



DOCUMENT OF THE
BLACK SEA TRADE AND DEVELOPMENT BANK

**Financial Statements for the Year Ended
31 December 2017**

Together with Auditor's Report



INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND GOVERNORS OF THE
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 2017, the statements of income and other comprehensive income, changes in member's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and of 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 ethical requirements that are relevant to our audit of the financial statements in International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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.

Impairment Losses on Loans

Refer to pages 15 to 19 of the financial statements for a description of the accounting policies and to pages 32 to 36 for an analysis of credit risk.

Key audit matter	How the matter was addressed in our audit
As described in the notes to the financial statements, the impairment losses have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgment to determine the impairment	In assessing impairment reserve, we performed the following procedures: — We assessed the modeling techniques and methodology against the requirements of IFRS 9. — We assessed the design and

Key audit matter	How the matter was addressed in our audit
<p>reserve.</p> <p>Key areas of judgment included:</p> <ul style="list-style-type: none"> — The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank’s expected credit loss model. — The identification of exposures with a significant deterioration in credit quality. — Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices). — The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model. 	<p>tested the operating effectiveness of relevant controls over the:</p> <ul style="list-style-type: none"> - Data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model. - Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. <p>— We assessed and tested the material modeling assumptions as well as overlays with a focus on the:</p> <ul style="list-style-type: none"> - Key modeling assumptions adopted by the Bank. - Basis for and data used to determine overlays. - Sensitivity of the provisions to changes in modeling assumptions. <p>— We examined a sample of exposures and performed procedures to evaluate the:</p> <ul style="list-style-type: none"> - Timely identification of exposures with a significant deterioration in credit quality. - Expected loss calculation for exposures assessed on an individual basis. <p>— We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).</p> <p>— We assessed the accuracy of the disclosures in the financial statements.</p>

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 auditors’ report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 auditors' 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 auditors' 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 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 auditors' 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 Nikolaos Vouniseas.

KPMG Certified Auditors AE
Athens, Greece
15 June 2018

INCOME STATEMENT

For the year ended 31 December

Presented in thousands of EUR	Note	2017	2016
Interest income	7	69,805	67,976
Interest expense	8	(42,037)	(38,171)
Net interest income		27,768	29,805
Net fees and commissions	9	2,087	1,748
Dividend income	15	1,715	6
Net gains from equity investments through profit or loss	15	4,263	-
Net gains from debt investment securities through OCI		482	718
Foreign exchange income (losses)		2,110	(1,488)
Other (loss) income		(3)	27
Operating income		38,422	30,816
Personnel expenses	10,26	(14,775)	(14,317)
Other administrative expenses	10	(4,505)	(4,182)
Depreciation and amortization	17,18	(461)	(590)
Income before impairment		18,681	11,727
Impairment (losses) on loans at amortized cost	11	(9,125)	(5,862)
Impairment (losses) on guarantees		(8)	(18)
Impairment (losses) on debt investment securities through OCI	12	(276)	-
Fair value (losses) on loans through profit or loss	14	(2,217)	-
Fair value gains (losses) on equity investments through profit or loss	15	1,600	(4,096)
Net income for the year		8,655	1,751

The accompanying notes are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December

Presented in thousands of EUR	Note	2017	2016
Net income for the year		8,655	1,751
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability (asset)	23,26	231	(3,021)
Net change in equity investments financial assets	23	(21,641)	(908)
Items that are or may be reclassified to profit or loss:			
Net change in investment securities financial assets	23	2,347	(4,095)
Total comprehensive (loss) for the year		(10,408)	(6,273)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December

Presented in thousands of EUR	Note	2017	2016
Assets			
Cash and cash equivalents	25	81,481	70,034
Debt investment securities at fair value through other comprehensive income	12,25	292,524	414,539
Less: impairment losses	12	(276)	-
Debt investment securities net of impairment		292,248	414,539
Derivative financial instruments – assets	13	1,659	576
Loans at amortized cost	14,16	1,132,359	1,139,072
Less: deferred income	14	(6,219)	(7,626)
Less: impairment losses	11,14	(47,996)	(30,131)
Loans at fair value through profit or loss	14	2,722	-
Loans net of impairment		1,080,866	1,101,315
Equity investments at fair value through profit or loss	15,16	1,600	-
Equity investments at fair value through other comprehensive income	15,16	29,761	52,766
Equity investments at fair value		31,361	52,766
Property and equipment	17	501	510
Intangible assets	18	653	479
Other assets	19	26,157	25,652
Total Assets		1,514,926	1,665,871
Liabilities			
Borrowings	20	722,592	862,533
Derivative financial instruments – liabilities	13	18,242	35,100
Payables and accrued interest	21	15,422	15,568
Total liabilities		756,256	913,201
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	22	(44,984)	(72,741)
Paid-in share capital		641,566	613,809
Reserves	23,24	33,583	47,177
Retained earnings	24	83,521	91,684
Total members' equity		758,670	752,670
Total Liabilities and Members' Equity		1,514,926	1,665,871
Off-balance-sheet items			
Commitments	16	185,563	160,191

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December

Presented in thousands EUR	Share capital			Reserves	Retained Earnings	Total
	Subscribed	Callable	Payable			
At 31 December 2015	2,288,500	(1,601,950)	(110,137)	53,450	91,684	721,547
Total comprehensive income						
Net income for the year	-	-	-	-	1,751	1,751
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets)	-	-	-	(5,003)	-	(5,003)
Remeasurement of defined benefit liability (asset)	-	-	-	(3,021)	-	(3,021)
Total comprehensive income	-	-	-	(8,024)	1,751	(6,273)
Transactions with owners of the Bank						
Members' contributions:						
Paid-in share capital	-	-	37,396	-	-	37,396
Transfer to general reserve	-	-	-	1,751	(1,751)	-
Total contributions and distributions	-	-	37,396	1,751	(1,751)	37,396
At 31 December 2016	2,288,500	(1,601,950)	(72,741)	47,177	91,684	752,670
Impact of adoption IFRS 9 at 1 January 2017	-	-	-	-	(11,349)	(11,349)
Restated balance at 1 January 2017	2,288,500	(1,601,950)	(72,741)	47,177	80,335	741,321
Total comprehensive income						
Net income for the year	-	-	-	-	8,655	8,655
Other comprehensive income:						
Fair value reserve (financial assets)	-	-	-	(19,294)	-	(19,294)
Remeasurement of defined benefit liability (asset)	-	-	-	231	-	231
Total comprehensive income	-	-	-	(19,063)	8,655	(10,408)
Transactions with owners of the Bank						
Members' contributions:						
Paid-in share capital	-	-	27,757	-	-	27,757
Transfer to general reserve	-	-	-	5,469	(5,469)	-
Total contributions and distributions	-	-	27,757	5,469	(5,469)	27,757
At 31 December 2017	2,288,500	(1,601,950)	(44,984)	33,583	83,521	758,670

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December

Presented in thousands of EUR	Note	2017	2016
Cash flows from operating activities			
Net income for the year		8,655	1,751
Adjustment for:			
Depreciation and amortization	17,18	461	590
Impairment losses	11,12	9,409	5,880
Fair value losses on loans at FVTPL	14	2,217	-
Fair value (gains) losses on equity investments at FVTPL	15	(1,600)	4,096
Net interest income		(27,768)	(29,805)
Foreign exchange adjustment on provisions	15	(2,124)	525
Operating (loss) before changes in operating assets		(10,750)	(16,963)
Changes in:			
Derivative financial instruments	13	(17,941)	17,582
Other assets	19	(1,143)	(2,904)
Accounts payable	21	622	3,360
Deferred income	14	(1,407)	(38)
Fair value movements	23	(19,294)	(5,003)
Cash generated from operations		(49,913)	(3,966)
Proceeds from repayment of loans	14	318,214	366,957
Proceeds from repayment of equity investments		9,408	4,926
Funds advanced for loans	14	(386,211)	(443,738)
Funds advanced for equity investments		(7,556)	(2,393)
Foreign exchange and other adjustments		91,542	(4,058)
Interest income received		70,443	61,594
Interest expense paid		(42,814)	(32,370)
Net cash from / (used in) operating activities		3,113	(53,048)
Cash flows from investing activities			
Proceeds from investment securities at FVTOCI (2016: AFS)		573,130	717,977
Purchase of investment securities at FVTOCI (2016: AFS)		(575,025)	(904,403)
Purchase of property, software and equipment	17,18	(630)	(474)
Net cash from / (used in) investing activities		(2,525)	(186,900)
Cash flows from financing activities			
Proceeds received from share capital	22	27,757	37,396
Proceeds from borrowings	20	106,736	618,977
Repayments of borrowings	20	(246,677)	(297,392)
Net cash from / (used in) financing activities		(112,184)	358,981
Net increase in cash and cash equivalents		(111,596)	119,033
Cash and cash equivalents at beginning of year	25	308,077	189,044
Cash and cash equivalents at end of year	25	196,481	308,077

The accompanying notes 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 is 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 establishment of the Bank the Establishing Agreement entered 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 it 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 clients.

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.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”). The financial statements for the year ended 2017 were submitted by the Management Committee to the Board of Directors (“BoD”) for approval on 15 June 2018, 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 1 July 2018.

Basis of Measurement

The financial statements have been prepared on a historical cost basis except for certain financial assets and derivative contracts which are measured at fair value.

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.

Notes to the Financial Statements

Judgments and Assumptions

The preparation of the financial statements in accordance with IFRS requires management to make judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about significant areas of estimations uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in Note 4.

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, except for that indicated in the note "Changes in accounting policies".

Foreign Currencies

Foreign currency transactions 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 on the date of transaction. Exchange gains and losses arising from the translation of monetary assets and liabilities denominated in foreign currencies at the end of year are recorded in the income statement.

