European Bank
for Reconstruction and Development

EBRD-EU Special Fund

Annual Financial Report
31 December 2020

EBRD-EU Special Fund

Contents

EBRD-EU Special Fund

Statement of comprehensive income

For the year ended 31 December 2020	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest income		43	70
Technical cooperation expenses	3	(390)	(142)
Net losses from share investments	4	(1,057)	(379)
Foreign exchange movements		(1,020)	(152)
Other operating expenses	5	(354)	(140)
Impairment charge on loan commitments	6	(46)	-
Concessional loan discounts	7	(2,041)	-
Net loss and comprehensive expense for the year		(4,865)	(743)
Attributable to:			
Contributors		(4,865)	(743)

Balance sheet

At 31 December 2020	Note	31 December 2020 € 000	31 December 2019 € 000
Assets			
Placements with credit institutions		40,112	14,479
Share investments	8	2,203	1,472
Contributions receivable	9	-	28,755
Total assets		42,315	44,706
Liabilities			
Other liabilities	10	603	216
Provisions for impairment of loan commitments	6	46	-
Concessional loan discounts	7	2,041	-
Contributors' resources		39,625	44,490
Total liabilities		42,315	44,706
Memorandum items			
Undrawn commitments	11	19,384	2,218

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Statement of changes in contributors' resources

For the year ended 31 December 2020	Contributions	Accumulated loss	Total
	€ 000	€ 000	€ 000
At 31 December 2018	15,020	(27)	14,993
Contributions received and receivable	30,240	-	30,240
Total comprehensive expense for the year	-	(743)	(743)
At 31 December 2019	45,260	(770)	44,490
Contributions received and receivable	-	-	-
Total comprehensive expense for the year	-	(4,865)	(4,865)
At 31 December 2020	**45,260**	**(5,635)**	**39,625**

Statement of cash flows

For the year ended 31 December 2020	Year to 31 December 2020		Year to 31 December 2019	
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	(4,865)		(743)	
Adjustment to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Net losses from share investments	1,057		379	
Foreign exchange movement	(1,020)		(152)	
Provisions and concessional loan discount	2,087		-	
	(2,741)		(516)	
Cash flows from the sale and purchase of operating assets				
Funds advanced for share investments	(1,788)		(1,851)	
Working capital adjustment				
Accrued expenses	387		189	
Net cash used in operating activities		**(4,142)**		(2,178)
Cash flows from financing activities				
Contributions received	28,755		16,505	
Net cash from financing activities		**28,755**		16,505
Net increase in cash and cash equivalents		**24,613**		14,327
Cash and cash equivalents at the beginning of the year		**14,479**		-
Effect of foreign exchange rate changes		1,020		152
Cash and cash equivalents at 31 December		**40,112**		14,479

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones, Director - Financial Control
Date: 13 May 2021

EBRD-EU Special Fund

Fund purpose

The EBRD-EU Special Fund ("the Fund") has been established as an umbrella fund to receive, administer and manage funds under separate European Union (EU) and EU member states Contribution Agreements. The four Agreements in place have been established to:

- EU - SME Finance and Advice Facility to improve the business and investment climate, and financial inclusion for small and medium sized enterprises in Armenia;
- EU - Egypt and Jordan Trade and Competitiveness to improve competitiveness and financial inclusion for small and medium sized enterprises in Egypt and Jordan;
- Poland's Technical Assistance to provide institutional support, training and or/advisory services in the Republic of Poland; and
- Bulgaria's European Structural and Investment Funds (ESIF) Water Framework to improve the water and wastewater network in Bulgaria.

To achieve this, the Fund will provide a variety of instruments, ranging from technical assistance to financial instruments, such as loans, guarantees and equity.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for accounting policies.

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

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early
On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's income statement, with a corresponding liability. The day one loss is recognised upon signing of the loan. Once the Fund disburses the loan to its borrower, the day one loss is reflected within the loan investment as it forms part of the initial fair value of the asset.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment that may be necessary. The initial fair value discount applied to each loan is therefore recovered in the effective interest rate (EIR) at which income is recognised in the income statement over the tenor of the loan.

The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'. All of the share investments held by the Fund are measured at fair value through profit or loss.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are multiples applied to net asset value and earnings-based valuations to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

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

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

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis (the general provision).

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

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

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment

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

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

Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:

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

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying amount of the asset is reduced through the use of an offsetting-impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, any changes in present value attributable to the modification will be recognised as an adjustment to the original carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Contributors' resources

The Fund recognises contributions received from the contributors as a liability on the basis that, should a contributor choose to withdraw from a window[3] of the Fund, the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the window.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributors were to withdraw from the windows of the Fund and contributions returnable to the contributors from operating activities.

Statement of cash flows

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

[2] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.
[3] Each Contribution Agreement will result in creating a dedicated "window" (or windows) within the Special Fund, such that the provided resources remain fully separate from each other. The Rules of the Special Fund will apply to all "windows" of the Special Fund, while supplementary provisions stemming from contributions will only apply to "windows" created in respect of such Agreements.

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

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

Interest

Interest is recorded using the effective interest rate method. Interest income is recognised within 'interest income' in the income statement. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

The unwinding of the day one loss on concessional loans is recognised in interest income as part of the effective interest rate of the loan.

Technical cooperation expenses

Technical cooperation expenses, which represent services provided on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Management fees

The European Bank for Reconstruction and Development ("The Bank") is entitled to charge the Fund a management fee in accordance with the Rules and Regulations for the costs and expense for administering and managing the Fund.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the economies in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk.

The Fund's critical accounting estimates are outlined below:

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the accounting policies section of the report and an analysis of the share investment portfolio is provided in note 8. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the Accounting Policies section of the report and further explained under credit risk within the Risk Management section. As described in the Risk Management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

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

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €8,000 (2019: €nil). The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent. A number of critical accounting estimates are therefore made in the calculation of impairment of loan investments.

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

The cumulative TTC PD rates used in 2020 are set out by internal rating grade below:

PD rating [4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

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

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently, forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

[4] The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

Loss Given Default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure At Default

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

Sensitivity analysis

The sensitivity of portfolio provisions at 31 December 2020 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision €000	Change in provision €000	Change in provision %
2020 portfolio provision (Stages 1 and 2)	46		
Staging			
All loans in Stage 1	46	-	0%
All loans in Stage 2	347	301	654%
PD Ratings			
All loans upgraded 1 notch	24	(22)	(48)%
All loans downgraded 1 notch	63	17	37%
All loans upgraded 3 notches	7	(39)	(85)%
All loans downgraded 3 notches	512	466	1,013%
Projected GDP			
Projected GDP increased by 1%	44	(2)	(4)%
Projected GDP decreased by 1%	49	3	7%
Projected GDP increased by 5%	37	(9)	(20)%
Projected GDP decreased by 5%	64	18	39%
LGD			
All loans decreased by 10%	36	(10)	(22)%
All loans increased by 10%	56	10	22%
EAD			
All undrawn commitments cancelled	-	(46)	(100)%
All undrawn commitments disbursed within one month	137	91	198%
PD Rates - weighting of Bank data and external data			
Increase weighting of Bank data by 10%	40	(6)	(13)%
Decrease weighting of Bank data by 10%	53	7	15%

Risk management

As the primary purpose of the Fund is assist the Bank to achieve its transition mandate rather than to generate a return on its net assets, most financial risks are not actively managed by the Fund. As the Fund participate in investments jointly with the Bank, credit risk is jointly managed; however, the Fund does not hedge against market risk and is hence exposed to interest rate, foreign exchange and equity price risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet inclusive of undrawn commitments (see note 11).

