DOCUMENT OF THE
BLACK SEA TRADE AND DEVELOPMENT BANK

Financial Statements for the Year Ended 31 December 2018

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 accompanying financial statements of Black Sea Trade and Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2018, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to the audit of the financial statements in the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our 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.

Key audit matter	**How the matter was addressed in our audit**
Impairment Losses on Loans at amortized cost 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 complex accounting standard which requires significant judgment to determine the impairment reserve.	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 tested the operating effectiveness of relevant controls over the: - Data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit

Key audit matter	How the matter was addressed in our audit
Key areas of judgment included: — 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 (unemployment rates, gross domestic product growth). — The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model. Refer to pages 17 to 21 of the financial statements for a description of the accounting policies and to pages 31 to 34 for an analysis of credit risk.	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. — We assessed and tested the material modeling assumptions as well as overlays with a focus on the: - Key modeling assumptions adopted by the Bank. - Basis for and data used to determine overlays. - Sensitivity of the provisions to changes in modeling assumptions. — We examined a sample of exposures and performed procedures to evaluate the: - Timely identification of exposures with a significant deterioration in credit quality. - Expected loss calculation for exposures assessed on an individual basis. — We involved our own specialists for evaluating areas of credit models that required specific expertise. — We assessed the accuracy of the disclosures in the financial statements.

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 S.A.
Athens, Greece
19 April 2019

INCOME STATEMENT

For the year ended 31 December

Presented in thousands of EUR	Note	2018	2017
Interest income	7	78,717	68,146
Interest expense	8	(37,974)	(37,225)
Net interest (expense) on derivatives		(7,599)	(3,153)
Net interest income		**33,144**	**27,768**
Net fees and commissions	9	1,652	2,087
Dividend income		-	1,715
Net gains from equity investments through profit or loss	15	572	4,263
Net gains from debt investment securities through OCI		29	482
Foreign exchange income (losses)		(1,352)	2,110
Other (loss) income		(3)	(3)
Operating income		**34,042**	**38,422**
Personnel expenses	10,25	(15,952)	(14,775)
Other administrative expenses	10	(4,770)	(4,505)
Depreciation and amortization	17,18	(453)	(461)
Income before impairment		**12,867**	**18,681**
Impairment (losses) on loans at amortized cost	11	(6,292)	(9,125)
Impairment (losses) on guarantees		-	(8)
Impairment (losses) on debt investment securities through OCI	12	(368)	(276)
Fair value (losses) on loans through profit or loss	14	(446)	(2,217)
Fair value gains (losses) on equity investments through profit or loss	15	(585)	1,600
Net income for the year		**5,176**	**8,655**

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	2018	2017
Net income for the year		5,176	8,655
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability (asset)	23	2,414	231
Net change in equity investments financial assets	23	713	(21,641)
Items that are or may be reclassified to profit or loss:			
Net change in investment securities financial assets	23	(8,929)	2,347
Total comprehensive income (loss) for the year		**(626)**	**(10,408)**

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

STATEMENT OF FINANCIAL POSITION

At 31 December

Presented in thousands of EUR	Note	2018	2017
Assets			
Cash and cash equivalents	24	48,598	81,481
Debt investment securities at amortized cost	12,24	49,339	-
Debt investment securities at fair value through other comprehensive income	12,24	346,640	292,524
Less: impairment losses	12	(644)	(276)
Debt investment securities net		395,335	292,248
Derivative financial instruments – assets	13	662	1,659
Loans at amortized cost	14,16	1,318,418	1,132,359
Less: deferred income	14	(3,052)	(6,219)
Less: impairment losses	11,14	(34,775)	(47,996)
Loans at fair value through profit or loss	14	12,277	2,722
Loans net of impairment		1,292,868	1,080,866
Equity investments at fair value through profit or loss	15,16	1,015	1,600
Equity investments at fair value through other comprehensive income	15,16	26,640	29,761
Equity investments at fair value		27,655	31,361
Property and equipment	17	455	501
Intangible assets	18	653	653
Other assets	19	29,541	26,157
Total Assets		**1,795,767**	**1,514,926**
Liabilities			
Borrowings	20	954,030	722,592
Derivative financial instruments – liabilities	13	24,164	18,242
Payables and accrued interest	21	15,973	15,422
Total liabilities		994,167	756,256
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)
Less: payable share capital past due	22,28	(1,428)	-
Paid-in share capital		685,122	641,566
Reserves	23	32,957	33,583
Retained earnings		83,521	83,521
Total members' equity		801,600	758,670
Total Liabilities and Members' Equity		**1,795,767**	**1,514,926**
Off-balance-sheet items			
Commitments	16	252,801	185,563

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 Subscribed	Callable	Payable	Reserves	Retained Earnings	Total
At 31 December 2016	**2,288,500**	**(1,601,950)**	**(72,741)**	**47,177**	**91,684**	**752,670**
Impact of adoption IFRS 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	-	-	-	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**
Total comprehensive income						
Net income for the year	-	-	-	-	5,176	5,176
Other comprehensive income						
Fair value reserve (financial assets)	-	-	-	(8,216)	-	(8,216)
Remeasurement of defined benefit liability	-	-	-	2,414	-	2,414
Total comprehensive income	-	-	-	(5,802)	5,176	(626)
Transactions with owners of the Bank						
Members' contributions:						
Paid-in share capital	-	-	43,556	-	-	43,556
Transfer to general reserve	-	-	-	5,176	(5,176)	-
Total contributions and Distributions	-	-	43,556	5,176	(5,176)	43,556
At 31 December 2018	**2,288,500**	**(1,601,950)**	**(1,428)**	**32,957**	**83,521**	**801,600**

