*	(1,161,500)	(1,161,500)
Subscribed share capital	2,288,500	2,288,500
Less: shares not yet called	(1,601,950)	(1,601,950)
Less: shares payable that are past due	-	(1,428)
Paid-up share capital	686,550	685,122
Advance against future call	-	-
Paid-in share capital	686,550	685,122

* Shares available to new or existing Member States.

Initial Capital

In accordance with paragraph 2 under Article 5 of the Establishing Agreement, the initially authorized capital stock was subscribed by and issued to each Member as follows: 10% (EUR 115 million) fully paid and 20% (EUR 230 million) payable by promissory notes or other obligations which were not negotiable and non-interest bearing in eight equal successive annual installments in the years 1998 to 2005.

Capital Increase

The capital increase of EUR 1.15 billion is divided into EUR 345 million paid in capital and EUR 805 million callable capital. Pursuant to the Board of Governors decision in October 2008, the EUR 345 million paid in portion is divided into 10% (EUR 115 million) fully paid shares in 2010 and 20% (EUR 230 million) payable shares by promissory notes or other obligation issued by members in eight equal successive annual installments in the years 2011 to 2018. As of October 2011, the capital increase was reduced by EUR 11.5 million of the subscribed share capital, due to an approved reduction by the BoG in participation by Moldova.

Notes to the Financial Statements

The initial and capital increase that was issued is analyzed as follows:

Presented in EUR (000)	At 31 December 2019		Total
	Initial capital	Capital increase	
Authorized share capital	1,150,000	2,300,000	3,450,000
Less: unallocated share capital	(34,500)	(1,127,000)	(1,161,500)
Subscribed share capital	1,115,500	1,173,000	2,288,500
Less: shares not yet called	(780,850)	(821,100)	(1,601,950)
Paid-up share capital	334,650	351,900	686,550
Advance against future call	40	(40)	-
Paid-in share capital	334,690	351,860	686,550

Statement of Subscriptions

A statement of capital subscriptions illustrating the number of shares and the amount subscribed by each member is shown below, including their respective callable, payable and the amount paid. The capital subscription status at the current financial position date is analyzed as follows:

Member	Shares	Subscribed	Callable	Payable	Paid
		Presented in EUR (000)			
Albania	40,000	46,000	32,200	-	13,800
Armenia	20,000	23,000	16,100	-	6,900
Azerbaijan	100,000	115,000	80,500	-	34,500
Bulgaria	270,000	310,500	217,350	-	93,150
Georgia	10,000	11,500	8,050	-	3,450
Greece	330,000	379,500	265,650	-	113,850
Moldova	10,000	11,500	8,050	-	3,450
Romania	280,000	322,000	225,400	-	96,600
Russian Fed.	330,000	379,500	265,650	-	113,850
Turkey	330,000	379,500	265,650	-	113,850
Ukraine	270,000	310,500	217,350	-	93,150
Total	1,990,000	2,288,500	1,601,950	-	686,550

23. RESERVES

Reserves are analyzed as follows:

Presented in EUR (000)	General	Other comprehensive income	Other	Total
At 31 December 2017	60,875	(24,158)	(3,134)	33,583
Gains (losses) on revaluation of investments	-	(8,216)	-	(8,216)
Remeasurements of defined benefit scheme	-	-	2,414	2,414
Transferred from retained earnings	5,176	-	-	5,176
At 31 December 2018	66,051	(32,374)	(720)	32,957
Gains (losses) on revaluation of investments	-	16,737	-	16,737
Remeasurements of defined benefit scheme	-	-	(3,020)	(3,020)
Transferred from retained earnings	7,335	-	-	7,335
At 31 December 2019	73,386	(15,637)	(3,740)	54,009

The Bank's general reserve is maintained for meeting any unforeseeable risks or contingencies that do not qualify as provisions for impairment and is normally built-up from those released impairment charges during the year.