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

The Operations Committee reviews all Banking projects (both debt and equity transactions) prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)
NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
Set out below is an analysis of the Fund's placements with credit institutions classified by internal credit rating risk rankings. Placements with credit institutions are considered to have low credit risk.

Risk rating category	2020 € 000	2019 € 000
2: Very strong	10,054	12,727
3: Strong	30,057	1,752
At 31 December	40,111	14,479

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	Undrawn loan commitments	Impairment	Total net of impairment	
Risk rating category	Stage 1 and total € 000	Stage 1 € 000	Total net of impairment € 000	Impairment provisions %
6: Weak	6,550	(17)	(17)	0.0%
7: Special attention	2,700	(29)	(29)	0.0%
At 31 December 2020	9,250	(46)	(46)	

The Fund would typically have conditions precedent that would need to be satisfied before disbursements on debt transactions.

There were no loan investments or commitments in 2019.

Concentration of credit risk exposure

The Fund's credit risk exposure on undrawn loan investments is concentrated in a single geographic region, Bulgaria and a single industry sector, Municipal and environmental infrastructure.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk, foreign exchange risk and equity risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements and floating rate loan investments are repriced to market interest rates within one and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Armenian dram 2020 € 000	Egyptian Pound 2020 € 000	Euro 2020 € 000	Polish Zloty 2020 € 000	United States Dollar 2020 € 000	Total 2020 € 000
Total assets	90	2,112	28,961	1,279	9,872	42,314
Total liabilities	-	-	(41,833)	(481)	-	(42,314)
Net currency position at 31 December 2020	90	2,112	(12,872)	798	9,872	-

	Armenian dram 2019 € 000	Egyptian Pound 2019 € 000	Euro 2019 € 000	Polish Zloty 2019 € 000	United States Dollar 2019 € 000	Total 2019 € 000
Total assets	-	1,472	29,194	1,497	12,543	44,706
Total liabilities	-	-	(44,490)	(216)	-	(44,706)
Net currency position at 31 December 2019	-	1,472	(15,296)	1,281	12,543	-

The overall potential impact on the Fund's net loss is €1,197,000 based on the average five year absolute rolling average movement in the below currencies:

- 7 per cent strengthening or weakening in the Armenian dram to euro exchange rate;
- 31 per cent strengthening or weakening in the Egyptian pound to euro exchange rate;
- 3 per cent strengthening or weakening in the Polish zloty to euro exchange rate;
- 7 per cent strengthening or weakening in the United States dollar to euro exchange rate.

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund expects the effect of equity price risk on net loss will bear a correlated relationship to the movement in equity indices. The following table breaks down the main equity price risk at their net fair value by country.

	2020 € 000	2019 € 000
Armenia	90	-
Egypt	2,112	1,472
At 31 December	2,202	1,472

The overall potential impact on the Fund's fair value of share investments is €608,000 based on the average five year absolute rolling average movement in equity prices in the following indexes:

- 28 per cent movement in Egyptian Stock Market EGX 30 Equity index
- 17 per cent movement in benchmark indices of regional countries[6]

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan investments, equity investments and guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund's guarantees are limited to the proceeds recoverable on the Fund's parallel investment. The Fund recognises contributions received as a liability, which may be returned to the contributor upon termination of a contribution agreement only after relevant liabilities have been discharged and assets disposed of or redeemed. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.

[6] As there is no active stock exchange in Armenia a benchmark of indices of similar regions has been used.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

At 31 December 2020, the Fund's balance sheet approximates to the fair value of all financial assets and liabilities.

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2020 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2020	
	Carrying amount	**Favourable change**	**Unfavourable change**
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments	**2,203**	**464**	**(252)**
At 31 December 2020			

		Impact on net profit in 2019	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments	1,472	35	(35)
At 31 December 2019			

Interest rate benchmark reforms
In 2017, the UK Financial Conduct Authority (FCA) announced that financial institutions would no longer be compelled to publish LIBOR rates after December 2021, signalling the effective end of Libor. Regulators globally have signalled clearly that firms should transition away from the London Interbank Offered Rate (LIBOR) to alternative overnight risk-free rates (RFRs).

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

To date, through the project, the Bank has successfully incorporated in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. This work is expected to be completed before the cessation of LIBOR. IT system changes required to accurately capture the new replacement reference rates have commenced and are expected to be completed during 2021.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 16 July 2018 and is administered, inter alia, in accordance with the AEB and under the terms of the Rules of the Fund. The Fund was established to receive, administer and manage Funds under certain EU and EU member states Contribution Agreements. As at 31 December 2020 there were four Agreements in place.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of EBRD's ordinary capital resources, but any privileges and immunities available to EBRD are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Technical cooperation expenses

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
As at 31 December 2019	573	(142)	431
Movement in the year	323	(390)	(67)
As at 31 December 2020	**896**	**(532)**	**364**

The undrawn commitments amount represents amounts for which the Fund has contracted for which the transaction or service was not yet performed at 31 December.

4. Net losses from share investments

	2020 € 000	2019 € 000
Net unrealised losses from share investments	1,057	379
Net losses from share investments	**1,057**	379

5. Other operating expenses

Other operating expenses

	2020 € 000	2019 € 000
Management fees	177	108
Negative interest expense on placements	177	32
At 31 December	**354**	140

Other operating expenses comprise of administrative costs directly related to the Fund and include fees payable to the Bank for operating the Fund, calculated in accordance with the Rules of the Fund.

6. Provisions for impairment of loan commitments

Charge for the year	2020 € 000	2019 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	(46)	-
Provisions for impairment of loan commitments	**(46)**	-

Movement in provisions		
At 1 January	-	-
Charge for the year to the income statement	(46)	-
At 31 December	**(46)**	-

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the movements in the Fund's impairment provisions for each of the stages of impairment.

As at 31 December 2020, all loan commitments are in Stage 1. There were no loan commitments in 2019.

Movement in provisions	12 month ECL Stage 1 and total 2020 € 000
As at 1 January	-
New loan commitments	(46)
As at 31 December	**(46)**

7. Concessional loan discounts

	2020 € 000	2019 € 000
Day one fair value charge	(2,041)	-
Release of discount on loan cancellation/repayment	-	-
Net loan discount movement	(2,041)	-

	2020	2019
At 1 January	-	-
Day one fair value adjustment	(2,041)	-
At 31 December	(2,041)	-

8. Share investments

	2020 € 000	2019 € 000
Outstanding disbursements		
At 1 January	1,851	-
Disbursements	1,788	1,851
At 31 December	3,639	1,851
Fair value adjustment		
At 1 January	(379)	-
Movement in fair value revaluation	(1,057)	(379)
At 31 December	(1,436)	(379)
Fair value at 31 December	2,203	1,472

9. Contributions

Window	Contributor	Contributions received € 000	Contributions receivable € 000	Total contributions € 000
EU - SME Finance and Advice Facility Window	EU	11,220	-	11,220
EU - Egypt and Jordan Trade and Competitiveness Window	EU	3,800	-	3,800
Bulgaria ESIF Water Framework - Guarantee Window	Bulgaria FMFIB	10,000	-	10,000
Bulgaria ESIF Water Framework - Debt Window	Bulgaria FMFIB	18,755	-	18,755
Total contributions 31 December 2020		45,260	-	45,260

Window	Contributor	Contributions received € 000	Contributions receivable € 000	Total contributions € 000
EU - SME Finance and Advice Facility Window	EU	11,220	-	11,220
EU - Egypt and Jordan Trade and Competitiveness Window	EU	3,800	-	3,800
Poland's Technical Assistance Window	Poland	1,485	-	1,485
Bulgaria ESIF Water Framework - Guarantee Window	Bulgaria FMFIB	-	10,000	10,000
Bulgaria ESIF Water Framework - Debt Window	Bulgaria FMFIB	-	18,755	18,755
Total contributions 31 December 2019		16,505	28,755	45,260

10. Other liabilities

	2020 € 000	2019 € 000
Accrued expenses	16	-
Technical cooperation expenses	481	142
Management fee payable	106	74
At 31 December	603	216

11. Undrawn commitments

	2020	2019
	€ 000	€ 000
Undrawn share commitments	9,770	1,787
Loan commitments	9,250	-
Technical cooperation expenses	364	431
Undrawn commitments at 31 December	**19,384**	2,218

This represents amounts for which the Fund has legally committed which the transaction or service was not yet performed at 31 December.