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	2018	2017
Cash flows from operating activities			
Net income for the year		5,176	8,655
Adjustment for:			
Depreciation and amortization	17,18	453	461
Impairment losses	11,12	6,660	9,409
Fair value losses on loans at FVTPL	14	446	2,217
Fair value (gains) losses on equity investments at FVTPL	15	585	(1,600)
Net interest income		(33,144)	(27,768)
Foreign exchange adjustment on provisions	11	1,073	(2,124)
Operating (loss) before changes in operating assets		(18,751)	(10,750)
Changes in:			
Derivative financial instruments	13	6,919	(17,941)
Other assets	19	(189)	(1,143)
Accounts payable	21	(808)	622
Deferred income	14	(3,167)	(1,407)
Fair value movements	23	(8,216)	(19,294)
Cash generated from operations		(24,212)	(49,913)
Proceeds from repayment of loans	14	377,988	318,214
Proceeds from repayment of equity investments		4,756	9,408
Funds advanced for loans	14	(572,966)	(386,211)
Funds advanced for equity investments		(859)	(7,556)
Foreign exchange and other adjustments		(827)	91,542
Interest income received		75,522	68,784
Interest expense paid		(44,214)	(41,155)
Net cash from / (used in) operating activities		(184,812)	3,113
Cash flows from investing activities			
Proceeds from investment securities at FVTOCI		409,139	573,130
Purchase of investment securities at FVTOCI		(523,141)	(575,025)
Purchase of property, software and equipment	17,18	(408)	(630)
Net cash from / (used in) investing activities		(114,410)	(2,525)
Cash flows from financing activities			
Proceeds received from share capital	22	43,556	27,757
Proceeds from borrowings	20	433,639	106,736
Repayments of borrowings	20	(202,201)	(246,677)
Net cash from / (used in) financing activities		274,994	(112,184)
Net increase in cash and cash equivalents		**(24,228)**	**(111,596)**
Cash and cash equivalents at beginning of year	24	196,481	308,077
Cash and cash equivalents at end of year	24	**172,253**	**196,481**

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 Komninon 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 customers.

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

Headquarters Agreement

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

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 2018 were submitted by the Management Committee to the Board of Directors ("BoD") for approval on 19 April 2019, 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 16 June 2019.

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.

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	31 December
			2018	2017
1 EUR	=	United States dollar	1.14500	1.19930
	=	Pound sterling	0.89453	0.88723
	=	Russian ruble	79.71530	69.39200
	=	Azerbaijan manat	1.94680	2.03070
	=	Georgian lari	3.07010	3.11690
	=	Armenian dram	553.65000	568.10000
		Romanian leu	4.66350	4.65850

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.

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

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.

Financial Assets

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

Classification

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

1. *Financial assets measured at amortized cost (“AC”)*: this category classifies each asset or group of assets for which the Bank's business model constitutes its holding for the purpose of collecting contractual cash flows. The possible sale of financial assets should not be the result of business planning for their management.

2. *Financial assets measured at fair value through other comprehensive income (“FVOCI”)*, and are after reclassified at fair value through profit or loss on derecognition: gains or losses arising from the measurement are recorded in a separate members’ equity account. This category classifies each asset or group of assets for which the Bank's business model recommends that it be held for the purpose of collecting contractual cash flows and selling them when the business planning of their acquisition has been achieved.

3. Financial assets (equity instruments) measured at fair value through other comprehensive income. The Bank made an irrevocable election to designated equity instruments at fair value through other comprehensive income. This designation is made at initial recognition and on an instrument basis. Gains and losses on these instruments included were derecognized are recorded in other comprehensive income and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement.

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

4. *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 (i) the Bank’s business model for these assets and (ii) the characteristics of the contractual cash flows of the asset.

Measurement

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

Financial assets that are subsequently measured at either 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.

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

Business model assessment

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

i) Hold to collect

Each asset or 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”.

ii) 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”.

iii) Trading portfolio

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

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

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

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

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.

Impairment

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. This resulted in the classification of the data in 3 stages, which in ascending order indicates the credit risk and corresponding provisioning charge, of each item.

As such, stage 1 includes assets whose credit quality is not significantly degraded and the impairment that they will incur will be equal to a 12-month Expected Credit Loss ("ECL"). Stage 2 includes assets whose credit quality has been substantially downgraded and are subject to lifetime ECL. The same applies to the items classified in Stage 3, where all the impaired items, including non-performing loans ("NPLs"), fall.

Calculation of expected credit loss

The Bank recognizes allowance for expected credit losses ("ECL") that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, debt securities, and loan commitments. No ECLs are recognized on equity investments. ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk ("SICR") since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. The expected credit losses are weighted on the basis of three macroeconomic scenarios (adverse, basic and favorable).

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

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

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

Basic parameters used for the calculation of expected credit loss

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

PD represents the probability that a debtor will default on his debt obligations either over the next 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.

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

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

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

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

Hedge Accounting

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

a) Financial assets, at amortized cost (“AC”)

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.

b) Financial assets, at fair value through other comprehensive income ("FVTOCI")

b1. 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.

b2. 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 though other comprehensive income. Those not elected are measured at fair value through profit or loss.

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 statement.

c) 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 loans 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 though 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.

Financial Liabilities

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

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.

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

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

i) Qualitative

Unlikeliness 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 unlikeliness to pay (in line with CRR (Article 178)).

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

Impairment losses and allowance are determined based on an expected loss model, 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.

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

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 customer (e.g. from single customer to joint or change in one of the joint customer names).