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

		31 December 2017	31 December 2016
1 EUR	= United States dollar	1.19930	1.05410
	= Pound sterling	0.88723	0.85618
	= Russian ruble	69.39200	-
	= Azerbaijan manat	2.03070	1.86440
	= Georgian lari	3.11690	2.78210
	= Armenian dram	580.10000	-

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 financial asset when it loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. 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.

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

Financial Assets

The Bank early adopted IFRS 9: Financial instruments, concerning the classification and measurement and impairment recognition, effective from 1 January 2017. In accordance to that adoption the Bank classifies the financial assets in the following categories:

- Those measured at amortized cost.
- Those measured at fair value, either (i) through the profit or loss or (ii) through other comprehensive income.

The above classification depends on both the contractual characteristics of the financial instruments and the business model adopted for their management, which is determined at the time of initial recognition. Financial assets that are subsequently measured at either amortized cost or debt instruments at fair value through other comprehensive income, are subject to provisions for impairment.

Treasury operations are recognized on a trade date basis, which is the date the Bank commits to purchase or sell the asset. All loans are recognized when cash is advanced to borrowers at settlement date.

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

The Bank did not reclassify any non-derivative financial assets out of the fair value through profit or loss category in any particular circumstance nor did the Bank transfer any financial assets from the fair value through other comprehensive income category to the amortized cost category.

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

a) Financial assets, at amortized cost

Financial assets are classified at amortized cost only if both of the following criteria are met:

1. The objective of the Bank's business model is to hold the asset in order to collect the contractual cash flows; and
2. 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 amortized cost 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. Financial assets not meeting the above criteria as well as those financial assets designated are measured at fair value through profit or loss or at fair value through comprehensive income, as appropriate.

Notes to the Financial Statements

b) Financial asset, at fair value through profit or loss (“FVTPL”)

Financial assets that are classified at fair value through profit or loss 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 loan for which either of the criteria for recognition at amortized cost is not met. It can also include a debt instrument or an equity instrument that is not within the category, nor measured, at fair value through other comprehensive income. Derivative instruments are also categorized as financial assets at fair value through profit or loss. All such financial assets are recognized on trade date.

In addition, a debt instrument that could meet amortized cost 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.

c) Financial assets, at fair value through other comprehensive income (“FVTOCI”)

c1. Debt instruments

Debt instruments are classified and subsequently measured at fair value through other comprehensive income only if both of the following criteria are met:

1. The objective of the Bank’s business model is achieved by both collecting the contractual cash flows and selling the financial asset; and
2. 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.

This category includes 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 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 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 fair value through profit or loss.

c2. Equity instruments

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 fair value through other comprehensive income. Those not elected are measured at fair value through profit or loss.

Notes to the Financial Statements

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.

Dividends received are included in income.

Financial Liabilities

Financial liabilities include borrowings and other liabilities.

a) Borrowings

Borrowing transactions 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 amortized cost 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.

b) Other liabilities

Other liabilities that are not derivatives or designated at fair value through profit or loss, are recorded at amortized cost. The amounts include accrued finance charges on borrowings and other accounts payable.

Offsetting of Financial Assets and Liabilities

Offsetting of 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.

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.

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.

Notes to the Financial Statements

a) Hedge accounting

The Bank has chosen to continue to apply the hedge accounting requirements of IAS 39, instead of the requirements of IFRS 9. The Bank 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 documents the relationship between hedging instruments and hedged items upon initial recognition of the transaction.

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.

Impairment

For the Bank, and in accordance with IFRS 9, a loss allowance for expected credit losses is recognized on financial assets that are measured (i) at amortized cost (ii) at fair value through other comprehensive income (iii) lease receivable contracts (iv) loan commitments and (v) financial guarantee contracts.

Financial instruments, including equity instruments, carried at fair value through profit or loss ("FVTPL") are not subject to impairment requirements as their fair value reflects the credit of these exposures. Additionally, equity investments measured at fair value through other comprehensive income ("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.

Definition of default

"IFRS 9 doesn't include an explicit definition of default. In particular, IFRS 9 B5.5.37 requires that when defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate". The definition of default used for these purposes 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:

Notes to the Financial Statements

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)).

- a. The Bank puts the credit obligation on non-accrued status.
- b. The Bank recognizes a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the institution taking on the exposure.
- c. The Bank has filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the institution, the parent undertaking or any of its subsidiaries.
- d. 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 institution, 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.

The definition of default is applied in the relevant parameters used for the expected credit losses ("ECL") measurement, those being the exposure at default ("EAD"), probability of default ("PD"), and loss given default ("LGD") models.

a) Financial assets

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVTOCI, and off balance sheet lending commitments such as loan commitments and financial guarantees.

The determination of impairment losses and allowance had moved from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions for impairment are taken upon initial recognition of the financial asset (or the date that the Bank becomes a party to the loan commitment or financial guarantee), based on expectations of potential credit losses at that time.

Under IFRS 9 for financial assets originated or purchased on initial recognition the Bank recognizes an impairment loss at an amount equal to 12-month ECL. This shall continue if the credit risk at the reporting date has not increased significantly since initial recognition; therefore, was and shall remain in Stage 1. Such provision charge represents the ECL resulting from default events that are possible within the next 12 months.

IFRS 9 requires the recognition of credit losses over the remaining life of the financial assets ("Lifetime expected credit losses") which are considered to have experienced a significant increase in credit risk (e.g. Stage 2) and for financial assets that are credit impaired at the reporting date (e.g. Stage 3). The lifetime expected credit losses represent all possible default events over the expected life of a financial instrument. The Bank leverages existing risk management indicators (e.g. watch list and threshold trigger), credit rating changes and taking into consideration reasonable and supportable information which allows the Bank to identify whether the credit risk of financial assets has significantly increased. This process includes considering forward-looking information, including macro-economic factors. Forward looking information, including macro-economic factors is taken into account to measure IFRS 9 compliant expected credit losses. Furthermore, financial assets would be transferred to Stage 2 if more than 30 days past due.

Notes to the Financial Statements

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

Credit loss is defined as the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows expected to be received (i.e. all cash shortfalls), discounted at the original effective interest rate ("EIR"). All contractual cash flows of the loan and cash flows resulting from the sale of collateral or other credit enhancements are considered.

According to IFRS 9, probability weighted scenarios have to be taken into account over the expected life of the financial instrument for the estimation of expected losses. The assessment consists of an evaluation of a range of possible outcomes which involves identifying possible scenarios that specify the amount and timing of the cash flows for each particular outcome and the estimated probability of that particular outcome.

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.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including the cash flows from the liquidation of any collateral. The Bank uses information obtained from the GEMs database in order to assign LGDs to its banking asset classes. Treasury asset classes derive their LGDs from the assigning rating agency.

Exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on off-balance-sheet commitments.

i) 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.

Notes to the Financial Statements

ii) 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.

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 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.

The calculation of the present value of the estimated future cash flows of a collateralized asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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".

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

b) 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 income.

c) 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 conditions. These are generally renegotiated in response to an adverse change in the financial conditions 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 client (e.g. from single client to joint or change in one of the joint client names).

Notes to the Financial Statements

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 principal, interest or, where relevant fees. Distressed restructuring is occurred when forbearance measures have been extended towards a debtor. Therefore, those forborne 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 2 successful repayments and could therefore be subject to a stage movement.

d) 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.

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.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided so as 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%

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 normally five years. Their carrying values are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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.

Notes to the Financial Statements

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.

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 ten (10%) per cent of the subscribed capital including all paid, unpaid but payable, and unpaid but callable share capital.

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.

Income and Expenses

Interest income and expense are recorded in income for all interest bearing instruments on an accrual basis using the effective interest rate method based on actual contractual terms, with the exception being those assets that are individually identified as impaired for which interest is recognized through unwinding the discount arising from the present value calculations applied to the expected future cash flows. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (inflows and outflows) through the expected life of the financial instrument, or when appropriate, a shorter period to the carrying amount of a financial asset or financial liability.

In accordance with IAS 18, front-end fees and where applicable commitment fees pertaining to loans are amortized through income using the effective interest rate method over the life of the loans. This calculation however, does not include costs that any other party is directly responsible for as: taxes, notary fees, insurance, registration, etc. In the case of early repayment, cancellation or acceleration the outstanding deferred income from the related fees is recalculated taking into account the new maturity date. If the commitment expires without a loan being drawn down, the related fee is recognized as income on expiry.

Other commitment and guarantee fees and fees received in respect of services provided over a period of time are recognized as income on an accrual basis matching the period during which the commitment exists or the services are provided. Additionally, fees from negotiation, cancellation, arrangement, etc are recognized on completion of the related transaction. Dividends are recognized when received. Administrative expenses are recorded on an accrual basis.

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:

Notes to the Financial Statements

- The first pillar is a defined 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 annually by qualified, independent actuaries. The Bank is under the obligation to maintain the scheme fully funded, and to this effect, has always liquidated any past service deficit in 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.
- The second pillar is a defined contribution scheme to which both the employee and the Bank contribute equally at a rate of 0-12% of basic salary. Each employee determines his/her contribution rate and the mode of investment of the contributions.
- The third pillar is a defined contribution scheme funded entirely by each employee, up to 40% of basic salary.

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

Current service costs in respect of both the pension plan and IKA are recognized as an expense and 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 which they are incurred.

Government Grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants relating to fixed asset expenditures are recognized in income on a straight-line basis over the same period as that applied for depreciation purposes. Those relating to administrative expenses are recognized in income matching with the expense incurred.

Operating Leases – the Bank as a Lessee

For the Bank, an operating lease is a lease other than a finance lease. Under such agreements, all the risks and benefits of ownership are effectively retained by the lessor. The Bank has entered into this type of lease for its Headquarters building. Payments made under operating leases are charged to income on a straight-line basis over the period of the lease term. Any benefits received or that are receivable are also recognized on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor, by way of penalty, is recognized as an expense in the period which the termination takes place.