12. Analysis of current and non-current assets and liabilities

The table below provides the classification for current and non-current assets and liabilities in the balance sheet.

	Current	Non-current	Total
	2020	2020	2020
Assets	€ 000	€ 000	€ 000
Placements with credit institutions	40,112	-	40,112
Share investments	-	2,203	2,203
Total assets	40,112	2,203	42,315
Liabilities			
Other liabilities	603	-	603
Concessional loan discounts	2,041		2,041
Provisions for impairment of loan commitments	46	-	46
Contributors' resources	37,422	2,203	39,625
Total liabilities	40,112	2,203	42,315

	Current	Non-current	Total
	2019	2019	2019
Assets	€ 000	€ 000	€ 000
Placements with credit institutions	14,479	-	14,479
Share investments	-	1,472	1,472
Contributions receivable	28,755	-	28,755
Total assets	43,234	1,472	44,706
Liabilities			
Other liabilities	216	-	216
Contributors' resources	43,018	1,472	44,490
Total liabilities	43,234	1,472	44,706

13. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

14. Related parties

The Fund’s related parties are the Bank and the contributors.

The Bank is entitled to a management in accordance with the terms of the relevant Contribution Agreement. The fees paid during the year are disclosed in the income statement within other operating expenses.

External auditors’ remuneration of €8,600 is payable by the Bank from the management fee (2019: €7,300). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the EBRD-EU Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the EBRD-EU Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 16 July 2018, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Balkan Region Special Fund

Annual Financial Report
31 December 2020

The Balkan Region Special Fund

Contents

The Balkan Region Special Fund

Statement of comprehensive income

For the year ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Fee income		26	32
Other operating expenses	3	(48)	(41)
Financial guarantees movement		(20)	(7)
Net loss and comprehensive expense for the year		(42)	(16)
Attributable to:			
Contributors		(42)	(16)

Balance sheet

At 31 December 2020

	Note	31 December 2020 € 000	31 December 2020 € 000	31 December 2019 € 000	31 December 2019 € 000
Assets					
Placements with credit institutions			7,891		7,911
Other financial assets	4		17		14
Total assets			7,908		7,925
Liabilities					
Other financial liabilities	5		122		97
Contributors' resources					
Contributions	6	9,779		9,779	
Accumulated loss		(1,993)		(1,951)	
Total contributors' resources			7,786		7,828
Total liabilities			7,908		7,925
Memorandum items					
Guarantees*			4,370		7,719

*See section on credit risk exposures on page 9 for additional details.

The Balkan Region Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2020

	Contributions	Accumulated loss	Total
	€ 000	€ 000	€ 000
At 31 December 2018	9,779	(1,935)	7,844
Total comprehensive expense for the year	-	(16)	(16)
At 31 December 2019	9,779	(1,951)	7,828
Total comprehensive expense for the year	-	(42)	(42)
At 31 December 2020	**9,779**	**(1,993)**	**7,786**

Statement of cash flows

For the year ended 31 December 2020

		Year to 31 December 2020		Year to 31 December 2019
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the year	(42)		(16)	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Financial guarantees movement	20		7	
	(22)		(9)	
Working capital adjustment				
Movement in fee income	2		2	
Net cash used in operating activities		(20)		(7)
Net decrease in cash and cash equivalents		(20)		(7)
Cash and cash equivalents at beginning of year		7,911		7,918
Cash and cash equivalents at 31 December		7,891		7,911

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones
Director – Financial Control

Date: 13 May 2021

The Balkan Region Special Fund

Fund purpose

The Balkan Region Special Fund (“the Fund”) was established to assist the reconstruction of the Balkan Countries through the European Bank for Reconstruction and Development (“the Bank”) Balkan Region Action Plan. To achieve this, the Fund may provide guarantees on a first-loss basis for the European Bank for Reconstruction and Development’s (“the Bank”) Trade Facilitation Programme (“TFP”).

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund’s financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Balkan Region Special Fund (“the Fund”). The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in “Significant accounting policies and judgements” and “Critical accounting estimates” within the section for Accounting Policies.

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

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

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

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

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial guarantees which are measured in accordance with IFRS 9, as described under "Financial guarantees" below.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Financial guarantees

The Fund provides guarantees to the Bank to cover principal losses the Bank may incur from providing its own guarantees under its TFP. The Fund's resources are allocated into a TFP sub-account and the TFP guarantees are provided on a first-loss basis.

When a guarantee is issued, it is initially recognised at its fair value. This is measured as the present value of the fees to be received by the Fund for the provision of those guarantees. This initial fair value represents both an asset for the Fund and a liability for the same amount.

The asset is subsequently measured at fair value less any fee income received. The liability is subsequently measured at the higher of the initial fair value less any fee income received or the amount of the loss allowance for expected credit losses.

Financial guarantees are recognised within other financial assets and other financial liabilities.

Contributors' resources

The Fund recognises contributions received from contributors as a liability on the basis that should a contributor choose to withdraw from the Fund, the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the Statement of comprehensive income.

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Interest and fees

Interest is recorded on an accruals basis. Interest income is recognised within 'interest income' in the Statement of comprehensive income. Negative interest rate expense is recognised in 'operating expenses' in the Statement of comprehensive income.

Fees earned in respect of services provided over a period of time are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the Statement of comprehensive income during the reporting period.

The Fund's critical accounting estimate is outlined below:

Financial guarantee liability
The Fund's method for determining the carrying value of financial guarantee liabilities is determined by assessing the expected credit loss (ECL) of the underlying covered Bank investments. In assessing the ECL, the Fund relies on the Bank's risk management processes and procedures.

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls.

A 3 notch PD upgrade or downgrade on the Bank's TFP investments would result in a decrease of €137,000 (2019: €38,000), or an increase of €696,000 (2019: €638,000) on the financial guarantee provided by the Fund.

Risk management

As the purpose of the Fund is to promote development in the Balkan Countries rather than to generate a return on its assets, not all financial risks are actively managed by the Fund. Credit risk is jointly managed with the Bank; however the Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[1] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Social Sustainability Department, Finance Department, Evaluation Department and other relevant units. An Internal Audit Department acts as third line of defence and independently assesses the effectiveness of the processes within the first and second lines of defence. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the commitments related to guarantees (see page 9).

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

Credit risk management and measurement

As previously stated, the Fund participates as a guarantor alongside the Bank's financial investments jointly with the Bank in the financing of investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were classified in internal credit rating risk range 2 (approximately AA+ to AA- in terms of S&P equivalent). Placements with credit institutions are considered to have low credit risk.

Other financial assets
Other financial assets represent fee income receivable from financial guarantees.

Guarantees
At 31 December 2020, the Bank had outstanding guarantees under the Balkan Region TFP for which, in the event of a future default, losses incurred by the Bank will be refunded in part from the resources of the Fund. At 31 December 2020, the Fund's maximum exposure under such guarantees was €4.4 million (2019: €7.7 million).