A distressed restructuring is an indication of unlikeliness to pay where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement of 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.

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 Expense

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

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

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

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

i) Amortized cost and gross carrying amount

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

The “gross carrying amount of a financial asset” is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

ii) Calculation of interest income and expense

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

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

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

iii) Fees and commissions

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period. A contract with a customer that results in a recognized financial instrument in the Bank’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is

the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

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

Staff Retirement and Termination Benefits

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

a. The first pillar is a defined 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.

b. 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.

c. 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 Amended Standards and Interpretations

The following new standards, amendments to standards and new interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IC), apply from 1 January 2018:

- **IFRIC 22, Foreign Currency Transactions and Advance Consideration**

  IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions that involve an advance payment or receipt. The interpretation clarifies that in this case, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the entity initially recognized the non-monetary asset (prepayment asset) or non-monetary liability (deferred income liability) arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt. The adoption of the interpretation had no impact on the Bank’s financial statements.

- **IFRS 4, Amendment-Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

  The amendment addresses the accounting consequences of the different effective dates of IFRS 9 ‘Financial Instruments’ and the forthcoming new insurance contracts Standard. It introduces two options for entities that issue insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

  The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance, allowing them to continue to apply IAS 39 ‘Financial Instruments: Recognition and Measurement’ while they defer the application of IFRS 9 until 1 January 2021 at the latest.

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets, effectively resulting in IAS 39 accounting for those designated financial assets. This approach can be used provided that the entity applies IFRS 9 in conjunction with IFRS 4 and classifies financial assets at fair value through profit or loss in accordance with IFRS 9, when those assets were previously classified at amortized cost or as available-for-sale in accordance with IAS 39.

The amendment is not relevant to the Bank's activities.

- **IFRS 2, Amendment-Classification and Measurement of Share-based Payment Transactions**

The amendment addresses (a) the measurement of cash-settled share-based payments, (b) the accounting for modifications of a share-based payment from cash-settled to equity-settled and c) the classification of share-based payments settled net of tax withholdings.

Specifically, the amendment clarifies that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments. It also clarifies that the liability of cash- settled share-based payment modified to equity-settled one is derecognized and the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted and any difference is recognized in profit or loss immediately.

Furthermore, a share-based payment net by withholding tax on the employee's behalf (a net settlement feature) is classified as equity settled in its entirety, provided it would have been classified as equity-settled had it not included the net settlement feature.

The adoption of the amendment had no impact on the Bank's financial statements.

- **IAS 40, Amendment-Transfers of Investment Property**

The amendment clarifies that a transfer of property, including property under construction or development, into or out of investment property should be made only when there has been a change in use of the property. Such a change in use occurs when the property meets, or ceases to meet, the definition of investment property and should be supported by evidence. The adoption of the amendment had no impact on the Bank's financial statements.

- **Annual Improvements to IFRSs 2014-2016 Cycle**

The IASB through the 2014-2016 annual improvements cycle, provided a clarification for IAS 28 'Investments in Associates and Joint Ventures': It is clarified that venture capital organizations, mutual funds, unit trusts and similar entities are allowed to elect measuring their investments in associates or joint ventures at fair value through profit or loss. Such election can be performed on an investment-by-investment basis in associates or joint ventures. The adoption of the amendment had no impact on the Bank's financial statements.

- **IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments**

IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognize and replaced existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programs'.

IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 'Financial Instruments', IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures';
- Lease contracts within the scope of IAS 17 'Leases' (or IFRS 16 'Leases'); and
- Insurance contracts within the scope of IFRS 4 'Insurance Contracts'.

Therefore, interest and fee income integral to financial instruments will continue to fall outside the scope of IFRS 15.

IFRS 15 specifies that revenue should be recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services. It introduces the concept of recognizing revenue for performance obligations as they are satisfied and the control of a good or service (i.e. the ability to direct the use of and obtain the benefits from them), is obtained by the customer. For services provided over time, such as management fee income earned for asset management services provided and variable performance fee income based on the return of the underlying asset at a particular date, consideration is recognized as the service is provided to the customer provided that it is probable that a significant reversal of consideration will not occur.

IFRS 15 was amended in April 2016 to provide several clarifications, including that in relation to the identification of the performance obligations within a contract.

The adoption of the standard and its amendment had no impact on the Bank's financial statements as net interest income, which is a primary revenue stream of the Bank, is not impacted by the adoption of IFRS 15. Furthermore, regarding Bank's revenue from contracts with customers, including fee and commission income, there was no change in the accounting treatment as transactions executed at point in time, as it is consistent with the Bank's existing accounting policy.

New standards, amendments to standards and interpretations not yet adopted by the Bank

A number of new standards, amendments to existing standards and interpretations are effective after 2018, as they have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

- **IFRS 9, Amendment–Prepayment Features with Negative Compensation (effective 1 January 2019)**

  The amendment changes IFRS 9 requirements in order to allow measurement of a financial asset at amortized cost or at FVOCI, depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination receiving compensation from the other party (negative compensation). Therefore, measurement of these financial assets will be regardless of the event or circumstance that caused the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination. Applying IFRS 9 before the amendment would probably result in the measurement of these financial assets at FVTPL.

  The amendment also confirms the modification accounting of financial liabilities under IFRS 9. Specifically, when a financial liability measured at amortized cost is modified without this resulting in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognized in profit or loss.

  The adoption of the amendment is not expected to impact the Bank's financial statements.

- **IFRS 16, Leases (effective 1 January 2019)**

  IFRS 16, which supersedes IAS 17 'Leases' and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17.