New and Forthcoming Accounting Standards

The Bank in consistency with the published financial statements concerning the fiscal year ending on 31 December 2016, after taking into account the following amendments to the standards which were issued by the International Accounting Standards Board (IASB), adopted by the European Union and applied on and after 1 January 2017:

- **Amendment to International Accounting Standard 7 "Statement of Cash Flows": Disclosure Initiative** (effective for annual periods beginning on or after 1 January 2017)

On 29.1.2016 the International Accounting Standards Board issued an amendment to IAS 7 according to which an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities for which cash flows are classified in the statement of cash flows as cash flows from financing activities. The changes that shall be disclosed, which may arise both from cash flows and non-cash changes, include:

Notes to the Financial Statements

- Changes from financing cash flows;
- Changes arising from obtaining or losing control of subsidiaries or other businesses;
- The effect of changes in foreign exchange rates;
- Changes in fair values, and
- Other changes.

The above amendment has no impact on the Bank's Financial Statements.

- **Amendment to International Accounting Standard 12 “Income Taxes”:** **Recognition of Deferred Tax Assets for Unrealized Losses** (effective for annual periods beginning on or after 1 January 2017)

On 19.1.2016 the International Accounting Standards Board issued an amendment to IAS 12 with which the following were clarified:

- Unrealized losses on debt instruments measured at fair value for accounting purposes and at cost for tax purposes may give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the asset by sale or by use.
- The recoverability of a deferred tax asset is assessed in combination with other deferred tax assets. However, if tax law offsets specific types of losses only against a particular type of income, the relative deferred tax asset shall be assessed in combination with other deferred tax assets of the same type.
- During the deferred tax asset recoverability assessment, an entity compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences.
- The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The above amendment has no impact on the Bank's Financial Statements.

- **Improvements to the International Accounting Standards – cycle 2012-2014** (Regulation 2015/2343/15.12.2015).

As part of the annual improvement project of the International Accounting Standards, the Board issued, on 25.09.2014, non-urgent but necessary amendments to various standards.

The adoption of the above amendments by the Bank had no impact on its financial statements.

- **International Financial Reporting Standard 9:** “Financial Instruments” (Regulation 2017/2395/27.12.2017), (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9: “Financial Instruments” for financial years beginning on or after 1 January 2018, with early application. The Bank has decided to proceed to the early application of the Standard on the financial statements as of 31 December 2017. This Standard replaces IAS 39 “Financial Instruments: Recognition and Measurement”.

Classification and measurement

Under the new framework (International Financial Reporting Standard - IFRS 9), the classification of 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 should be based on criteria established by the Bank.

Notes to the Financial Statements

Procedure for classifying financial assets

The Bank recognizes a financial asset or liability in its financial statements at the time of the creation of the contractual claim or liability arising from the item (that is, the day the transaction took place). In recognition, the Bank determines the business model to which it belongs.

The financial assets are classified in three categories:

- *Financial assets measured at amortized cost (AC):* This category classifies each asset or Bank of assets for which the Bank's business model constitutes its holding for the purpose of collecting contractual cash. The possible sale of financial assets should not be the result of business planning for their management.
- *Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI), that are reclassified at Fair Value through Income Statement on derecognition:* Profits or losses arising from the measurement are recorded in a separate equity account. This category classifies each asset or Bank 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.

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

- *Financial assets measured at Fair Value through Profit or Loss (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:

- The Bank's business model for these assets.
- The characteristics of the contractual cash flows of the asset.

Measurement of financial assets

The Bank measures its assets at fair value on initial recognition. Assets classified at fair value through profit or loss are valued at their transaction price. Assets classified at amortized cost, any transaction costs, or creation costs are included in their transaction price at their measurement. In the event that the Bank considers that the fair value on initial recognition differs from the transaction price, the 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.

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:

- **Hold to collect:**

Each asset or Bank 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".

Notes to the Financial Statements

– **Hold to collect and sell:**

Each asset or Bank 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".

– **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 individual assets.

Assessment of the SPPI condition (assessment of contractual cash flows solely in capital and interest payments)

In 2017, the Bank conducted an assessment of business model applied to the portfolios and carried out a detailed assessment of the contractual terms in the debt securities portfolio on a sample basis, carrying on to cover the entire portfolio, in order to identify possible changes in their classification and measurement. For the most part, the Bank's debt portfolio complies with the "SPPI" condition. Consequently, based on the existing business models as at 31 December 2017, the Bank expects that in general:

- Due from banks and loans and advances to customers that are measured at amortized cost in accordance with IAS 39 will continue to be measured at amortized cost in accordance with IFRS 9;
- Held-to-maturity investment securities that are measured at amortized cost in accordance with IAS 39 will be classified as measured at amortized cost in accordance with IFRS 9;
- Bonds that are classified as available-for-sale in accordance with IAS 39 will be classified according to their business model at their fair value through other comprehensive income directly in equity;
- Debt securities that, according to IAS 39 are measured at amortized cost, will be classified as either measured at amortized cost or at fair value through other comprehensive income directly in equity, depending on their business model;
- Bond that under IAS 39 are measured at fair value through profit or loss, will continue to be measured at fair value through profit or loss in accordance with IFRS 9;
- Trading bonds and derivative financial assets that, according to IAS 39, are measured at fair value through profit or loss, will be classified as measured at fair value through profit or loss in accordance with IFRS 9; and
- Shares that are classified as available-for-sale in accordance with IAS 39 will be measured at fair value through other comprehensive income directly in equity, unless elected at fair value through profit or loss in accordance with IFRS 9.

Notes to the Financial Statements

Impairment of financial assets

IFRS 9 provides that impairment of financial assets will occur regardless of whether a loss event has already occurred and therefore all financial assets measured at amortized cost will be tested to determine whether the credit their quality has changed significantly since the date of their creation. The audit will result in the classification of the data in 3 stages, which in ascending order will indicate the credit risk, and corresponding provisioning charge, of each item.

In this way, 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. These assets 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.

Calculation of Expected Credit Loss

The measurement of expected credit losses differs from their previous calculation under IAS 39, given that the assets classified in Stages 2 and 3 take into account their overall life span. Moreover, the expected credit losses will be weighted on the basis of three macroeconomic scenarios (adverse, basic, and favorable). Consequently, measurement requires the use of complex models and assumptions about macroeconomic conditions. For this reason, the Bank has acquired an IT system from a qualified provider.

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 their creation. Essentially, the Bank examines:

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

Basic parameters 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.

Probability of Default ("PD") represents the probability that a debtor will default on his debt obligations either over the next twelve 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 Expected Credit Loss.

Exposure at Default ("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.

Notes to the Financial Statements

Loss Given 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.

Credit Conversion Factor (“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 (basic, adverse 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.

Hedge Accounting

IFRS 9 introduces a new general hedge accounting model, which links hedge accounting to risk management activities by the 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, entities may continue to apply the requirements of IAS 39 for hedge accounting.

- **International Financial Reporting Standard 15** “Revenue from Contracts with Customers” (Regulation 2016/1905/22.9.2016), (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 “Revenue from Contracts with Customers” was issued on 28.5.2014 by the International Accounting Standards Board. The new standard is the outcome of a joint project by the IASB and the Financial Accounting Standards Board (FASB) to develop common requirements as far as the revenue recognition principles are concerned.

The new standard shall be applied to all contracts with customers, except those that are in scope of other standards, such as financial leases, insurance contracts and financial instruments.

According to the new standard, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. A new revenue recognition model is introduced, by applying the following five steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The performance obligation notion is new and in effect represents a promise in a contract with a customer to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

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The new IFRS 15 supersedes:

- IAS 11 “Construction Contracts”;
- IAS 18 “Revenue”;
- IFRIC 13 “Customer Loyalty Programs”;
- IFRIC 15 “Agreements for the Construction of Real Estate”;
- IFRIC 18 “Transfers of Assets from Customers”; and
- SIC-31 “Revenue—Barter Transactions Involving Advertising Services”.

The Bank anticipates no material impact as a result of adopting IFRS 15.

In addition, the International Accounting Standards Board has issued the following standards and amendments to standards as well as IFRIC 22 which have not yet been adopted by the European Union and they have not been early applied by the Bank.

- **Amendment to International Financial Reporting Standard 2 “Share-based Payment”:** Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018)

On 20.6.2016 the International Accounting Standards Board issued an amendment to IFRS 2 with which the following were clarified:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions shall follow the same approach as for equity-settled share-based payments.
- Where tax law requires an entity to withhold a specified amount of tax (that constitutes a tax obligation of the employee) that relates to share-based payments and shall be remitted to the tax authority, such an arrangement shall be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- If the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification.

The Bank is examining the impact from the adoption of the above amendment on its financial statements.

- **Amendment to International Financial Reporting Standard 4 “Insurance Contracts”:** applying IFRS 9 **Financial Instruments** with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018)

On 12.9.2016 the International Accounting Standards Board issued an amendment to IFRS 4 with which:

- It provides insurers, whose activities are predominantly connected with insurance, with a temporary exemption from application of IFRS 9; and
- Following full adoption of IFRS 9, it gives all entities with insurance contracts the option to present changes in fair value on qualifying designated financial assets in other comprehensive income instead of profit or loss.

The above amendment has no impact on the Bank's Financial Statements.

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- **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 re-measurement 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.

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 above amendment has no impact on the Bank's Financial Statements.

- **International Financial Reporting Standard 14** “Regulatory deferral accounts”

On 30.1.2014 the International Accounting Standards Board issued IFRS 14. The new standard 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 above standard does not apply to the financial statements of the Bank.