No amounts are currently recognised as required to settle a guarantee commitment (2019: nil). The guarantee liability shown within 'other financial liabilities' on the balance sheet represents the higher of the initial fair value recognised when the guarantees were issued less cumulative amortisation or the amount of the loss allowance for expected credit losses. The Fund does not actively manage credit risk on its guarantee exposure.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The driver of market risk for the Fund is interest rate risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund does not hold any assets or liabilities of non-euro denomination as at 31 December 2020, hence it is not exposed to any foreign exchange risk.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund’s Rules and regulations require guarantees are financed from the resources of the Fund, which comprise contributions received.

Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund’s guarantees are limited to the resources of the TFP sub-account. The Fund recognises contributions received as a liability, which may be returned to a contributor upon termination of a contribution agreement. Amounts returned are based on the Fund’s net assets and take into account any existing commitments and guarantees. As a result, the Fund’s exposure to liquidity risk is considered to be minimal.

The Balkan Region Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board at its meeting on 15 September 1999 and is administered, *inter alia,* in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 7 December 1999 following the signing of the first contribution agreement.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Other operating expenses

Other operating expenses comprised the following:

	2020	2019
	€ 000	€ 000
Audit fees	**8**	7
Negative interest expense	**40**	34
At 31 December	**48**	41

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditors' remuneration of €8,600 (2019: €7,300). The Bank pays the auditors' remuneration on behalf of the Fund, who in turn reimburses the Bank in full. At 31 December 2020 no fee is payable to the Bank in relation to the 2020 external audit (2019: nil). The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

4. Other financial assets

	2020	2019
	€ 000	€ 000
Fee income receivable from financial guarantees	**5**	7
Unamortised inception value of TFP financial guarantees	**12**	7
At 31 December	**17**	14

5. Other financial liabilities

	2020	2019
	€ 000	€ 000
Financial guarantee liability	**119**	94
Negative interest expense payable	**3**	3
At 31 December	**122**	97

6. Contributions

Contributions received are set out below.

Cumulative contributions received	2020 € 000	2020 %	2019 € 000	2019 %
Austria	276	2.8	276	2.8
Canada	1,472	15.1	1,472	15.1
Denmark	750	7.7	750	7.7
Norway	1,568	16.0	1,568	16.0
Switzerland	4,218	43.1	4,218	43.1
Taipei China	1,495	15.3	1,495	15.3
At 31 December	9,779	100.0	9,779	100.0

7. Analysis of current and non-current assets and liabilities

Assets	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000	Current 2019 € 000	Non-current 2019 € 000	Total 2019 € 000
Placements with credit institutions	7,891	-	7,891	7,911	-	7,911
Other financial assets	11	6	17	14	-	14
Total assets	7,902	6	7,908	7,925	-	7,925
Liabilities						
Other financial liabilities	(122)	-	(122)	(97)	-	(97)
Total contributors' resources	(7,780)	(6)	(7,786)	(7,828)	-	(7,828)
Total liabilities	(7,902)	(6)	(7,908)	(7,925)	-	(7,925)

8. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

9. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

10. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2.5 and 5 per cent of contributions received. As there were no contributions received in 2020, there were no management fees paid by the Fund to the Bank (2019: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2020 (2019: nil). Also during 2020, the Fund earned fees from the Bank in relation to TFP guarantees of €26,000 (2019: €32,000), of which €5,000 are receivable as at 31 December 2020 (2019: €7,000).

Audit fees paid to the Bank are outlined in note 3.

Contributions received from the contributors are outlined in note 6.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the Balkan Region Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the Balkan Region Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 15 September 1999, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Baltic Investment Special Fund

Annual Financial Report
31 December 2020

The Baltic Investment Special Fund

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Statement of comprehensive income

For the year ended 31 December 2020	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Net unrealised gains from share investments		51	51
Other operating expenses	3	(12)	(24)
Net profit and comprehensive income for the year		39	27
Attributable to:			
Contributors		39	27

Balance sheet

At 31 December 2020	Note	31 December 2020 € 000	31 December 2020 € 000	31 December 2019 € 000	31 December 2019 € 000
Assets					
Placements with credit institutions			40		3,002
Share investments	4		578		527
Total assets			618		3,529
Liabilities and contributors' resources					
Negative interest payable			-		2
Contributors' resources					
Contributions	5	27		2,156	
Reserves and retained earnings	6	591		1,371	
Contributors' resources			618		3,527
Total liabilities and contributors' resources			618		3,529

Statement of changes in contributors' resources

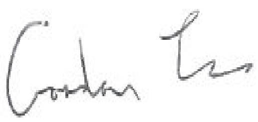
For the year ended 31 December 2020

	Contributions € 000	Special reserve € 000	Retained earnings € 000	Total € 000
At 31 December 2018	2,650	173	1,361	4,184
Distribution of funds to contributors	(494)	-	(190)	(684)
Total comprehensive income for the year	-	-	27	27
At 31 December 2019	2,156	173	1,198	3,527
Distribution of funds to contributors	(2,129)	-	(819)	(2,948)
Total comprehensive income for the year	-	-	39	39
At 31 December 2020	**27**	**173**	**418**	**618**

Statement of cash flows

For the year ended 31 December 2020	Year to 31 December 2020 € 000	€ 000	Year to 31 December 2019 € 000	€ 000
Cash flows from operating activities				
Net profit for the year	39		27	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the Statement of Comprehensive Income				
Net unrealised gains from share investments	(51)		(51)	
	(12)		(24)	
Decrease in operating assets:				
Movement in negative interest payable	(2)		1	
Net cash used in operating activities		(14)		(23)
Cash flows from financing activities				
Distribution of funds to contributors	(2,948)		(684)	
Net cash used in financing activities		(2,948)		(684)
Net decrease in cash and cash equivalents		(2,962)		(707)
Cash and cash equivalents at the beginning of the year		3,002		3,709
Cash and cash equivalents at 31 December		40		3,002

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Gordon Jones
Director – Financial Control

Date: 13 May 2021

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Going concern

In July 2006 the Baltic Investment Special Fund (the "Fund") was terminated by the Board of Directors of the European Bank for Reconstruction and Development ("the Bank"), following a request from the contributors to the Fund. In accordance with the Rules and Regulations ("the Rules") of the Fund, the net assets then available were returned to the contributors with provision for future distributions to occur as and when a minimum amount of €3 million becomes available and instructions have been received from the contributors (refer to note 1). Once all share investments have been realised, the Fund's remaining cash resources will be returned to the contributors.

The financial statements for the Fund are therefore presented on a basis other than that of a going concern as the Fund is in the process of being wound up. In such circumstances all assets and liabilities are more appropriately reported at net realisable value rather than historical cost. No material adjustments arose from ceasing to apply the going concern basis.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. For the Fund, the exercise of judgement is required for the valuation of unlisted share investments, which is explained in "Critical accounting estimates" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors; and
- Amendments to IFRS 3: Business Combinations.

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

Pronouncement	Nature of change	Pronouncement
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	Contains amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. Effective for annual reporting periods beginning on or after 1 January 2021.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.

IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

B. Significant accounting policies and judgements

Financial assets and financial liabilities

As the Fund is in the process of being wound up, assets and liabilities are measured at fair value. In the case of cash placements, the principal equates to fair value given the short-term nature of such placements. All of the share investments held by the Fund are measured at fair value through profit or loss.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation technique used is net asset value.

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

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

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Contributors' resources

The Fund recognises contributions received from contributors as a liability that the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the Statement of comprehensive income.