The definition of a lease under IFRS 16 mainly relates to the concept of control. The new standard distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

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

IFRS 16 provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.

The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment.

The lease liability is initially recognized at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

Consequently, the typical straight line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the 'right-of-use-asset' and the interest expense on the 'lease liability'. The recognition of assets and liabilities by lessees, as described above, is not required for certain short term leases and leases of low value assets. The accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

Transition to IFRS 16

The date of initial application of IFRS 16 for the Bank will be 1 January 2019. The Bank is considering to choose the modified retrospective application of IFRS 16 and therefore comparative information will not be restated.

Lessee Accounting

In accordance with IFRS 16, at the commencement date of the lease, the Bank as a lessee will recognize right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments. The Bank intends to apply this initial measurement principle to all leases, except for those with lease term of 12 months or less - making use of the short-term leases and leases of low-value assets exemptions.

The Bank has not completed the assessment of the impact from IFRS 16 adoption yet which is not expected to be material.

With regard to subsequent measurement, the Bank, acting as a lessee, will apply the cost model for the measurement of right-of-use asset. Accordingly, the right-of-use asset will be measured at cost less any accumulated depreciation and accumulated impairment losses and adjusted for the remeasurement of the lease liability.

On the other hand, interest expense will be recognized on the lease liabilities, while their carrying amount will be reduced to reflect the lease payments made. In case of any reassessments or lease modifications specified, the carrying amount of the lease liabilities will be remeasured to reflect revised lease payments.

- **IAS 28, Amendment – Long Term Interests in Associates and Joint Ventures (effective 1 January 2019)**

The amendment clarifies that IFRS 9 'Financial Instruments' including its impairment requirements, applies to long term interests in associates or joint ventures that form part of the entity's net investment in the associate or joint venture but are not accounted for using equity accounting.

According to the amendment, an entity should not take into account any adjustments to the carrying amount of long term interests (net investment in the associate or joint venture), resulting from the application of IAS 28 ‘Investments in Associates and Joint Ventures’ when applying IFRS 9. The adoption of the amendment is not expected to impact the Bank’s financial statements.

- **IAS 19, Amendment –Plan Amendment, Curtailment or Settlement (effective 1 January 2019)**

The amendment clarifies that when a change to a defined benefit plan i.e. an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Additionally, the amendment includes clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The adoption of the amendment is not expected to impact the Bank’s financial statements.

- **Annual Improvements to IFRSs 2015-2017 Cycle (effective 1 January 2019)**

The improvements introduce key changes to several standards as set out below: The amendments to IFRS 3 ‘Business Combinations’ and IFRS 11 ‘Joint Arrangements’ clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. Specifically, when an entity obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party re-measures the entire previously held interest in the assets and liabilities of the joint operation at fair value. Conversely, if a party obtains joint control, of a business that is a joint operation then the previously held interest is not re-measured.

The improvement to IAS 12 ‘Income Taxes’ clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognized in profit or loss, other comprehensive income or equity, according to where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognized.

IAS 23 ’Borrowing costs’ amendment clarified that any borrowing originally performed to develop a qualifying asset should be treated as part of the funds that the entity borrowed generally, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The adoption of the amendments is not expected to impact the Bank’s financial statements.

- **Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)**

In March 2018, the IASB issued its revised Conceptual Framework. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced a new chapter of measurement, updated definitions of an asset/liability and recognition criteria, as well as clarifications on important areas. The adoption of the amendment is not expected to impact the Bank’s financial statements.

- **Amendment to IFRS 3 Business Combinations (effective 1 January 2020)**

The IASB issued amendments to the definition of a business in IFRS 3 “Business Combinations” to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, and add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The adoption of the amendment is not expected to impact the Bank’s financial statements.

- **Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020)**

  The amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” aim to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. According to the new definition an information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The adoption is not expected to impact the Bank’s financial statements.

- **IFRS 17, Insurance Contracts (effective 1 January 2022)**

  IFRS 17, which supersedes IFRS 4 ‘Insurance Contracts’ provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features provided that the entity also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

  According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted future cash flows, a risk adjustment and a contractual service margin (‘CSM’) representing the unearned profit of the contracts. Under the model, estimates are remeasured at each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced or if the contracts are of short duration.

  Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e. amounts repaid to policyholders even if the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

  IFRS 17 is not relevant to the Bank’s activities.

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:

a. 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 3,520 thousand and those loans that have an expected lifetime credit loss but that are not credit impaired amounted to EUR 4,274 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 26,981 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.

b. 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 3,971 thousand.

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

Presented in EUR (000)	At 31 December 2018	At 31 December 2017
Cash and bank balances	48,598	81,481
Debt investment securities	395,979	292,524
Derivative financial instruments	662	1,659
Loans	1,330,695	1,135,081
Other assets	29,541	26,157
On-balance-sheet	**1,805,475**	**1,536,902**
Undrawn commitments	252,801	185,563
Total	**2,058,276**	**1,722,465**

b) Analysis by rating agency

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

	2018				
	Aaa –	A1 –	Baa1 –		
Presented in EUR (000)	Aa3	A3	Ba3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	48,598	-	-	-	**48,598**
Debt investment securities	21,813	105,979	268,187	-	**395,979**
Equity investments	-	-	-	27,655	**27,655**
At 31 December	**70,411**	**105,979**	**268,187**	**27,655**	**472,232**
Of which issued by					
Governments	8,734	8,666	25,582	-	**42,982**
Corporates	13,079	97,313	242,605	27,655	**380,652**
Cash deposits at banks	48,598	-		-	**48,598**
At 31 December	**70,411**	**105,979**	**268,187**	**27,655**	**472,232**
Of which classified as					
Fair value through profit or loss	-	-	-	1,015	**1,015**
Fair value through other comprehensive income	21,813	105,979	218,848	26,640	**373,280**
Amortized cost	48,598	-	49,339	-	**97,937**
At 31 December	**70,411**	**105,979**	**268,187**	**27,655**	**472,232**

	2017				
	Aaa –	A1 –	Baa1 –		
Presented in EUR (000)	Aa3	A3	Ba3	Unrated	**Total**
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**

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

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. Internally, loans that are within the 12-month ECL are categorized as standard.