- **Amendment to International Financial Reporting Standard 15** “Revenue from Contracts with Customers”: Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

On 12.4.2016 the International Accounting Standards Board issued an amendment to IFRS 15 with which it clarified mainly the following:

- When a promised good or service is separately identifiable from other promises in a contract, which is part of an entity’s assessment of whether a promised good or service is a performance obligation;
- How to apply the principal versus agent application guidance to determine whether the nature of an entity’s promise is to provide a promised good or service itself (i.e. the entity is a principal) or to arrange for goods or services to be provided by another party (i.e. the entity is an agent); and

Notes to the Financial Statements

- For a license of intellectual property, that is a factor in determining whether the entity recognizes revenue over time or at a point in time.

Finally, two practical expedients to the transition requirements of IFRS 15 were added for completed contracts under full retrospective transition approach as well as for contract modifications at transition.

The Bank anticipates no material impact as a result of adopting IFRS 15.

- **Annual improvements to IFRSs – Cycle 2014-2016** (effective for annual periods beginning on or after 1 January 2017 and 01 January 2018)

In December 2016, IASB issued the "Annual Improvements to IFRS - Cycle 2014-2016", which consists of a series of amendments to some Standards and is part of the program for annual improvements to IFRSs. The amendments included in this cycle are as follows: IFRS 12: Clarification of the Scope of the Standard, IFRS 1: Deletion of short-term exemptions for first-time adopters, IAS 28: Measurement of an associate or a joint venture at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017 with respect to IFRS 12 and on or after 1 January 2018 with respect to IFRS 1 and IAS 28. These amendments are not expected to have any material effect on the Financial Statements of the Bank. The above have not been adopted by the European Union.

- **Amendment to IFRS 2: "Share-based Payment: Classification and Measurement of Share-based Payment Transactions"** (effective for annual periods on or after 1 January 2018)

In June 2016, IASB issued a limited-purpose amendment to IFRS 2. The purpose of this amendment is to provide clarification on the accounting treatment of specific types of equity-based payment transactions. In particular, the amendment introduces the requirements regarding the accounting treatment of the effect of vesting and non-vesting conditions on the measurement of cash-based equity-settled payments, the accounting treatment of equity-settled payment transactions bearing a settlement characteristic in a deduction basis for a withholding tax, and an amendment to the terms and conditions of an equity-linked payment which changes the classification of the transaction from cash settled to equity-settled. These amendments are not expected to have any material effect on the Bank's financial statements. The above have not been adopted by the European Union.

- **Amendment to International Accounting Standard 40 "Investment Property: Transfers of Investment Property"** (effective for annual periods on or after 1 January 2018)

In December 2016, IASB issued limited scoping changes to IAS 40. The purpose of these amendments is to strengthen the principle of transfers from or to investment property to determine that (a) a transfer from, or investment in, real estate should only take place if there is a change in the use of the property, (b) such a change in the use of the property would include the assessment of the amount by which the property in question meets the criteria for classification as an investment property. Such change in use should be supported by relevant documentation / evidence. These amendments are not expected to have any material effect on the Bank's Financial Statements. The above have not been adopted by the European Union.

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods on or after 1 January 2018)

In December 2016, IASB issued a new IFRIC 22 Interpretation. This Interpretation includes the exchange rate requirements to be used when presenting foreign currency transactions (e.g. revenue transactions) when payment has been received or paid in advance. These amendments are not expected to have any material effect on the Bank's Financial Statements. The above have not been adopted by the European Union.

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- **Amendment to International Accounting Standard 28: “Investments in Associates”** (effective for annual periods on or after 1 January 2019)

In October 2017, the IASB issued limited-purpose amendments to IAS 28. The purpose of these amendments is to provide clarifications on the accounting treatment of long-term participations in an associate or joint venture - to which the equity method does not apply - based on IFRS 9. These amendments are not expected to have any material effect on the Bank's Financial Statements. The above have not been adopted by the European Union.

- **Annual Improvements to IFRSs – Cycle 2015-2017** (effective for annual periods beginning on or after 1 January 2019)

In December 2017, IASB issued the "Annual Improvements to IFRSs - Cycle 2015-2017", which consists of a series of amendments to certain Standards and is part of the annual improvements program for IFRS. The amendments included in this cycle are as follows: IFRS 3 - IFRS 11: Participation rights previously held by the acquirer in a joint venture, IAS 12: Effect on income tax on payments for financial instruments classified as equity, IAS 23: Borrowing costs eligible for capitalization. The amendments shall be applied for annual periods beginning on or after 1 January 2019. The Bank will examine the impact of all of the above in its Financial Statements, although it is not expected that any impacts will arise. The above have not been adopted by the European Union.

- **International Financial Reporting Standard 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019)

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.

The Bank is examining the impact from the adoption of IFRS 16 on its financial statements.

- **IFRIC 23 “Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after 1 January 2019)

In June 2017, the IASB issued a new IFRIC 23 Interpretation. IAS 12 "Income Taxes" specifies the accounting treatment of current and deferred tax, but does not specify how uncertainty effects should be reflected. IFRIC 23 includes the IAS 12 requirements, specifying how the effects of the uncertainty on the accounting treatment of income taxes should be reflected. The Bank will examine the impact of all of the above in its Financial Statements, although it is not expected that any impacts will arise. The above have not been adopted by the European Union.

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- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021)

In May 2017, the IASB issued a new Standard, IFRS 17, which replaces an interim standard, IFRS 4. The IASB's aim was to develop a single principle-based Standard for the accounting treatment of all types of insurance contracts, including reinsurance contracts held by an insurer. A single principle-based standard will enhance the comparability of the financial reporting between economic entities, jurisdictions and capital markets. IFRS 17 specifies the requirements that an entity should apply to financial reporting that is related to insurance contracts it issues and reinsurance contracts it holds. The Bank will examine the impact of all of the above in its Financial Statements, although it is not expected that any impacts will arise.

4. USE OF ESTIMATES

The preparation of financial statements involves management estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Consequently, the specific considerations regarding the use of management judgment in each area of estimate have been outlined in the respective accounting policy and disclosure note. The Bank's critical accounting judgments and estimates are as follows:

- Provisions for the impairment of loan operations. The Bank's method for determining the level of impairment of loan operations is described in the “impairment” accounting policy and further explained in the relevant risk management policies, of this document. Provisions for loans that have an expected credit loss of 12-month amounted to EUR 1,453 thousand and those loans that have an expected lifetime credit loss but that are not credit impaired amounted to EUR 1,088 thousand.

In determining the above provision amounts the Bank takes into consideration PD (probability of default) and LGD (loss given default) factors extracted from the GEMs data base.

Furthermore, those loans that have an expected lifetime credit loss and are credit impaired amounted to EUR 45,455 thousand. These provisions are assigned according to the degree of potential impairment resulting 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 effective interest rate to reach a net present value for a particular operation, less any collateral that can be realized.

- 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 currencies as the EUR and USD. The Bank's liability to the staff retirement plan at the financial position date was EUR 5,232 thousand.

Actual results could differ from those estimates mentioned above, although such differences are believed not material and do not affect these financial statements.

Notes to the Financial Statements

5. RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through an ongoing process of identification, measurement and monitoring, as well as being subject to risk limits and controls. A conservative approach to risk taking together with effective risk management, are critical to the Bank's continuing operations and profitability. The Board of Directors has approved risk management policies and guidelines that are delegated to the Management of the Bank for the identification and control of risk.

The Bank's lending risk management policy documents describe the procedures for approval, management and review of lending activity exposures. The Bank's Treasury Policies and Procedures define the risk parameters to be observed by the Treasury in managing its exposures. The Bank is exposed to risks identified in this section.

Financial Risk

The Bank's exposure to financial risk is through its financial assets and liabilities including any receivables from these financial assets. Two key aspects of financial risk are (i) credit risk and (ii) liquidity 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. Regular reviews 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 Board of Directors has approved policies and guidelines for the determination of counterparty and investment exposure limits. The Bank's Risk Management Department assigns and monitors these counterparty and issuer credit risk limits. Treasury credit risks are also reviewed on a monthly 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 2017	At 31 December 2016
Presented in EUR (000)		
Cash and bank balances	81,481	70,034
Debt investment securities	292,524	414,539
Derivative financial instruments	1,659	576
Loans	1,135,081	1,139,072
Other assets	26,157	25,652
On-balance-sheet	1,536,902	1,649,873
Undrawn commitments	185,563	160,191
Total	1,722,465	1,810,064

Notes to the Financial Statements

b) 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)	2017				Total
	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	
Analysis by Moody's rating					
Cash and bank balances	81,481	-	-	-	81,481
Debt investment securities	28,420	144,957	119,147	-	292,524
Equity investments	-	-	-	31,361	31,361
At 31 December	109,901	144,957	119,147	31,361	405,366
Of which issued by					
Governments	-	11,632	41,473	-	53,105
Corporates	28,420	133,325	77,674	31,361	270,780
Cash deposits at banks	81,481	-	-	-	81,481
At 31 December	109,901	144,957	119,147	31,361	405,366
Of which classified as					
Fair value through profit or loss	-	-	-	1,600	1,600
Fair value through other comprehensive income	28,420	144,957	119,147	29,761	322,285
Amortized cost	81,481	-	-	-	81,481
At 31 December	109,901	144,957	119,147	31,361	405,366

Notes to the Financial Statements

Presented in EUR (000)	2016				Total
	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	
Analysis by Moody's rating					
Cash and bank balances	70,034	-	-	-	70,034
Debt investment securities	28,542	226,374	159,623	-	414,539
Equity investments	-	-	-	52,766	52,766
At 31 December	98,576	226,374	159,623	52,766	537,339

Of which issued by

Governments	-	15,283	24,156	-	39,439
Corporates	28,542	211,091	135,467	52,766	427,866
Cash deposits at banks	70,034	-	-	-	70,034
At 31 December	98,576	226,374	159,623	52,766	537,339

Of which classified as

Available-for-sale	28,542	226,374	159,623	52,766	467,305
Held-to-maturity	-	-	-	-	-
Amortized cost	70,034	-	-	-	70,034
At 31 December	98,576	226,374	159,623	52,766	537,339

The following table shows the new measurement categories in accordance with IFRS 9 for the Bank's financial instruments as at 1 January 2017.