Interest

Interest is recorded on an accruals basis. Interest income is recognised within 'interest income' in the income statement. Negative interest rate expense is recognised in 'operating expenses' in the Statement of comprehensive income.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the Statement of comprehensive income during the reporting period.

The Fund's critical accounting estimates are set out below:

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the accounting policies section of the report and an analysis of the share investment portfolio is provided in note 4. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

Risk management

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness.

The Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources. For banks with which the Fund places its cash, internal credit ratings are determined by Risk Management and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

At year end the Fund's cash was placed with a single financial institution which ranked in the second highest internal credit rating risk category assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating in the range of AA+ to AA-. Placements with credit institutions are considered to have low credit risk.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2020 and 31 December 2019.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk, foreign exchange risk and equity price risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The fund does not hold any assets or liabilities of non-euro denomination, nor does it have any non-euro commitments, hence it is not exposed to any foreign exchange risk.

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund is exposed to equity price risk in respect of its share investments – i.e. that its portfolio will be impacted by general volatility in equity markets reflective of its investments. Based on a weighted average of the absolute five year average movement in the OMX Riga Index, OMX Vilnius Index and OMX Tallinn TR Index, the potential impact on the Fund's net loss from a 15 per cent movement (2019: 20 per cent) in equity prices is +/- €88,000 (2019: +/- €103,000).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund is not considered to be exposed to liquidity risk as it has no material liabilities other than the obligation to return to contributors their pro rata share of net assets as they become available for distribution in accordance with the Rules of the Fund.

Notes to the financial statements

1. Creation and termination of the Fund

The Baltic Investment Special Fund ("the Fund") was established to assist the European Bank for Reconstruction and Development ("the Bank"). The Fund, whose objective was to promote private sector development through support for small and medium sized entities in the Baltic States, was established in accordance with Article 18 of the AEB. The Board of Directors approved its creation in April 1992 and, at the request of its contributors, terminated the Fund in July 2006. Pending the realisation and distribution of all remaining net assets in the Fund, the Fund continues to be administered, *inter alia,* in accordance with the AEB and its Rules. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

In line with the termination agreement the Fund is currently in the process of returning net assets in excess of €3 million in line with instruction received from the contributors.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Other operating expenses

Other operating expenses are comprised of the following:

	2020 € 000	2019 € 000
Audit fees	9	7
Negative interest rate expense	3	17
At 31 December	**12**	24

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditors' remuneration of €8,600 (2019: €7,300). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2020 no fee (2019: €nil) is payable to the Bank in relation to the 2020 external audit. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

4. Share investments

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

The main valuation technique used in the valuation of these share investments is net asset value. Reasonably plausible alternative valuations have been determined based on changes in assumptions affecting the observed market movements and would lead to a favourable change in value of €110,100 (2019: €12.500) and an unfavourable change in value of €32,800 (2019: €12,600).

The table below provides information about the Fund's share investments at fair value through profit or loss.

	2020	2019
	€ 000	€ 000
Outstanding disbursements		
At 1 January	536	536
At 31 December	536	536
Fair value adjustment		
At 1 January	(9)	(60)
Movement in fair value revaluation	51	51
At 31 December	42	(9)
Fair value at 31 December	578	527

5. Contributions

Net contributions received and the share of reserves are set out below.

	Contributions	Share of reserves	Contributions	Share of reserves
	2020	2020	2019	2019
Cumulative contributions and share of reserves	€ 000	€ 000	€ 000	€ 000
Denmark	-	125	571	336
Finland	-	121	551	325
Iceland	27	16	27	16
Norway	-	108	-	101
Sweden	-	221	1,007	593
At 31 December	27	591	2,156	1,371

6. Reserves

The special reserve was established, in accordance with the Rules of the Fund, to meet certain defined losses and was built up by setting aside qualifying fees and commissions associated with loans previously made by the Fund. The Fund is not making any new loans so the balance in the reserve will not change pending final distribution of the Fund's net assets to its contributors.

7. Analysis of current and non-current assets and liabilities

All assets and liabilities on the balance sheet are classified as current for both 2020 and 2019 due to the fact that the financial statements are prepared on a basis other than that of a going concern.

8. Undrawn commitments

The Fund had no undrawn share commitments at 31 December 2020 (2019: nil).

9. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.There have been no material events since the reporting date that would require disclosure or adjustment to these financial statements.

10. Related Parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee, which from time to time shall be determined by the Board of Directors. During the year ended 31 December 2020 the Fund paid the Bank no management fee for operating the Fund (2019: nil) and there was no accrued management fee payable by the Fund as at 31 December 2020 (2019: nil).

Audit fees are paid by the bank as outlined in note 3.

Contributions received from the contributors are outlined in note 5

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the Baltic Investment Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the Baltic Investment Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its profit and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of matter - financial statements prepared on a basis other than going concern

In forming our opinion on the financial statements, which is not modified, we draw attention to the Accounting Policies section of the financial statements which describes the Bank's reasons why the financial statements have been prepared on a basis other than going concern.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Bank'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated April 1992, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Central Asia Risk Sharing Special Fund

Annual Financial Report
31 December 2020

The Central Asia Risk Sharing Special Fund

Contents

The Central Asia Risk Sharing Special Fund

Statement of comprehensive income

For the year ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest income		1	79
Fee income		19	35
Financial guarantees movement		22	27
Foreign exchange movement		(35)	112
Other operating expenses	3	(43)	(36)
Net (loss)/profit and comprehensive (expense)/income for the year		(36)	217
Attributable to:			
Contributors		(36)	217

Balance sheet

As at 31 December 2020

	Note	31 December 2020 € 000	31 December 2020 € 000	31 December 2019 € 000	31 December 2019 € 000
Assets					
Placements with credit institutions			7,119		7,173
Other financial assets	4		6		27
Total assets			7,125		7,200
Liabilities and contributors' resources					
Other financial liabilities	5		9		48
Contributors' resources					
Contributions	6	5,553		5,553	
Reserves and retained earnings		1,563		1,599	
Total contributors' resources			7,116		7,152
Total liabilities and contributors' resources			7,125		7,200
Memorandum items					
Guarantees*			501		2,842

*See section on credit risk exposures on page 9 for additional details.

Statement of changes in contributors' resources

For the year ended 31 December 2020

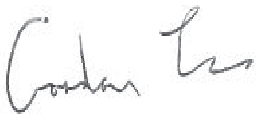
	Contributions € 000	Retained earnings € 000	Total € 000
At 31 December 2018	10,583	1,382	11,965
Contributions transferred	(5,030)	-	(5,030)
Total comprehensive income for the year	-	217	217
At 31 December 2019	5,553	1,599	7,152
Total comprehensive expense for the year	-	(36)	(36)
At 31 December 2020	**5,553**	**1,563**	**7,116**

Statement of cash flows

For the year ended 31 December 2020

	Year to 31 December 2020		Year to 31 December 2019	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(36)		217	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Financial guarantees movement	(22)		(27)	
Foreign exchange movement	35		(112)	
	(23)		78	
Working capital adjustment				
Movement in fee income	3		5	
Movement in accrued expenses	-		1	
Net cash (used in)/from operating activities		(20)		84
Contributions transferred	-		(5,030)	
Net cash used in financing activities		-		(5,030)
Net decrease in cash and cash equivalents		(20)		(4,946)
Cash and cash equivalents at the beginning of the year		7,173		12,008
Effect of foreign exchange rate changes		(34)		111
Cash and cash equivalents at 31 December		7,119		7,173

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Gordon Jones
Director – Financial Control

Date: 13 May 2021

Fund purpose

The Fund was established as a risk sharing facility for small and medium-sized enterprise (SME) credit lines, to promote a higher level of investment in Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan (collectively the "Eligible Countries"). To achieve this, the Fund may:

- Provide guarantees on a first-loss basis for the European Bank for Reconstruction and Development's ("the Bank") Trade Facilitation Programme ("TFP"); and
- Provide guarantees on a first-loss basis on the Bank's SME and micro enterprise loans in the Eligible Countries.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Central Asia Risk Sharing Special Fund ("the Fund"). The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

	Effective for annual reporting periods beginning on or after 1 January 2023.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

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

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

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial guarantees which are measured in accordance with IFRS 9, as described under "Financial guarantees" below.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Financial guarantees

The Fund currently provides guarantees to the Bank to cover principal losses the Bank may incur from providing its own guarantees under its TFP. The Fund's resources are allocated into a number of sub-accounts, with a single one for TFP-related guarantees and individual ones for loan-related guarantees in each eligible country. There were no loan-related guarantees over Bank loans in 2020 or 2019. The Fund's guarantees are provided on a first-loss basis.