Presented in EUR (000)

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

Presented in EUR (000)

					Provisions for impairment			
Internal risk rating category	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	**Total**	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	**Total**
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**

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 2018 the secured portfolio was 52.4 per cent (2017: 57.9 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 2018 the Bank had pledged cash collateral in an amount of EUR 22,810 thousand (2017: EUR 17,670 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.

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	18,240	24,107	232,861	754,250	27,958	**1,057,416**
Derivative financial instruments	-	24,164	-	-	-	**24,164**
Payables and accrued interest	-	12,002	3,971	-	-	**15,973**
Financial Liabilities at 31 December 2018	**18,240**	**60,273**	**236,832**	**754,250**	**27,958**	**1,097,553**
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**

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.

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

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**

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.

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

	Interest bearing					
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	Non-interest bearing	**Total**
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**

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.

Presented in EUR (000)	At 31 December 2018	At 31 December 2017
Euro	936,000	588,000
United states dollar	191,000	200,000
Total re-pricing gap	1,127,000	788,000
Shift of 50 basis points in the EUR curve	**5,637**	**3,938**

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.

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.

		At 31 December 2018	
Presented in EUR (000)	Fair value through profit or loss (mandatory)	Amortized cost	**Carrying amount**
Assets			
Cash and bank balances	-	48,598	**48,598**
Debt investment securities	-	49,339	**49,339**
Loans	12,277	1,318,418	**1,330,695**
Deferred income	-	(3,052)	**(3,052)**
Impairment losses on loans	-	(34,775)	**(34,775)**
Other assets	-	29,541	**29,541**
Total financial assets	**12,277**	**1,408,069**	**1,420,346**
Liabilities			
Borrowings	-	954,030	**954,030**
Payables and accrued interest	-	15,973	**15,973**
Total financial liabilities	**-**	**970,003**	**970,003**

		At 31 December 2017	
Presented in EUR (000)	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**

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	-	662	-	**662**
Fair value through profit or loss:				
Loans	-	-	12,277	**12,277**
Equity investments	-	-	1,015	**1,015**
Fair value through other comprehensive income:				
Debt investment securities	346,640			**346,640**
Equity investments	-		26,640	**26,640**
Derivative financial instruments – liabilities	-	(24,164)	-	**(24,164)**
At 31 December 2018	**346,640**	**(23,502)**	**39,932**	**363,070**

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	-	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**	**(16,583)**	**34,083**	**310,024**

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 2018	At 31 December 2017
At 1 January	31,361	52,766
Total gains or (losses) recognized in the income statement	(585)	1,600
Total gains or (losses) recognized in other comprehensive income	713	(21,641)
Purchases, sales, issues and settlements	(3,834)	(1,364)
At end of year	**27,655**	**31,361**

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	27,655	1,383	(1,383)

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 2.4 billion.

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 co-operation 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.

	2018			2017		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Income statement						
Interest income	70,129	8,588	78,717	61,512	6,634	68,146
Net fees and commissions	1,652	-	1,652	2,087	-	2,087
Other income (expense)	569	29	598	5,975	482	6,457
Total segment revenues	72,350	8,617	80,967	69,574	7,116	76,690
Less: interest expense	(37,513)	(461)	(37,974)	(36,726)	(499)	(37,225)
Less: net interest expense on derivatives	-	(7,599)	(7,599)	-	(3,153)	(3,153)
Foreign exchange	-	(1,352)	(1,352)	-	2,110	2,110
Less: personnel and other admin. expenses	(19,283)	(1,439)	(20,722)	(18,195)	(1,085)	(19,280)
Less: depreciation and amortization	(442)	(11)	(453)	(451)	(10)	(461)
Segment income before impairment	15,112	(2,245)	12,867	14,202	4,479	18,681
Less: impairment / fair value (losses)	(7,323)	(368)	(7,691)	(9,750)	(276)	(10,026)
Net income for the year	**7,789**	**(2,613)**	**5,176**	**4,452**	**4,203**	**8,655**

	31 December 2018			31 December 2017		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Financial position						
Segment assets	1,351,172	444,595	1,795,767	1,139,538	375,388	1,514,926
At end of year			**1,795,767**			**1,514,926**
Segment liabilities	970,003	24,164	994,167	738,014	18,242	756,256
Members' equity	-	-	801,600	-	-	758,670
At end of year			**1,795,767**			**1,514,926**

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 31 December 2018	Year to 31 December 2017
From loans and advances	70,129	61,512
From placements with financial institutions	126	7
From investment securities at amortized cost	51	-
From investment securities at fair value through OCI	8,411	6,627
Interest income	**78,717**	**68,146**

8. INTEREST EXPENSE

Interest and similar expense is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2018	Year to 31 December 2017
From borrowed funds	6,435	8,045
From issued debt	29,619	27,132
From amortized issuance and arrangement costs	1,459	1,549
From other charges	461	499
Interest expense	**37,974**	**37,225**