Presented in EUR (000)	2017				Total
	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	
Of which classified as					
Fair value through profit or loss	-	-	-	5,162	5,162
Fair value through other comprehensive income	28,542	226,374	159,623	47,604	462,143
Amortized cost	70,034	-	-	-	70,034
At 1 January	98,576	226,374	159,623	52,766	537,339

c) 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

Notes to the Financial Statements

c1. 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.

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	9,739	-	-	9,739	1	-	-	1
Fair	646,611	-	-	646,611	608	-	-	608
Weak	339,240	36,481	-	375,721	823	833	-	1,656
Special attention	-	39,142	51,982	91,124	21	255	36,291	36,567
Expected loss	-	-	9,164	9,164	-	-	9,164	9,164
At 31 December 2017	995,590	75,623	61,146	1,132,359	1,453	1,088	45,455	47,996

The table provides overview of the exposure amount and allowance for credit losses by financial asset class broken down as per IAS 39 requirements. Loans that are neither past due nor impaired are categorized as standard within collective impairment, and those loans that are individually identified as impaired are categorized within specific impairment.

Presented in EUR (000)							
Internal risk rating category	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Collective provisions for impairment	Specific provisions for impairment	Total
Very strong	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-
Good	125,798	-	-	125,798	996	-	996
Fair	452,960	-	-	452,960	3,587	-	3,587
Weak	457,616	-	-	457,616	3,624	-	3,624
Special attention	26,474	3,558	33,511	63,543	238	6,376	6,614
Expected loss	-	-	39,155	39,155	-	15,310	15,310
At 31 December 2016	1,062,848	3,558	72,666	1,139,072	8,445	21,686	30,131

Notes to the Financial Statements

d) 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 Board of Directors 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. As at 31 December 2017 the secured portfolio was 57.9 per cent (2016: 65.7 per cent) 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 2017 the Bank had pledged cash collateral in an amount of EUR 17,670 thousand (2016: EUR 36,950 thousand).

e) Liquidity risk

Liquidity risk 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. The Bank's 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. 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 Board of Directors, including a minimum liquidity ratio of 50% of the Bank's net cash requirements over the next twelve months on a rolling basis. The Bank's liquid assets are maintained in short-term placements and negotiable securities.

Notes to the Financial Statements

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	601	2,482	68,552	730,352	11,199	813,186
Derivative financial instruments	-	18,242	-	-	-	18,242
Payables and accrued interest	-	10,190	5,232	-	-	15,422
Financial Liabilities at 31 December 2017	601	30,914	73,784	730,352	11,199	846,850
Borrowings	685	1,906	77,094	902,696	39,411	1,021,792
Derivative financial instruments	-	35,100	-	-	-	35,100
Payables and accrued interest	-	10,920	4,648	-	-	15,568
Financial Liabilities at 31 December 2016	685	47,926	81,742	902,696	39,411	1,072,460

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

Market Risk

Market risk refers to the possibility of losses due to changes in the market prices of financial instruments, interest rates and exchange rates. The Bank funds its operations by using its 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 risk.

Notes to the Financial Statements

a) Foreign exchange risk

Exchange rate risk is the impact of unanticipated changes in foreign exchange rates on the Bank's assets and liabilities, and any impact that could mirror on the income statement. The Bank monitors its assets and liabilities in order to ensure the Bank takes no significant foreign exchange risks. In doing so the Bank matches, to the extent practicable, the assets in any one currency, after swap activities, with liabilities in the same currency.

Furthermore, to avoid currency mismatches, borrowers are required to service their loans in the currencies disbursed by the Bank.

The effect of any currency fluctuations on the net exposure of the Bank is minimal. The tables below provide a currency breakdown of the Bank's assets and liabilities.

Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other	Total
Assets					
Cash and bank balances	69,084	12,034	-	363	81,481
Debt investment securities	135,077	157,447	-	-	292,524
Impairment losses on debt investment securities	(127)	(149)	-	-	(276)
Derivatives financial instruments	1,659	-	-	-	1,659
Loans	595,412	487,161	-	52,508	1,135,081
Deferred income	(2,567)	(3,280)	-	(372)	(6,219)
Impairment losses on loans	(26,358)	(21,222)	-	(416)	(47,996)
Equity investments	16,682	14,679	-	-	31,361
Other assets	13,004	11,589	222	1,342	26,157
Total	801,866	658,259	222	53,425	1,513,772
Liabilities					
Borrowings	76,756	500,214	85,667	59,955	722,592
Derivative financial instruments	18,242	-	-	-	18,242
Payables and accrued interest	7,197	7,073	52	1,100	15,422
Total	102,195	507,287	85,719	61,055	756,256
Net financial instruments	699,671	150,972	(85,497)	(7,630)	757,516
Derivative financial instruments	75,757	(155,250)	85,455	7,485	13,447
Currency balance at 31 December 2017	775,428	(4,278)	(42)	(145)	770,963

Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other	Total
Assets					
Cash and bank balances	66,664	3,301	5	64	70,034
Debt investment securities	219,951	194,588	-	-	414,539
Derivatives financial instruments	576	-	-	-	576
Loans	465,527	634,725	-	38,820	1,139,072
Deferred income	(2,400)	(4,904)	-	(322)	(7,626)
Impairment losses on loans	(13,184)	(16,640)	-	(307)	(30,131)
Equity investments	32,174	15,496	-	5,096	52,766
Other assets	8,836	15,186	337	1,293	25,652
Total	778,144	841,752	342	44,644	1,664,882
Liabilities					
Borrowings	73,179	622,577	93,423	73,354	862,533
Derivative financial instruments	35,100	-	-	-	35,100
Payables and accrued interest	6,624	7,808	50	1,086	15,568
Total	114,903	630,385	93,473	74,440	913,201
Net financial instruments	663,241	211,367	(93,131)	(29,796)	751,681
Derivative financial instruments	101,524	(212,931)	93,119	34,628	16,340
Currency balance at 31 December 2016	764,765	(1,564)	(12)	4,832	768,021

Notes to the Financial Statements

b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is determined on a financial instrument indicates to what extent it is exposed to interest rate risk. The Asset and Liability Management Unit monitors the interest rate exposure of the Bank.

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	81,478	-	-	-	3	81,481
Debt investment securities	59,297	60,000	9,169	164,058	-	292,524
Derivative financial instruments	-	-	-	-	1,659	1,659
Loans	184,975	228,824	549,697	171,585	-	1,135,081
Equity investments	-	-	-	-	31,361	31,361
Other assets	-	-	-	-	26,157	26,157
Total	325,750	288,824	558,866	335,643	59,180	1,568,263
Liabilities						
Borrowings	-	53,071	77,687	591,834	-	722,592
Derivative financial instruments	-	-	-	-	18,242	18,242
Payables and accrued interest	-	-	-	-	15,422	15,422
Total	-	53,071	77,687	591,834	33,664	756,256
Derivative financial instruments	(12,351)	(98,071)	(371,615)	482,037	-	-
Interest rate risk at 31 December 2017	313,399	137,682	109,564	225,846	25,516	812,007

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	70,033	-	-	-	1	70,034
Debt investment securities	139,366	100,000	18,974	156,199	-	414,539
Derivative financial instruments	-	-	-	-	576	576
Loans	229,165	303,343	530,744	75,820	-	1,139,072
Equity investments	-	-	-	-	52,766	52,766
Other assets	-	-	-	-	25,652	25,652
Total	438,564	403,343	549,718	232,019	78,995	1,702,639
Liabilities						
Borrowings	-	64,346	82,873	715,314	-	862,533
Derivative financial instruments	-	-	-	-	35,100	35,100
Payables and accrued interest	-	-	-	-	15,568	15,568
Total	-	64,346	82,873	715,314	50,668	913,201
Derivative financial instruments	(14,168)	(106,348)	(421,390)	541,906	-	-
Interest rate risk at 31 December 2016	424,396	232,649	45,455	58,611	28,327	789,438

Notes to the Financial Statements

c) Sensitivity analysis

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 sensitivity. Secondly, there is the absolute rate earned on assets that are funded by the Bank's equity resources. The majority of these equity resources are currently invested in the Bank's loan portfolio at floating rates; therefore, subjecting earnings on equity resources to some 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 2017	At 31 December 2016
Presented in EUR (000)		
Euro	588,000	329,000
United states dollar	200,000	(105,000)
Total re-pricing gap	788,000	224,000
Shift of 50 basis points in the EUR curve	3,938	1,119

Operational Risk

The Bank defines operational risk as all aspects of risk related exposure other than those falling within the scope of financial and market risk. This includes the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and legal risk. The Bank has a low tolerance for losses arising from the operational risks it is exposed to.

Where any such risks are identified, appropriate mitigation and control measures are put in place. The Bank's operational risk management focuses on proactive measures to mitigate the operational risk. 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.

Classification and Fair Value

a) Classification

All loans are classified as "at amortized cost", except for those loans classified as "at fair value through profit or loss (FVTPL)" that do not meet the solely payments of principal and interest (therefore had not passed the SPPI test) as determined by the Bank.

Investment securities classified as "at fair value through other comprehensive income (FVTOCI)" include government and corporate bonds and Euro Commercial Paper, and their fair value has been determined using quoted prices.