When a guarantee is issued, it is initially recognised at its fair value. This is measured as the present value of the fees to be received by the Fund for the provision of those guarantees. This initial fair value represents both an asset for the Fund and a liability for the same amount.

The asset is subsequently measured at fair value less any fee income received. The liability is subsequently measured at the higher of the initial fair value less any fee income received or the amount of the loss allowance for expected credit losses.

Financial guarantees are recognised within other financial assets and other financial liabilities.

Contributors' resources

The Fund recognises contributions received from the contributors as a liability on the basis that, should a contributor choose to withdraw from the Fund, the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

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

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Interest and fees

Interest is recorded on an accruals basis. Interest income is recognised within 'interest income' in the income statement. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

Fees earned in respect of services provided over a period of time are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund’s critical accounting estimate is outlined below:

Financial guarantee liability
The Fund's method for determining the carrying value of financial guarantee liabilities is determined by assessing the expected credit loss (ECL) of the underlying covered Bank investments. In assessing the ECL, the Fund relies on the Bank’s risk management processes and procedures.

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls.

A 3 notch PD upgrade or downgrade on the Bank’s TFP investments would result in a decrease of €8,000 (2019: €7,000), or an increase of €22,000 (2019: €61,000) on the financial guarantee provided by the Fund.

Risk management

As the purpose of the Fund is to promote investment in the Eligible Countries rather than to generate profits, not all financial risks are actively managed by the Fund. Credit risk is jointly managed with the Bank; however the Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank’s overall framework for identification and management of risks is underpinned by independent second line of defence[1] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Social Sustainability Department, Finance Department, Evaluation Department and other relevant units. An Internal Audit Department acts as third line of defence and independently assesses the effectiveness of the processes within the first and second lines of defence. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as counterparties could default on their contractual obligations.

The Fund’s exposure to credit risk from financial instruments is approximated on the balance sheet and should be considered alongside the commitments related to guarantees (see page 9).

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

Credit risk management and measurement

As previously stated, the Fund participates as a guarantor alongside the Bank's financial investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified in internal credit rating risk range 2 (approximately AA+ to AA- in terms of S&P equivalent). Placements with credit institutions are considered to have low credit risk.

Other financial assets
Other financial assets represent fee income receivable from financial guarantees.

Guarantees
At 31 December 2020, the Bank had outstanding guarantees under the TFP for which, in the event of a future default, principal losses incurred by the Bank will be refunded in part from the resources of the TFP sub-account of the Fund. At 31 December 2020, the Fund's maximum exposure under such guarantees was €501,000 (2019: €2.8 million).

The Kyrgyzstan Micro and Small Enterprise Finance Facility (KMSEFF), Tajikistan Micro and Small Enterprise Finance Facility (TAFF) and Tajikistan Agricultural Finance Facility (TSFF) sub-accounts were terminated on 12 December 2019 as per the Termination Agreement. As such, no outstanding loans exist and there is no guarantee exposure in relation to these sub-accounts at 31 December 2020 (2019: nil).

No amounts are currently recognised as required to settle a guarantee commitment (2019: nil). The guarantee liability shown within 'other financial liabilities' on the balance sheet represents the higher of the initial fair value recognised when the guarantees were issued less cumulative amortisation or the amount of the loss allowance for expected credit losses. The Fund does not actively manage credit risk on its guarantee exposure.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund’s net exposure to foreign exchange risk is outlined in the table below.

	Euro 2020 € 000	United States dollars 2020 € 000	Total € 000
Total assets	**6,754**	**371**	**7,125**
Total liabilities	**(7,125)**	**-**	**(7,125)**
Net currency position at 31 December 2020	**(371)**	**371**	**-**

	Euro 2019 € 000	United States dollars 2019 € 000	Total € 000
Total assets	6,796	404	7,200
Total liabilities	(7,200)	-	(7,200)
Net currency position at 31 December 2019	(404)	404	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the funds net loss from a 7 per cent strengthening or weakening (2019: 7 per cent) is €25,000 (2019: €28,000).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund’s Rules and Regulations require that guarantees are settled from the available resources within each sub-account of the Fund. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. Contributions received are recognised as a liability which will be repayable to the contributor only after relevant liabilities are discharged and assets disposed of or redeemed. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board at its meeting of 26 June 2002 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 15 August 2002 following the receipt of the first contribution.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Other operating expenses

Other operating expenses are comprised of the following:

	2020 € 000	2019 € 000
Audit fees	9	7
Negative interest rate expense	34	29
At 31 December	**43**	36

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditors' remuneration of €8,600 (2019: €7,300). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2020 no fee was payable in relation to the 2020 external audit (2019: nil). The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-2024 following the completion of Deloitte's second consecutive term in 2019.

4. Other financial assets

	2020 € 000	2019 € 000
Fee income receivable from financial guarantees	3	6
Unamortised fair value of TFP financial guarantees	3	21
At 31 December	**6**	27

5. Other financial liabilities

	2020 € 000	2019 € 000
Financial guarantee liability	6	45
Negative interest rate expense payable	3	3
At 31 December	**9**	48

6. Contributions

Contributions received are set out below.

Cumulative contributions received	TFP € 000	Total € 000	Total %
Germany	2,389	**2,389**	**43.0**
Switzerland	3,164	**3,164**	**57.0**
At 31 December 2020	**5,553**	**5,553**	**100.0**

Cumulative contributions received	TFP € 000	Total € 000	Total %
Germany	2,389	2,389	43.0
Switzerland	3,164	3,164	57.0
At 31 December 2019	5,553	5,553	100.0

No contributions were transferred during 2020. The contributions received under the KMSEFF, TAFF and TSFF sub-accounts totalling USD $5.6 million (€5.0 million) was transferred in accordance with the Termination Agreement, dated 12 December 2019. The transfer occurred on 27 December 2019.

7. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

8. Analysis of current and non-current assets and liabilities

All assets and liabilities on the balance sheet are classified as current for both 2020 and 2019.

9. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

10. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee, as determined by the Board, each time a contribution is made to the Fund. As there were no contributions received in 2020 (2019: nil), no management fees were paid by the Fund to the Bank (2019: nil). There was no accrued management fee payable by the Fund to the Bank at 31 December 2020 (2019: nil). Also during 2020, the Fund earned fees from the Bank in relation to TFP guarantees of €19,000 (2019: €35,000), of which €3,000 are receivable as at 31 December 2020 (2019: €6,000).

Audit fees paid to the Bank are outlined in note 3.