Notes to the Financial Statements

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents is analyzed as follows:

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Cash on hand	4	17
Investments maturing up to 1 month:		
Cash deposits at banks	82,617	48,581
At fair value through other comprehensive income portfolio	147,917	78,655
Investment maturing from 1 month to 3 months:		
At fair value through other comprehensive income portfolio	55,000	45,000
Cash and cash equivalents	285,538	172,253

The commercial papers held in the Bank's portfolio were short term rated at a minimum of A2 by Standard and Poor's or P2 by Moody's rating agencies, in accordance with the Bank's internal financial policies.

Notes to the Financial Statements

25. EMPLOYEE BENEFITS

Under the Defined Benefit Scheme

If separated at or after the normal retirement age (60 years old), a staff member will be entitled to a full immediate pension equal to 1% of his annual pensionable salary (i.e. average of the two best out of the last five years) multiplied by his/her years of service at the Bank. If separated at or after the early retirement age (55 years old), as staff member will be entitled to a reduced immediate pension, or deferred pension payable from any month until the staff member's normal retirement age. If separated before the early retirement age, a staff member will be entitled to a deferred pension payable from any month between the staff member's early and normal retirement age. Upon separation at any age, a staff member will have a choice between the appropriate type of pension and a lump sum termination benefit.

A qualified actuary performs an actuarial valuation of this scheme at each end of year using the projected unit method, which is rolled forward to the following year accounts. The most recent valuation date was 31 December 2019. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Amounts recognized in the statement of financial position		
Present value of the defined benefit obligations	30,736	24,445
Fair value of plan assets	(23,200)	(20,474)
Net liability at end of the year	7,536	3,971
Amounts recognized in the income statement		
Service cost	1,752	2,095
Net interest on the net defined benefit liability/(asset)	70	81
Administration expense	49	48
Total included in personnel expenses	1,871	2,224
Remeasurements recognized in other comprehensive income		
At 31 December	(4,307)	(6,721)
Liability gain (loss) due to changes in assumptions	(4,745)	4,167
Liability experiences gain (loss) arising during the year	(296)	(359)
Return on plan assets excluding income statement amounts	2,021	(1,394)
Total amount recognized in OCI during the year	(3,020)	2,414
Cumulative in other comprehensive income (expense)	(7,327)	(4,307)
Principal actuarial assumptions used		
Discount rate	1.22%	2.04%
Expected return on plan assets	1.22%	2.04%
Future salary increase	1.50%	1.50%
Future pension increase	1.50%	1.50%
Average remaining working life of employees	11 years	11 years

The discount rate arises from the yield curves that use data from double A-rated iBoxx bond indices produced by the International Index Company.

The expected return on assets as per provision of the revised IAS 19, has been set equal to the discount rate assumption, i.e. at 1.22% pa.

Notes to the Financial Statements

The following table presents the major categories and reconciliation of the plan assets (the Fund):

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Major categories of plan assets		
Cash instruments	17%	16%
Fixed interest	43%	47%
Equities	36%	33%
Other	4%	4%
Reconciliation of plan assets		
Market value at 1 January	20,474	21,879
Expected return	426	401
Contributions paid	1,326	1,070
Benefit pensions and lump sum paid to pensioners	(999)	(1,434)
Expenses	(48)	(48)
Asset gain (loss)	2,021	(1,394)
Fair value of plan assets	23,200	20,474

The actual investment return on assets of the Fund for the year was 12.4%. The expected return on plan assets has been based on asset structure allowed by the Fund as well as the yield of high quality corporate bonds. The Bank estimate of contributions to be paid in 2020 will not materially differ from those paid in the current year.

The funding status at year end and at the end of the last four years was as follows:

Presented in EUR (000)	2019	2018	2017	2016	2015
Defined benefit obligations	30,736	24,445	27,111	25,021	19,879
Plan assets	(23,200)	(20,474)	(21,879)	(20,373)	(18,696)
Plan deficit (surplus)	7,536	3,971	5,232	4,648	1,183
Net experience adjustments on plan liabilities (assets)	296	359	(419)	4,032	(1,822)

Sensitivity analysis

Reasonable possible changes at the financial position date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Presented in EUR (000)	At 31 December 2019		At 31 December 2018	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(3,573)	3,573	(3,041)	3,041
Future salary growth (1% movement)	1,872	(1,872)	1,843	(1,843)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown under the Defined Benefit Scheme.