Equity investments classified as "at fair value through profit or loss (FVTPL)" include investments that are quoted on an exchange (i.e. private equity) or those elected having their fair value based on cash outflows and inflows. Equity investments classified as "at fair value through other comprehensive income (FVTOCI)" include investments in that are not quoted on an exchange (i.e. private equity), the fair value of which has been estimated with techniques that use inputs not based on observable market data.

Notes to the Financial Statements

b) 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 2017		
	Fair value through profit or loss (mandatory)	Amortized cost	Carrying amount
Assets			
Cash and bank balances	-	81,481	81,481
Loans	2,722	1,132,358	1,135,080
Deferred income	-	(6,219)	(6,219)
Impairment losses on loans	-	(47,996)	(47,996)
Other assets	-	26,157	26,157
Total financial assets	2,722	1,185,781	1,188,503
Liabilities			
Borrowings	-	722,592	722,592
Payables and accrued interest	-	15,422	15,422
Total financial liabilities	-	738,014	738,014

Presented in EUR (000)	At 31 December 2016		
	Loans and receivables	Amortized cost	Carrying amount
Assets			
Cash and bank balances	-	70,034	70,034
Loans	1,139,072	-	1,139,072
Deferred income	-	(7,626)	(7,626)
Impairment losses on loans	(30,131)	-	(30,131)
Other assets	25,652	-	25,652
Total financial assets	1,134,593	62,408	1,197,001
Liabilities			
Borrowings	-	862,533	862,533
Payables and accrued interest	-	15,568	15,568
Total financial liabilities	-	878,101	878,101

The following table shows the original measurement categories under IAS 39 and the new measurement categories in accordance with IFRS 9 for the Bank's financial instruments as at 1 January 2017.

Presented in EUR (000)	At 1 January 2017			
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Assets				
Cash and bank balances	Amortized cost	Amortized cost	70,034	70,034
Loans	Loans and receivables	Amortized cost	1,139,072	1,136,350
Deferred income	Amortized cost	Amortized cost	(7,626)	(7,626)
Impairment losses on loans	Loans and receivables	Amortized cost	(30,131)	(41,480)
Other assets	Loans and receivables	Amortized cost	25,652	25,652
Total financial assets			1,197,001	1,182,930
Liabilities				
Borrowings	Amortized cost	Amortized cost	862,533	862,533
Payables and accrued interest	Amortized cost	Amortized cost	15,568	15,568
Total financial liabilities			878,101	878,101

Notes to the Financial Statements

c) 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	-	1,659	-	1,659
Fair value through profit or loss:				
Loans	-	2,722	-	2,722
Equity investments	-	-	1,600	1,600
Fair value through other comprehensive income:				
Debt investment securities	292,524	-	-	292,524
Equity investments	-	-	29,761	29,761
Derivative financial instruments – liabilities	-	(18,242)	-	(18,242)
At 31 December 2017	292,524	(13,861)	31,361	310,024

There have been no transfers between Level 1 and Level 2 during the year. For Level 1 and Level 2 the valuation techniques used are broker quotes and observable market data, or discounted cash flow models. 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	-	576	-	576
Available-for-sale:				
Debt investment securities	414,539	-	-	414,539
Equity investments	-	-	52,766	52,766
Derivative financial instruments – liabilities	-	(35,100)	-	(35,100)
At 31 December 2016	414,539	(34,524)	52,766	432,781

The following table shows the original measurement categories under IAS 39 and the new measurement categories in accordance with IFRS 9 for the Bank's financial instruments as at 1 January 2017.

Presented in EUR (000)	Original classification under IAS 39	New classification under IFRS 9	At 1 January 2017	
			Original carrying amount under IAS 39	New carrying amount under IFRS 9
Derivative financial instruments – assets	FVTPL	FVTPL (mandatory)	576	576
Fair value through profit or loss:				
Loans	Amortized cost	FVTPL (mandatory)	4,939	4,939
Equity investments	Available-for-sale	FVTPL (elected)	5,162	5,162
Fair value through other comprehensive income:				
Debt investment securities	Available-for-sale	FVTOCI (elected)	414,539	414,539
Equity investments	Available-for-sale	FVTOCI (elected)	47,604	47,604
Derivative financial instruments – liabilities	FVTPL	FVTPL (mandatory)	(35,100)	(35,100)
At 31 December 2016			437,720	437,720

Notes to the Financial Statements

d) 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 2017	At 31 December 2016
At 1 January	52,766	63,800
Total gains or (losses) recognized in the income statement	1,600	(4,404)
Total gains or (losses) recognized in other comprehensive income	(21,641)	(4,097)
Purchases, sales, issues and settlements	(1,364)	(2,533)
At end of year	31,361	52,766

e) 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	31,361	1,568	(1,568)

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 Board of Governors 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 Board of Governors a unanimously adopted first amendment to the Establishing Agreement became effective on 21 June 2013. As of this effective date, and as per Resolution 131 of the Board of Governors, the unit of account of the Bank became the EUR and which 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 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 Board of Directors 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 2.2 billion.

Notes to the Financial Statements

The Bank preserves an actively managed capital 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 Board of Governors 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 capital is available to support the Bank's operations.

6. OPERATING SEGMENTS

The Bank is a multilateral financial institution dedicated to accelerating development and promoting cooperation among its shareholder countries. The Bank operates in a specific geographical area and the primary reporting format for business segments includes Lending and Treasury operations. Lending activities represent investments in projects such as loans, equity investments and guarantees, which in accordance with the Establishing Agreement, are made to accelerate development and promote cooperation among the Bank's shareholder countries. 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)	2017			2016		
	Lending	Treasury	Total	Lending	Treasury	Total
Income statement						
Interest income	61,512	8,293	69,805	61,806	6,170	67,976
Net fees and commissions	2,087	-	2,087	1,746	2	1,748
Other income (expense)	5,975	482	6,457	747	4	751
Total segment revenues	69,574	8,775	78,349	64,299	6,176	70,475
Less: interest expense	(36,726)	(5,311)	(42,037)	(32,744)	(5,427)	(38,171)
Net fair value and foreign exchange	-	2,110	2,110	-	(1,488)	(1,488)
Less: personnel and other admin. expenses	(18,195)	(1,085)	(19,280)	(17,624)	(875)	(18,499)
Less: depreciation and amortization	(451)	(10)	(461)	(579)	(11)	(590)
Segment income before impairment	14,202	4,479	18,681	13,352	(1,625)	11,727
Less: impairment / fair value (losses)	(9,750)	(276)	(10,026)	(9,976)	-	(9,976)
Net income for the year	4,452	4,203	8,655	3,376	(1,625)	1,751

Presented in EUR (000)	31 December 2017			31 December 2016		
	Lending	Treasury	Total	Lending	Treasury	Total
Financial position						
Segment assets	1,139,538	375,388	1,514,926	1,180,722	485,149	1,665,871
At end of year			1,514,926			1,665,871
Segment liabilities	738,014	18,242	756,256	878,101	35,100	913,201
Members' equity	-	-	758,670	-	-	752,670
At end of year			1,514,926			1,665,871

The geographical segment reporting of the Bank is presented in note 16 "Operational analysis".

7. INTEREST INCOME

Interest and similar income is analyzed as follows:

Presented in EUR (000)	Year to	Year to
	31 December 2017	31 December 2016
From loans and advances	61,512	61,806
From placements with financial institutions	7	5
From investment securities at fair value through OCI (2016: AFS)	6,627	5,044
From derivative financial assets at fair value through profit or loss	1,659	1,121
Interest income	69,805	67,976

Notes to the Financial Statements

8. INTEREST EXPENSE

Interest and similar expense is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2017	Year to 31 December 2016
From borrowed funds	8,045	8,422
From issued debt	27,132	23,149
From derivative financial liabilities at fair value profit or loss	4,812	5,037
From amortized issuance and arrangement costs	1,549	1,173
From other charges	499	390
Interest expense	42,037	38,171

9. NET FEES AND COMMISSIONS

Net fees and commissions is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2017	Year to 31 December 2016
Guarantee fees	235	180
Management fees	461	490
Appraisal fees	259	116
Administration fees	57	81
Surveillance fees	71	69
Prepayment / cancellation fees	884	675
Other fees	120	137
Net Fees and commissions	2,087	1,748

10. PERSONNEL AND OTHER ADMINISTRATIVE EXPENSES

Administrative expenses are analyzed as follows:

Presented in EUR (000)	Year to 31 December 2017	Year to 31 December 2016
Salaries and benefits	11,505	11,490
Staff retirement plans	3,270	2,827
Personnel expenses	14,775	14,317
Professional fees and related expenses	1,003	860
Utilities and maintenance	1,454	1,395
Other administrative	2,048	1,927
Other administrative expenses	4,505	4,182

The average number of staff employed during the year 112 (2016: 109). The number of staff at 31 December 2017 was 112 (2016: 110). Further analysis of the staff retirement plan is presented in 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 were as follows:

Presented in EUR (000)	Under IFRS 9			Under IAS 39		Total
	Stage 1	Stage 2	Stage 3	Collective	Specific	Total
At 31 December 2015	-	-	-	8,498	18,058	26,556
Charge	-	-	-	6,359	7,241	13,600
Release	-	-	-	(6,659)	(1,079)	(7,738)
Against write-offs	-	-	-	-	(2,812)	(2,812)
Foreign exchange adjustments	-	-	-	247	278	525
At 31 December 2016	-	-	-	8,445	21,686	30,131
IFRS 9 transition	(3,711)	2,289	12,771	-	-	11,349
At 1 January 2017	2,234	4,515	34,731	-	-	41,480
Charge	401	-	19,238	-	-	19,639
Release	(3,388)	(6,918)	(208)	-	-	(10,514)
Transfer	2,578	3,794	(6,372)	-	-	-
Against write-offs	-	-	(485)	-	-	(485)
Foreign exchange adjustments	(372)	(303)	(1,449)	-	-	(2,124)
At 31 December 2017	1,453	1,088	45,455	-	-	47,996

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 on the financial instrument since its initial recognition. The IFRS 9 transition is the amount arising by the reclassification of these financial assets from IAS 39, which reduced such amount in retained earnings.