Contributions received and receivable from the contributors are outlined in note 6.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the Central Asia Risk Sharing Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the Central Asia Risk Sharing Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 26 June 2002, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The EBRD CIF Special Fund

Annual Financial Report
31 December 2020

Contents

The EBRD CIF Special Fund

Income statement
For the year ended 31 December 2020

	Note	Year to 31 December 2020 € million	Year to 31 December 2019 € million
Interest income			
From loans		7	7
From credit institutions		-	2
Net interest income		7	9
Technical cooperation expenses		-	(1)
Disbursements for incentive fees		(2)	-
Disbursements for investment grants		-	(10)
Impairment (charge)/release on loan investments	5	(5)	1
Change in concessional loan discount	6	3	(4)
Foreign exchange movement		5	(2)
General administration expenses		(1)	(1)
Net gain/(loss) for the year		7	(8)
Attributable to:			
Contributors		7	(8)

Statement of comprehensive income
For the year ended 31 December 2020

	Year to 31 December 2020 € million	Year to 31 December 2019 € million
Net gain/(loss) for the year	7	(8)
Other comprehensive (expense)/income		
Foreign exchange movement between functional and presentational currencies	(19)	6
Total comprehensive expense	(12)	(2)
Attributable to:		
Contributors	(12)	(2)

Balance sheet
At 31 December 2020

	Note	€ million	31 December 2020 € million	€ million	31 December 2019 € million
Assets					
Placements with credit institutions			72		140
Contributions receivable	3		36		2
Loan investments					
Loans	4	135		140	
Less: Provisions for impairment	5	(15)		(10)	
			120		130
Total assets			228		272
Liabilities					
Concessional loan discount	6		16		23
Contributors' resources			212		249
Total Liabilities			228		272
Memorandum items					
Undrawn commitments	8		40		61

Statement of changes in contributors' resources

For the year ended 31 December 2020

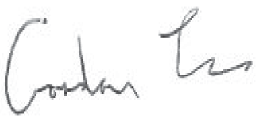
	Contributed Resources € million	General reserve € million	Total € million
At 31 December 2018	281	21	302
Net loss for the year	(8)	-	(8)
Other comprehensive income in the period	-	6	6
Contributors' resource transactions			
Contributions receivable cancellation	(21)	-	(21)
Distribution of funds to contributors	(30)	-	(30)
At 31 December 2019	222	27	249
Net gain for the year	7	-	7
Other comprehensive expense in the period	-	(19)	(19)
Contributors' resource transactions			
Contributions receivable	36	-	36
Distribution of funds to contributors	(61)	-	(61)
At 31 December 2020	**204**	**8**	**212**

Statement of cash flows

For the year ended 31 December 2020

	€ million	Year to 31 December 2020 € million	€ million	Year to 31 December 2019 € million
Cash flows from in operating activities				
Net gain/(loss) for the year	7		(8)	
Adjustments to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Unwind of concessional loan discount[1]	(4)		(4)	
Concessional loan discount	(3)		4	
Foreign exchange movement	(5)		2	
Impairment release/(charge) on loan investments	5		(1)	
	-		(7)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	9		9	
Funds advanced for loans	(10)		(34)	
Net cash used in operating activities		(1)		(32)
Cash flows from financing activities				
Distribution of funds to contributors	(61)		(30)	
Net cash used in financing activities		(61)		(30)
Net decrease in cash and cash equivalents		(62)		(62)
Cash and cash equivalents at the beginning of the period		140		200
Effect of foreign exchange rate changes		(6)		2
Cash and cash equivalents at 31 December		72		140

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Gordon Jones
Director – Financial Control

Date: 13 May 2021

[1] Loan interest income and unwind of concessional loan discount both make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement.

The EBRD CIF Special Fund

Fund purpose

The EBRD CIF Special Fund ("the Fund") was established to provide a long-term contribution in support of activities that promote low carbon technologies with significant potential for long-term greenhouse gas savings and other climate change activities in economies in which the European Bank for Reconstruction and Development ("the Bank) invests. To achieve this, the Fund provides concessional loans alongside the Bank's market rate loans. The Fund's resources may also be used for grants in support of technical assistance and investment grants.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 16: Leases

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued “Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)” with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets – Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund’s financial assets at amortised cost are recognised at settlement date.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's income statement, with a corresponding liability. The day one loss is recognised upon signing of the loan. Once the Fund disburses the loan to its borrower, the day one loss is reflected within the loan investment as it forms part of the initial fair value of the asset.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment that may be necessary. The initial fair value discount applied to each loan is therefore recovered in the effective interest rate (EIR) at which income is recognised in the income statement over the tenor of the loan.

All loans are subsequently measured at amortised cost using the effective interest method less any impairment. The initial fair value discount applied to each concessional loan is therefore recovered in the effective interest rate at which income is recognised in the income statement over the tenor of the loan.

The Fund’s financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as “fair value through other comprehensive income” only if both of the following criteria are met: the objective of the Fund’s business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as ‘fair value through profit or loss’.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

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

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

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

In August 2020, the IASB issued 'Interest Rate Benchmark Reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16', which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

- Changes to the basis for determining contractual cash flows because of the reform are required as a practical expedient to be treated as changes to a floating interest rate

The table below shows the Fund's exposure to significant benchmark interest rates subject to reform that have yet to transition. These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. Note that the table excludes exposures to benchmark interest rates that will expire before transition is required.

Matures 2022 or after At 31 December 2020	Benchmark	Non-derivative financial assets € million	Non-derivative financial liabilities € million	Derivatives not in hedge relationship Nominal € million
	GBP LIBOR	48	(1,179)	-
	JPY LIBOR	-	(91)	-
	USD LIBOR	7,349	(22,000)	66
		7,397	(23,270)	66

Impairment of financial assets

Financial assets at amortised cost – performing assets (stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis (the general provision).

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Financial assets at amortised cost – non-performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is objective evidence of an impairment loss include:

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

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

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

Contributors' resources

The Fund recognises contributions received from the contributors as a liability on the basis that the Fund is obligated to return such contributions under the terms of the agreement as set out below.

The Fund is required to return to contributors reflows of interest earned on investment, principal repayments on loan investments and investment income earned on contributed resources. The return of funds to the contributor is disclosed as 'distribution of funds to contributors' in the statement of changes in contributors' resources.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributor were to withdraw from the Fund and contributions returnable to the contributor from operating activities.

Contributions received in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. Currencies are then subsequently re-translated to the presentational currency at the year-end exchange rate.

Contributions are recognised as a receivable and a liability on the balance sheet on the date of project approval by the Board of Directors ("the Board") of the European Bank for Reconstruction and Development ("the Bank") following receipt of a letter of commitment from the Contributor. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date. The Fund is satisfied that they will be realised for the amounts stated in the financial statements.

General reserve

The general reserve represents foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

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

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement is the euro.

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities in currencies other than USD are re-translated into USD at spot rates ruling at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at the year-end exchange rate with the resultant exchange gains and losses taken to other comprehensive income.

Interest

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

The unwinding of the day one loss on concessional loans is recognised in interest income as part of the effective interest rate of the loan.

Technical cooperation expenses and investment grants

Technical cooperation expenses, which represent payments for services provided on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Capital expenditure (investment) grants are disbursed in coordination with the related Bank loan resources, generally directly to the contractor. Disbursements are made upon verification that the goods works or services have been delivered or carried out by the contractor.

Incentive fees

Incentive fees are paid to the Bank's clients ("Borrowers") or end-borrowers to encourage eligible lending activities that are defined in the loan agreement between the Bank and the Borrower. The Incentive fees are recognised in the period in which they are incurred, payments are made to Borrowers and end-borrowers either on the basis of disbursement made in a relevant reporting period or verification of the investment.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund's critical accounting estimates are outlined below:

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the Accounting Policies section of the report and further explained under credit risk within the Risk Management section. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

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

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €1 million (2019: €nil). The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent. A number of critical accounting estimates are therefore made in the calculation of impairment of loan investments.