9. NET FEES AND COMMISSIONS

Net fees and commissions is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2018	Year to 31 December 2017
Guarantee fees	276	235
Management fees	371	461
Appraisal fees	195	259
Administration fees	36	57
Arrangement fees	132	-
Surveillance fees	54	71
Prepayment / cancellation fees	489	884
Other fees	99	120
Net Fees and commissions	**1,652**	**2,087**

10. PERSONNEL AND OTHER ADMINISTRATIVE EXPENSES

Administrative expenses are analyzed as follows:

Presented in EUR (000)	Year to 31 December 2018	Year to 31 December 2017
Salaries and benefits	12,672	11,505
Staff retirement plans	3,280	3,270
Personnel expenses	**15,952**	**14,775**
Professional fees and related expenses	1,094	1,003
Utilities and maintenance	1,474	1,454
Other administrative	2,202	2,048
Other administrative expenses	**4,770**	**4,505**

The average number of staff employed during the year 111 (2017: 112). The number of staff at 31 December 2018 was 110 (2017: 112). Further analysis of the staff retirement plan is presented in note “Employee benefits”.

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)	Stage 1	Stage 2	Stage 3	Total
At 31 December 2016	-	-	-	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
Charge	3,284	3,239	7,221	13,744
Release	(1,656)	(2,608)	(3,188)	(7,452)
Against write-offs	-	-	(20,586)	(20,586)
Foreign exchange adjustments	439	2,555	(1,921)	1,073
At 31 December 2018	**3,520**	**4,274**	**26,981**	**34,775**

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 from the first time adoption of IFRS 9, which reduced the 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 lmpairmentCalc tool. Provisions for impairment in Stage 1 are therefore affected by specifics of any particular operation together by general market scenarios. They are meant to protect against potential risks that are considered present, or within a 12-month horizon, and derived from potentially adverse developments in operating conditions beyond the control of individual borrowers.

Staging Criteria lifetime ECL (Stages 2 and 3)

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

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

Revolving facilities and undrawn commitments

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

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 2018 the amount of expected credit losses was 376 thousand (2017: EUR 112 thousand).

12. DEBT INVESTMENT SECURITIES

Debt investment securities are analyzed as follows:

Presented in EUR (000)	At 31 December 2018	At 31 December 2017
Government bonds	141,268	53,105
Corporate bonds	141,043	129,419
Commercial papers	113,668	110,000
Debt investment securities	395,979	292,524
Less: impairment losses	(644)	(276)
Debt investment securities net of impairment	**395,335**	**292,248**

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

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

	At 31 December 2018			At 31 December 2017		
Presented in EUR (000)	Notional amount	Fair value		Notional amount	Fair value	
		Assets	liabilities		assets	liabilities
Currency swap purchases	33,012	-	33,019	52,174	52,174	-
Currency swap sales	(33,569)	-	(33,569)	(51,543)	(50,968)	-
Designated fair value hedges	-	662	(23,614)	-	453	(18,242)
Derivative financial instruments	**(557)**	**662**	**(24,164)**	**631**	**1,659**	**(18,242)**

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.

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 2018	At 31 December 2017
Loans at amortized cost:		
At 1 January	1,132,359	1,139,072
Disbursements	572,966	386,211
Less: repayments	(377,988)	(318,214)
Disposal	-	-
Write-offs	(20,586)	(485)
Foreign exchange movements	11,667	(74,225)
Outstanding disbursements	1,318,418	1,132,359
Less: deferred income	(3,052)	(6,219)
Less: impairment losses	(34,775)	(47,996)
Loans at fair value:		
Outstanding disbursements	14,939	4,939
Fair value adjustment	(2,662)	(2,217)
Loans net of impairment	**1,292,868**	**1,080,866**

At 31 December 2018 the principal amount of outstanding disbursements was EUR 1,333,357 thousand (2017: EUR 1,137,298 thousand).

In 2018 the Bank had two restructured loan operations for the reporting year.

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

Presented in EUR (000)	At 31 December 2018	At 31 December 2017
Stage 1	1,050,830	995,590
Less: deferred income	(3,052)	(6,219)
Less: allowance for impairment	(3,520)	(1,453)
Carrying amount	1,044,258	987,918
Stage 2	225,851	75,623
Less: allowance for impairment	(4,274)	(1,088)
Carrying amount	221,577	74,535
Stage 3	41,737	61,146
Less: allowance for impairment	(26,981)	(45,455)
Carrying amount	14,756	15,691
Fair value through profit or loss	12,277	2,722
Carrying amount	**1,292,868**	**1,080,866**

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".

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.

		At 31 December 2018		At 31 December 2017	
Presented in EUR (000)	% of Investment	Cost	Fair value	Cost	Fair value
Balkan Accession Fund	9.09	-	1,015	-	1,600
At fair value through profit or loss		-	1,015	-	1,600
SEAF Caucasus Growth Fund	21.39	5,488	4,289	7,040	5,499
Access Bank, Azerbaijan	20.00	14,759	-	14,148	-
A-Park Kaluga, Russia	19.99	1,714	340	1,714	340
Emerging Europe Accession Fund	10.15	2,303	5,981	1,840	6,921
Rusal	0.01	4	123	4	248
ADM Ceecat Recovery Fund	5.65	4,988	5,652	6,636	7,422
European Virgin Fund	21.05	8,264	10,255	8,724	8,933
Teamnet International	8.33	5,599	-	5,599	398
Natfood	0.01	-	-	-	-
EOS Hellenic Renaissance Fund	3.18	47	-	-	-
At fair value through other comprehensive income		43,166	26,640	45,705	29,761
Equity investments at fair value		**43,166**	**27,655**	**45,705**	**31,361**

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 2018, 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.