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 not directly related to the specifics of any particular operation. 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 expected credit losses 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 2017 the amount of expected credit losses was EUR 112 thousand.

12. DEBT INVESTMENT SECURITIES

Debt investment securities are analyzed as follows:

Presented in EUR (000)	At	At
	31 December 2017	31 December 2016
Government bonds	53,105	39,439
Corporate bonds	129,419	128,153
Commercial papers	110,000	246,947
Debt investment securities fair value through OCI (2016: AFS)	292,524	414,539
Less: impairment losses	(276)	-
Debt investment securities net of impairment	292,248	414,539

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 2017			At 31 December 2016		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	liabilities		assets	liabilities
Currency swap purchases	52,174	52,174	-	40,000	40,000	-
Currency swap sales	(51,543)	(50,968)	-	(40,149)	(39,691)	-
Designated fair value hedges	-	453	(18,242)	-	267	(35,100)
Derivative financial instruments	631	1,659	(18,242)	(149)	576	(35,100)

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 ("CSA"s). 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 2017	At 31 December 2016
Loans at amortized cost:		
At 1 January	1,139,072	1,049,732
Disbursements	386,211	443,738
Less: repayments	(318,214)	(366,957)
Disposal	-	-
Write-offs	(485)	(2,812)
Foreign exchange movements	(74,225)	15,371
Outstanding disbursements	1,132,359	1,139,072
Less: deferred income	(6,219)	(7,626)
Less: impairment losses	(47,996)	(30,131)
Loans at fair value:		
Outstanding disbursements	4,939	-
Fair value adjustment	(2,217)	-
Loans net of impairment	1,080,866	1,101,315

At 31 December 2017 the principal amount of outstanding disbursements was EUR 1,137,298 thousand. As of this date the amount of interest and similar income that has not been accrued related to impaired loans was EUR 13,832 thousand, out of which an amount of EUR 808 thousand refers to the current year.

In 2017 the Bank had one restructured loan operation for the reporting year.

The carrying amount of loans under IFRS 9 with respect to their related stages and allowance for impairment is analyzed as follows:

Presented in EUR (000)	At 31 December 2017	At 31 December 2016
Stage 1	995,590	-
Less: deferred income	(6,219)	-
Less: allowance for impairment	(1,453)	-
Carrying amount	987,918	-
Stage 2	75,623	-
Less: allowance for impairment	(1,088)	-
Carrying amount	74,535	-
Stage 3	61,146	-
Less: allowance for impairment	(45,455)	-
Carrying amount	15,691	-
Fair value through profit or loss	2,722	-
Carrying amount	1,080,866	-

Notes to the Financial Statements

The carrying amount of loans under IAS 39 is analyzed as follows:

Presented in EUR (000)	At 31 December 2016
Collectively impaired	1,062,848
Less: deferred income	(7,626)
Less: allowance for impairment	(8,416)
Carrying amount	1,046,806
Past due but not impaired	3,558
Less: allowance for impairment	(29)
Carrying amount	3,529
Individually impaired	72,666
Less: allowance for impairment	(21,686)
Carrying amount	50,980
Carrying amount at amortized cost	1,101,315

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 "Operational analysis".

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 invested in the entities as detailed below.

Presented in EUR (000)	% of Investment	At 31 December 2017		At 31 December 2016	
		Cost	Fair value	Cost	Fair value
Balkan Accession Fund	9.09	-	1,600	3,032	5,162
At fair value through profit or loss		-	1,600	3,032	5,162
SEAF Caucasus Growth Fund	21.39	7,040	5,499	7,812	6,024
Access Bank, Azerbaijan	20.00	14,148	-	9,118	5,095
A-Park Kaluga, Russia	19.99	1,714	340	1,714	1,979
Emerging Europe Accession Fund	10.15	1,840	6,921	4,897	10,218
Rusal	0.01	4	248	4	170
ADM Ceecat Recovery Fund	5.65	6,636	7,422	8,687	10,155
European Virgin Fund	21.05	8,724	8,933	9,925	9,303
Teamnet International	8.33	5,599	398	5,599	4,660
Natfood	0.01	-	-	-	-
At fair value through other comprehensive income		45,705	29,761	47,756	47,604
Equity investments at fair value		45,705	31,361	50,788	52,766

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 2017, as Management considers that is 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.

The decrease of EUR 14,344 thousand corresponds to the difference between acquisition cost and fair value as of 31 December 2017.

During the year the Bank had realized a dividend income of EUR 1,715 thousand from its investment in the A-Park Kaluga. In addition, the Bank had realized a net income of EUR 4,263 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, is not recycled to the income statement.

As of 31 December 2017 the Bank has a committed amount of EUR 6,417 thousand towards the above entities participation. Further analysis of the equity investment portfolio is presented in note "Operational analysis".

As at 31 December 2017 the Bank has three 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. OPERATIONAL ANALYSIS

The analysis of operational activity of the Bank by geographical area, instrument and sector are presented below:

Presented in EUR (000)	At 31 December 2017		At 31 December 2016	
	Outstanding balance	Undrawn commitments	Outstanding balance	Undrawn commitments
Analysis by instrument				
Loans	1,135,081	166,733	1,139,072	138,150
Equity investments	31,361	6,417	52,766	8,238
Guarantees	-	12,413	-	13,803
At end of year	1,166,442	185,563	1,191,838	160,191

Analysis by country

Albania	42,468	175	43,481	11,664
Armenia	84,051	447	97,341	5,317
Azerbaijan	60,710	18,791	91,296	27,160
Bulgaria	100,252	526	85,645	731
Georgia	67,025	21,552	78,270	28,607
Greece	173,203	7,500	95,314	-
Moldova	36,060	8,100	10,914	4,593
Romania	116,332	15,734	145,728	1,014
Russia	180,383	505	220,862	529
Turkey	273,993	110,707	263,790	79,174
Ukraine	31,965	1,526	59,197	1,402
At end of year	1,166,442	185,563	1,191,838	160,191

Loans analysis by sector

Consumer discretionary	26,129	-	46,519	-
Consumer staples	108,635	7,284	120,509	-
Energy	106,176	-	78,949	6,432
Financial institutions	386,337	49,040	367,265	47,547
Health care	61,177	107,492	43,251	75,371
Industrials	158,241	2,917	92,178	-
Information technology	9,000	-	9,875	-
Materials	129,065	-	195,611	-
Real estate	2,723	-	5,878	-
Telecom services	33,330	-	50,000	8,800
Utilities	114,268	-	129,037	-
At end of year	1,135,081	166,733	1,139,072	138,150

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 Board of Directors 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

Operations are monitored according to a schedule coordinated by the Department of Project Implementation and Monitoring, with inputs from the originated Banking 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 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.

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 2015	790	95	594	1,585	3,064
Additions	37	105	21	89	252
Disposals	-	(95)	(38)	(154)	(287)
At 31 December 2016	827	105	577	1,520	3,029
Additions	23	1	20	219	263
Disposals	-	-	(47)	(17)	(64)
At 31 December 2017	850	106	550	1,722	3,228
Accumulated depreciation					
At 31 December 2015	619	90	502	1,232	2,443
Charges	126	17	40	180	363
Disposals	-	(95)	(38)	(154)	(287)
At 31 December 2016	745	12	504	1,258	2,519
Charges	52	22	34	164	272
Disposals	-	-	(47)	(17)	(64)
At 31 December 2017	797	34	491	1,405	2,727
Net book value					
At 31 December 2017	53	72	59	317	501
At 31 December 2016	82	93	73	262	510
At 31 December 2015	171	5	92	353	621

Notes to the Financial Statements

18. INTANGIBLE ASSETS

Intangible assets comprising computer software are analyzed as follows:

Presented in EUR (000)	Total
Cost	
At 31 December 2015	3,753
Additions	222
At 31 December 2016	3,975
Additions	367
At 31 December 2017	4,342
Accumulated amortization	
At 31 December 2015	3,270
Charges	226
At 31 December 2016	3,496
Additions	193
At 31 December 2017	3,689
Net book value	
At 31 December 2017	653
At 31 December 2016	479
At 31 December 2015	483

19. OTHER ASSETS

Other assets are analyzed as follows:

Presented in EUR (000)	At 31 December 2017	At 31 December 2016
Accrued interest	16,974	17,612
Advances and prepaid expenses	5,850	5,545
Other prepayments	184	184
Guarantee deposits	3,149	2,311
Other assets	26,157	25,652

Notes to the Financial Statements

20. BORROWINGS

Borrowing facilities and bond issuance, 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 2017 the Bank had issued debt securities in the amount of EUR 555,404 thousand.

Presented in EUR (000)	At 31 December 2017		At 31 December 2016	
	Amount used	Amount arranged	Amount used	Amount arranged
Euro	76,756	96,756	73,179	113,179
United States dollar	500,214	583,596	622,577	622,577
Japanese yen	-	-	12,155	12,155
Swiss franc	85,667	85,667	93,423	93,423
Romanian lei	21,850	21,850	22,380	22,380
Georgian lari	34,650	34,650	38,819	38,819
Armenian dram	3,455	3,455	-	-
Total	722,592	825,974	862,533	902,533

The Interest rate on borrowings falls within an approximate range of Euribor or USD Libor of +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.

21. PAYABLES AND ACCRUED INTEREST

Payables and accrued interest is analyzed as follows:

Presented in EUR (000)	At 31 December 2017	At 31 December 2016
	Accrued interest	9,136
Social insurance fund (IKA) contributions	5	4
Pension plan obligation	5,232	4,648
Suppliers and other accrued expenses	990	953
Other	59	50
Payables and accrued interest	15,422	15,568

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 Board of Governors ("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 Board of Governors 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.