Notes to the Financial Statements

Under the Defined Contribution Scheme

Upon separation, a staff member will be entitled to receive in cash the full balance standing to the credit of his/her individual account for the second and third pillars. The pension expense under this scheme was EUR 1,050 thousand (2018: EUR 1,027 thousand) and is included in 'Personnel expenses'.

Under the Greek State Social Insurance Fund

The pension expense of staff that is alternatively entitled to retirement benefits from this fund was EUR 18 thousand (2018: EUR 29 thousand) and is included in 'Personnel expense'.

26. RELATED PARTIES

The Bank has the following related parties.

Key Management Personnel

Key management personnel comprise: the President, Vice Presidents and Secretary General. They are entitled to a staff compensation package that includes a salary, medical insurance cover, participation in the Bank's retirement schemes and are eligible to receive other short-term benefits. The amounts paid to key management personnel during the year were EUR 1,783 thousand (2018: EUR 1,600 thousand). Key management personnel may receive post-employment benefits, other long-term benefits and termination benefits, but do not receive any share-based payments.

The members of the BoD are not personnel of the Bank and do not receive any fixed term salaries nor any staff benefits. The governments of the Member States are not related parties.

Special funds

Special funds are established in accordance with Article 16 of the Establishing Agreement and are administered under the terms of rules and regulations adopted by the Bank. Special Funds are audited on an annual basis and their assets and fund balances are not included in the Bank's statement of financial position. During 2019 the Bank administered one special fund. Extracts from the audited financial statements are included under the 'Summary of special funds'.

27. EVENTS AFTER THE REPORTING PERIOD

Covid-19 pandemic was announced by the World Health Organization (WHO) in March 2020 and is expected to negatively impact the economies of the countries that the Bank works with. Following WHO announcement as well as the measures taken by the respective governments as a response, the Bank has proceeded with the following:

- The Bank has activated the internal Pandemic Response Plan, and most staff have moved to 'remote working', which will be extended further, according to how the situation unfolds in the host country. In terms of its everyday operations, the Bank has taken all requisite steps to ensure business continuity, the safety of its staff, and to comply with the emergency measures imposed by the host country.
- The Bank monitors country by country measures taken by each government and their impact on its loan portfolio. It will maintain contacts with clients and we will continue with preparation of projects, but main focus will be the outstanding loan portfolio which is carefully analyzed and regularly reviewed in light of the very rapid developments. It is not expected to have a significant impact on the operations' credit standing although monitoring may be temporarily hampered by travel restrictions, if these would remain in place for an extended period of time.

Notes to the Financial Statements

- The Bank closely monitors its liquidity position and is prepared to extend short term measures as required in order to safeguard its interests and maintain key ratios at comfortable levels. By extending the slowdown in project development, the Bank will not undertake new commitments temporarily and their levels should remain steady, or even temporarily decline as a result.
- Moreover, the Bank will monitor developments in the financial markets for assessing impact on its investment portfolio as well as for suitable funding opportunities.

Overall, it is too early to assess how the virus pandemic will affect the Region the Bank operates in, and for how long, however, the Bank has a robust mechanism and process in place to follow up developments and adjust its operations accordingly in order to ensure effective and efficient management of this difficult situation. Nonetheless, the effect on the Bank's financial position and results cannot currently be estimated.

Notes to the Financial Statements

28. SUMMARY OF SPECIAL FUNDS

With the Hellenic Government

The Technical Cooperation Special Fund's objective is to contribute to the economic development of the Black Sea Region's Member Countries. The Fund extends technical assistance grants for preparation of high quality project documentation including business plans, feasibility studies and financial reporting methods and standards. The movement in the Fund is shown below.

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Statement of movements		
Balance brought forward	8	8
Net income (loss) for the year	-	-
Less: disbursements	-	-
Balance of available funds	8	8
Financial position		
Placements with other financial institutions	8	8
Total Assets	8	8
Unallocated fund balance	8	8
Total Liabilities and Contributor Resources	8	8