During the year the Bank had realized a net income of EUR 572 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 2018 the Bank has a committed amount of EUR 8,680 thousand towards the above entities participation. Further analysis of the equity investment portfolio is presented in note "Operational analysis".

As at 31 December 2018 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.

16. OPERATIONAL ANALYSIS

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

	At 31 December 2018		At 31 December 2017	
Presented in EUR (000)	Outstanding balance	Undrawn commitments	Outstanding balance	Undrawn commitments
Analysis by instrument				
Loans	1,330,695	233,099	1,135,081	166,733
Equity investments	27,655	8,680	31,361	6,417
Guarantees	-	11,022	-	12,413
At end of year	**1,358,350**	**252,801**	**1,166,442**	**185,563**
Analysis by country				
Albania	37,629	87	42,468	175
Armenia	91,730	431	84,051	447
Azerbaijan	53,867	6,544	60,710	18,791
Bulgaria	153,265	32,418	100,252	526
Georgia	113,856	20,802	67,025	21,552
Greece	202,146	2,953	173,203	7,500
Moldova	38,909	2,181	36,060	8,100
Romania	172,322	7,707	116,332	15,734
Russia	128,113	59,940	180,383	505
Turkey	306,218	70,322	273,993	110,707
Ukraine	60,295	49,416	31,965	1,526
At end of year	**1,358,350**	**252,801**	**1,166,442**	**185,563**
Analysis by sector				
Consumer discretionary	13,634	30,247	26,129	-
Consumer staples	103,029	118	108,635	7,284
Energy	155,586	-	106,176	-
Financial institutions	537,037	85,109	416,712	55,457
Health care	75,021	42,177	61,177	107,492
Industrials	182,167	-	158,241	2,917
Information technology	5,734	-	9,398	-
Materials	110,200	33,987	129,313	-
Real estate	2,617	32,000	3,063	-
Telecom services	16,665	-	33,330	-
Utilities	156,660	29,163	114,268	12,413
At end of year	**1,358,350**	**252,801**	**1,166,442**	**185,563**

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.

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 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
Additions	26	-	54	111	191
Disposals	-	-	(11)	(28)	(39)
At 31 December 2018	**876**	**106**	**593**	**1,805**	**3,380**
Accumulated depreciation					
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
Charges	39	21	31	146	237
Disposals	-	-	(11)	(28)	(39)
At 31 December 2018	**836**	**55**	**511**	**1,523**	**2,925**
Net book value					
At 31 December 2018	**40**	**51**	**82**	**282**	**455**
At 31 December 2017	53	72	59	317	501
At 31 December 2016	82	93	73	262	510

18. INTANGIBLE ASSETS

Intangible assets comprising computer software are analyzed as follows:

Presented in EUR (000)	Total
Cost	
At 31 December 2016	3,975
Additions	367
At 31 December 2017	4,342
Additions	217
At 31 December 2018	**4,559**
Accumulated amortization	
At 31 December 2016	3,496
Charges	193
At 31 December 2017	3,689
Additions	217
At 31 December 2018	**3,906**
Net book value	
At 31 December 2018	**653**
At 31 December 2017	653
At 31 December 2016	479

19. OTHER ASSETS

Other assets are analyzed as follows:

Presented in EUR (000)	At 31 December 2018	At 31 December 2017
Accrued interest	20,169	16,974
Advances and prepaid expenses	5,690	5,850
Other prepayments	187	184
Guarantee deposits	3,495	3,149
Other assets	**29,541**	**26,157**

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 2018 the Bank had issued debt securities in the amount of EUR 726,921 thousand.

	At 31 December 2018		At 31 December 2017	
Presented in EUR (000)	Amount used	Amount arranged	Amount Used	Amount arranged
Euro	126,794	146,794	76,756	96,756
United States dollar	595,473	595,473	500,214	583,596
Swiss franc	88,860	88,860	85,667	85,667
Romanian lei	56,227	56,227	21,850	21,850
Georgian lari	83,059	83,059	34,650	34,650
Armenian dram	3,617	3,617	3,455	3,455
Total	**954,030**	**974,030**	**722,592**	**825,974**

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 2018	At 31 December 2017
Accrued interest	10,495	9,136
Social insurance fund (IKA) contributions	4	5
Pension plan obligation	3,971	5,232
Suppliers and other accrued expenses	1,444	990
Other	59	59
Payables and accrued interest	**15,973**	**15,422**

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.

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.

The above share capital is analyzed as follows:

Presented in EUR (000)	At 31 December 2018	At 31 December 2017
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)
Less: shares payable that are past due	(1,428)	-
Paid-up share capital	685,122	641,566
Advance against future call	-	-
Paid-in share capital	**685,122**	**641,566**

* 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:

		At 31 December 2018	
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	-	-	**-**
Less: shares payable that are past due	-	(1,428)	**(1,428)**
Paid-up share capital	334,650	350,472	**685,122**
Advance against future call	40	(40)	**-**
Paid-in share capital	**334,690**	**350,432**	**685,122**

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:

		Subscribed	Callable	Payable	Paid
Member	Shares	Presented in EUR (000)			
Albania	40,000	46,000	32,200	1,403	12,397
Armenia	20,000	23,000	16,100	-	6,900
Azerbaijan	100,000	115,000	80,500	-	34,500
Bulgaria	270,000	310,500	217,350	-	93,150
Georgia	10,000	11,500	8,050	-	3,450
Greece	330,000	379,500	265,650	25	113,825
Moldova	10,000	11,500	8,050	-	3,450
Romania	280,000	322,000	225,400	-	96,600
Russian Fed.	330,000	379,500	265,650	-	113,850
Turkey	330,000	379,500	265,650	-	113,850
Ukraine	270,000	310,500	217,350	-	93,150
Total	**1,990,000**	**2,288,500**	**1,601,950**	**1,428**	**685,122**

23. RESERVES

Reserves are analyzed as follows:

Presented in EUR (000)	General	Other comprehensive income	Other	Total
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
Gains (losses) on revaluation of investments	-	(8,216)	-	(8,216)
Remeasurements of defined benefit scheme	-	-	2,414	2,414
Transferred from retained earnings	5,176	-	-	5,176
At 31 December 2018	**66,051**	**(32,374)**	**(720)**	**32,957**

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.

24 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analyzed as follows:

Presented in EUR (000)	At 31 December 2018	At 31 December 2017
Cash on hand	17	3
Investments maturing up to 1 month:		
Cash deposits at banks	48,581	81,478
At fair value through other comprehensive income portfolio	78,655	55,000
Investment maturing from 1 month to 3 months:		
At fair value through other comprehensive income portfolio	45,000	60,000
Cash and cash equivalents	**172,253**	**196,481**

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.

25 EMPLOYEE BENEFITS

Under the Defined Benefit Scheme

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

A qualified actuary performs an actuarial valuation of this scheme at each end of year using the projected unit method, which is rolled forward to the following year accounts. The most recent valuation date was 31 December 2018. 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 2018	At 31 December 2017
Amounts recognized in the statement of financial position		
Present value of the defined benefit obligations	24,445	27,111
Fair value of plan assets	(20,474)	(21,879)
Net liability at end of the year	**3,971**	**5,232**
Amounts recognized in the income statement		
Service cost	2,095	2,124
Net interest on the net defined benefit liability/(asset)	81	75
Administration expense	48	47
Total included in personnel expenses	**2,224**	**2,246**
Remeasurements recognized in other comprehensive income		
At 31 December	(6,721)	(6,952)
Liability gain (loss) due to changes in assumptions	4,167	(505)
Liability experiences gain (loss) arising during the year	(359)	419
Return on plan assets excluding income statement amounts	(1,394)	317
Total amount recognized in OCI during the year	2,414	231
Cumulative in other comprehensive income (expense)	**(4,307)**	**(6,721)**
Principal actuarial assumptions used		
Discount rate	2.04%	1.78%
Expected return on plan assets	2.04%	1.78%
Future salary increase	1.50%	2.00%
Future pension increase	1.50%	2.00%
Average remaining working life of employees	11 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 2.04% pa.

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

Presented in EUR (000)	At 31 December 2018	At 31 December 2017
Major categories of plan assets		
Cash instruments	16%	14%
Fixed interest	47%	45%
Equities	33%	38%
Other	4%	3%
Reconciliation of plan assets		
Market value at 1 January	21,879	20,373
Expected return	401	395
Contributions paid	1,070	1,431
Benefit pensions and lump sum paid to pensioners	(1,434)	(590)
Expenses	(48)	(47)
Asset gain (loss)	(1,394)	317
Fair value of plan assets	**20,474**	**21,879**

The actual investment return on assets of the Fund for the year was -3.8%. 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 2019 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)	2018	2017	2016	2015	2014
Defined benefit obligations	24,445	27,111	25,021	19,879	20,321
Plan assets	(20,474)	(21,879)	(20,373)	(18,696)	(15,657)
Plan deficit (surplus)	3,971	5,232	4,648	1,183	4,664
Net experience adjustments on plan liabilities (assets)	**359**	**(419)**	**4,032**	**(1,822)**	**(5,624)**

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.

	At 31 December 2018		At 31 December 2017	
Presented in EUR (000)	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(3,041)	3,041	(3,926)	3,926
Future salary growth (1% movement)	1,843	(1,843)	1,438	(1,438)

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

Under the Defined Contribution Scheme

Upon separation, a staff member will be entitled to receive in cash the full balance standing to the credit of his/her individual account for the second and third pillars. The pension expense under this scheme was EUR 1,027 thousand (2017: EUR 997 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 29 thousand (2017: EUR 27 thousand) and is included in “Personnel expense”.

26 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 693 thousand (2017: EUR 691 thousand).

27 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 1,600 thousand (2017: EUR 1,217 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 2018 the Bank administered two special funds. Extracts from the audited financial statements are included under the “Summary of special funds”.

28 EVENTS AFTER THE REPORTING PERIOD

Prior to approval of these financial statements by the Board of Directors, Greece had fully discharged obligations to the share of paid-in capital while Albania needs to be paid-in EUR 283 thousand.

29. 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 2018	At 31 December 2017
Statement of movements		
Balance brought forward	8	8
Net income (loss) for the year	-	-
Less: disbursements	-	-
Balance of available funds	**8**	**8**
Financial position		
Placements with other financial institutions	8	8
Total Assets	**8**	**8**
Unallocated fund balance	8	8
Total Liabilities and Contributor Resources	**8**	**8**

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 2018	At 31 December 2017
Statement of movements		
Balance brought forward	84	92
Net income (loss) for the year	-	-
Less: disbursements	-	(8)
Liquidation	(84)	-
Balance of available funds	**-**	**84**
Financial position		
Placements with other financial institutions	-	84
Total Assets	**-**	**84**
Unallocated fund balance	-	84
Total Liabilities and Contributor Resources	**-**	**84**