Notes to the Financial Statements

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.

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 fifty per cent reduction of their portion of subscribed capital, from 2% to 1% of the initial authorized capital the Board of Governors 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 Board of Governors 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 Board of Governors approved the request from Moldova for a fifty per cent reduction of its portion of subscribed capital, from 1% to 0.5%, and those shares were released to unallocated share capital.

Notes to the Financial Statements

The above share capital is analyzed as follows:

Presented in EUR (000)	At 31 December 2017	At 31 December 2016
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 but not yet due	(44,984)	(72,741)
Less: shares payments past due	-	-
Paid-up share capital	641,566	613,809
Advance against future call	-	-
Paid-in share capital	641,566	613,809

* 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 Board of Governors in participation by Moldova.

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

Presented in EUR (000)	Initial capital	Capital increase	Total
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)
Less: shares payable but not yet due	-	(44,984)	(44,984)
Less: shares payments past due	-	-	-
Paid-up share capital	334,650	306,916	641,566
Advance against future call	40	(40)	-
Paid-in share capital	334,690	306,876	641,566

Notes to the Financial Statements

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	1,725	12,075
Armenia	20,000	23,000	16,100	288	6,612
Azerbaijan	100,000	115,000	80,500	1,438	33,062
Bulgaria	270,000	310,500	217,350	3,881	89,269
Georgia	10,000	11,500	8,050	-	3,450
Greece	330,000	379,500	265,650	4,744	109,106
Moldova	10,000	11,500	8,050	-	3,450
Romania	280,000	322,000	225,400	4,168	92,432
Russian Fed.	330,000	379,500	265,650	4,744	109,106
Turkey	330,000	379,500	265,650	4,744	109,106
Ukraine	270,000	310,500	217,350	19,252	73,898
Total	1,990,000	2,288,500	1,601,950	44,984	641,566

23. RESERVES

Reserves are analyzed as follows:

Presented in EUR (000)	General	Other comprehensive income	Other	Total
At 31 December 2015	53,655	139	(344)	53,450
Gains (losses) on revaluation of investments	-	(5,003)	-	(5,003)
Remeasurements of defined benefit scheme	-	-	(3,021)	(3,021)
Transferred from retained earnings	1,751	-	-	1,751
At 31 December 2016	55,406	(4,864)	(3,365)	47,177
Gains (losses) on revaluation of investments	-	(19,294)	-	(19,294)
Remeasurements of defined benefit scheme	-	-	231	231
Transferred from retained earnings	5,469	-	-	5,469
At 31 December 2017	60,875	(24,158)	(3,134)	33,583

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. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES ON THE DATE OF INITIAL APPLICATION OF IFRS 9

The following table analyses the impact of transition to IFRS 9 on retained earnings. The impact relates to the retained earnings. There is no impact on other components of members' equity.

Presented in EUR (000)	Impact of adopting IFRS 9 at 1 January 2017
Retained earnings	
Closing balance under IAS 39 (31 December 2016)	91,684
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	(11,349)
Opening balance under IFRS 9 (1 January 2017)	80,335

The recognition of expected credit losses is due to the adoption of IFRS 9 as the Bank recorded a one-time transition effect on retained earnings of negative EUR 11,349 thousand. This transition impact represents as if the new classification in accordance with IFRS 9, had been applied retrospectively.

Under IFRS 9, expected credit losses are based on reasonable and supportable forward looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

The following table reconciles:

- The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2016
- The opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2017.

Presented in EUR (000)	At 31 December 2016 IAS 39/IAS 37	Reclassifica- tion	Remeasure- ment	At 1 January 2017 (IFRS 9)
Loans and receivables and held to maturity securities under IAS 39/ financial assets at amortized cost under IFRS 9 (includes cash and cash equivalents, loans and advances to banks and advances to customers)	1,209,106	(4,939)	(11,349)	1,192,818
Available-for-sale debt investment securities under IAS 39/ debt financial assets at FVTOCI under IFRS 9	414,539	-	-	414,539
Loan commitments and financial guarantee contracts	151,953	-	-	151,953
Total	1,775,598	(4,939)	(11,349)	1,759,310

Notes to the Financial Statements

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analyzed as follows:

Presented in EUR (000)	At 31 December 2017	At 31 December 2016
Cash on hand	3	1
Investments maturing up to 1 month:		
Cash deposits at banks	81,478	70,033
At fair value through other comprehensive income portfolio	55,000	137,973
Investment maturing from 1 month to 3 months:		
At fair value through other comprehensive income portfolio	60,000	100,070
Cash and cash equivalents	196,481	308,077

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 internal financial policies.

Notes to the Financial Statements

26 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 2017. 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 2017	At 31 December 2016
Amounts recognized in the statement of financial position		
Present value of the defined benefit obligations	27,111	25,021
Fair value of plan assets	(21,879)	(20,373)
Net liability at end of the year	5,232	4,648
Amounts recognized in the income statement		
Service cost	2,124	1,748
Net interest on the net defined benefit liability/(asset)	75	19
Administration expense	47	64
Total included in personnel expenses	2,246	1,831
Remeasurements recognized in other comprehensive income		
At 31 December	(6,952)	(3,931)
Liability gain (loss) due to changes in assumptions	(505)	(4,032)
Liability experiences gain (loss) arising during the year	419	601
Return on plan assets excluding income statement amounts	317	410
Total amount recognized in OCI during the year	231	(3,021)
Cumulative in other comprehensive income (expense)	(6,721)	(6,952)
Principal actuarial assumptions used		
Discount rate	1.78%	1.88%
Expected return on plan assets	1.78%	1.88%
Future salary increase	2.00%	2.00%
Future pension increase	2.00%	2.00%
Average remaining working life of employees	12 years	12 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 1.78% pa.

Notes to the Financial Statements

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

Presented in EUR (000)	At 31 December 2017	At 31 December 2016
Major categories of plan assets		
Cash instruments	14%	16%
Fixed interest	45%	40%
Equities	38%	39%
Other	3%	5%
Reconciliation of plan assets		
Market value at 1 January	20,373	18,696
Expected return	395	519
Contributions paid	1,431	1,387
Benefit pensions and lump sum paid to pensioners	(590)	(575)
Expenses	(47)	(64)
Asset gain (loss)	317	410
Fair value of plan assets	21,879	20,373

The actual investment return on assets of the Fund for the year was 4.2%. 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 2018 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)	2017	2016	2015	2014	2013
Defined benefit obligations	27,111	25,021	19,879	20,321	13,879
Plan assets	(21,879)	(20,373)	(18,696)	(15,657)	(13,758)
Plan deficit (surplus)	5,232	4,648	1,183	4,664	121
Net experience adjustments on plan liabilities (assets)	(419)	4,032	(1,822)	5,624	(443)

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)	Increase	Decrease	Increase	Decrease
	At 31 December 2017		At 31 December 2016	
Discount rate (1% movement)	(3,926)	3,926	(3,434)	3,434
Future salary growth (1% movement)	1,438	(1,438)	1,902	(1,902)

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.

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 997 thousand (2016: EUR 962 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 27 thousand (2016: EUR 34 thousand) and is included in "Personnel expense".

27 OPERATING LEASES

The Bank has entered into lease contracts for its Headquarters and other premises. These are operating leases and include renewal options and periodic escalation clauses. There is no commitment at end of year for non-cancellable lease contracts. Rental expenses for the year included in "Other administrative expenses" totaled EUR 691 thousand (2016: EUR 696 thousand).

28 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, covered by medical insurance, 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 1,217 thousand (2016: EUR 1,256 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 Board of Directors 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 2017 the Bank administered two special funds. Extracts from the audited financial statements are included under the "Summary of special funds".

Notes to the Financial Statements

29. CHANGE IN ACCOUNTING POLICIES

Except for the change below the Bank has consistently applied the accounting policies as the previous years.

Financial Instruments

The Bank has early adopted IFRS 9: Financial Instruments, with the date of initial application of 1 January 2017. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9 the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Bank's accounting policies resulting from the adoption of IFRS 9 are summarized below.

Classification of Financial Assets and Financial Liabilities

IFRS 9 contains three principal classification categories for financial assets: (a) measured at amortized cost (b) fair value through profit or loss ("FVTPL") and (c) fair value through other comprehensive income ("FVTOCI"). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of change in the fair value is presented in income statement.

Impairment of Financial Assets

IFRS 9 replaces the previous "incurred loss" model under IAS 39 with a new "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative years have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings at 1 January 2017. Accordingly, the information presented for 2016 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented in 2017 under IFRS 9.

Notes to the Financial Statements

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVTOCI.
 - For financial liabilities designated as FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in other comprehensive income ("OCI") would create or enlarge an accounting mismatch in the income statement.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Notes to the Financial Statements

30. 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 2017	At 31 December 2016
Statement of movements		
Balance brought forward	8	29
Net income (loss) for the year	-	-
Less: disbursements	-	(21)
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

With the Development Bank of Austria

The Technical Cooperation Special Fund's objective is to cover reasonable technical cooperation activities in the Bank's member countries, with a strong potential to generate an opportunity for the Development Bank of Austria to co-finance a project in the private sector in connection with a technical cooperation activity. The movement in the Fund is shown below.

Presented in EUR (000)	At 31 December 2017	At 31 December 2016
Statement of movements		
Balance brought forward	92	186
Net income (loss) for the year	-	(2)
Less: disbursements	(8)	(92)
Balance of available funds	84	92
Financial position		
Placements with other financial institutions	84	92
Total Assets	84	92
Unallocated fund balance	84	92
Total Liabilities and Contributor Resources	84	92