Stage assessment

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

[2] A project is assigned to the Watch List when a risk officer determines that there is a heightened risk that needs to be flagged to Management and Corporate Recovery ("CR") of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 are set out by internal rating grade below:

PD rating [3]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

TTC PD rates express the likelihood of a default based on long-term credit risk trend rates and are constructed by using external benchmarks for investment grades and blending internal default experience with external data, assigning 75 per cent weight to the Bank's internal experience, and 25 per cent to Emerging Markets data published by Standards & Poor's for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default. The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. Consequently forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Update of historical default data

In 2020 the Bank carried out its regular annual review of the loss parameters underpinning estimates of unidentified impairment, with the aim of better reflecting the Bank's loss experience. The key revision to these estimates was in determining the probabilities of default for each risk rating,[4] the historical data used to calibrate the rates were updated to include 2019 data. This was carried out for both the internal and external data used to determine the final probability of default rates.[5]

There was an overall improvement in the TTC PD rates in 2020. Retaining the old PD rates would have negligible impact on the Fund's provisions.

Loss Given Default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Guarantors

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

Exposure at Default

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

[3] The Bank's internal PD rating scale is explained in detail on page 8 of the Risk Management section.
[4] See table showing probability of default ratings used by the Bank in the credit risk section under "Risk Management" on page 8.
[5] See PD table above.

Sensitivity analysis

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

Adjusted risk parameter	Recalculated provision 2020 € million	Change in provision 2020 € million	Change in provision 2020 %	Recalculated provision 2019 € million	Change in provision 2019 € million	Change in provision 2019 %
2020 portfolio provision (Stages 1 and 2)	5	-	-	4	-	-
Staging						
All loans in Stage 1	4	(1)	(20)%	4	-	-
All loans in Stage 2	10	5	100%	13	9	225%
PD Ratings						
All loans upgraded 1 notch	4	(1)	(20)%	3	(1)	(25)%
All loans downgraded 1 notch	7	2	40%	8	4	100%
All loans upgraded 3 notches	2	(3)	(60)%	1	(3)	(75)%
All loans downgraded 3 notches	14	9	180%	18	14	350%
Projected GDP						
Projected GDP increased by 1%	5	-	-	4	-	-
Projected GDP decreased by 1%	5	-	-	5	1	25%
Projected GDP increased by 5%	4	(1)	(20)%	4	-	-
Projected GDP decreased by 5%	6	1	20%	7	3	75%
LGD						
All loans decreased by 10%	4	(1)	(20)%	4	-	-
All loans increased by 10%	6	1	20%	6	2	50%
EAD						
All undrawn commitments cancelled	4	(1)	(20)%	4	-	-
All undrawn commitments disbursed within one month	6	1	20%	6	2	50%
PD Rates - weighting of Bank data and external data						
Increase weighting of Bank data by 10%	4	(1)	(20)%	4	-	-
Decrease weighting of Bank data by 10%	5	-	-	5	1	25%

With respect to Stage 3 provisions, a decrease of 10 percentage points on the current provision cover level would have an impact of €1.0 million (2019: €0.6 million).

Financial assets at amortised cost initial recognition
The Fund's method for determining the fair value on the initial recognition of concessional loans is further detailed in the significant accounting policies section of the report.

Risk management

As the primary purpose of the Fund is to provide concessional lending and grants rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments alongside the Bank, although under different terms, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and foreign exchange risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank’s overall framework for identification and management of risks is underpinned by independent second line of defence[6] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance, and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The Fund’s maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans and investment grants (see note 9).

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank’s countries of operations.
It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to the Audit Committee of the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with all portfolio risk limits including an explanation of any limit breaches.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure of default.

Credit risk exposures

Placements with credit institutions
The majority of the Fund's placements with credit institutions were classified in internal credit rating risk range 2 (approximately AA- to AA+ in terms of the S&P equivalent).

The Fund also has a minimal balance with a credit institution that had an internal credit rating risk range of 7 (approximately CCC in terms of the S&P equivalent).

Set out below is an analysis of the Fund's placements with credit institutions classified by internal credit rating risk rankings. Placements with credit institutions are considered to have low credit risk.

Risk rating category	2020 € million	2019 € million
2: Very strong	71	140
7: Special attention	1	-
At 31 December	72	**140**

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	Amortised cost carrying value					Impairment			Total net of impairment	
			Credit impaired					Credit impaired	Total net of	Impairment
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	impairment	provisions
Risk rating category	€ million	€ million	€ million	€ million	Total %	€ million	€ million	€ million	€ million	%
5: Fair	12	-	-	12	8.9%	-	-	-	12	-
6: Weak	63	5	-	68	50.4%	(1)	-	-	67	1.5%
7: Special Attention	17	15	-	32	23.7%	(1)	(3)	-	28	12.5%
8: Non-performing	-	-	23	23	17.0%	-	-	(10)	13	43.5%
At 31 December 2020	**92**	**20**	**23**	**135**	**100.0%**	**(2)**	**(3)**	**(10)**	**120**	

	Amortised cost carrying value					Impairment			Total net of impairment	
			Credit impaired					Credit impaired	Total net of	Impairment
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	impairment	provisions
Risk rating category	€ million	€ million	€ million	€ million	Total %	€ million	€ million	€ million	€ million	%
5: Fair	12	-	-	12	8.6%	-	-	-	12	-
6: Weak	71	6	-	77	55.0%	(1)	-	-	76	1.3%
7: Special Attention	36	9	-	45	32.1%	(2)	(1)	-	42	6.7%
8: Non-performing	-	-	6	6	4.3%	-	-	(6)	-	100.0%
At 31 December 2019	119	15	6	140	100.0%	(3)	(1)	(6)	130	

At 31 December 2020 the Fund had security arrangements in place for €68.5 million of its disbursed loan investments (2019: €72.0 million).

Credit risk in the loan portfolio
As at 31 December 2020 there were distressed restructured loans[7] with a disbursed value of €15.9 million (2019: €3.4 million).

Undrawn commitments

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

Risk category	**Undrawn loan commitments 2020 € million**	Undrawn loan commitments 2019 € million
6: Weak	**3**	12
7: Special attention	**36**	46
At 31 December	**39**	58

The Fund would typically have conditions precedent that would need to be satisfied before further disbursements on debt transactions.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at the carrying amount by country.

	Undrawn loan commitments 2020 € million	**Loans 2020 € million**	Undrawn loan commitments 2019 € million	Loans 2019 € million
Jordan	**-**	**-**	4	-
Kazakhstan	**4**	**29**	8	29
Morocco	**-**	**6**	-	6
Tajikistan	**8**	**-**	9	1
Turkey	**4**	**61**	4	69
Ukraine	**23**	**39**	33	35
At 31 December	**39**	**135**	58	140

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

The following table breaks down the main credit risk exposures at the carrying amount by industry sector of the project.

	Undrawn loan commitments 2020 € million	Loans 2020 € million	Undrawn loan commitments 2019 € million	Loans 2019 € million
Agribusiness	-	10	2	10
Depository credit (banks)	-	52	-	60
Manufacturing and Services	-	5	-	3
Municipal and environmental infrastructure	22	8	30	7
Power and energy	16	53	21	55
Transport	1	7	5	5
At 31 December	39	135	58	140

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements and floating rate loan investments are repriced to market interest rates within one month and six months respectively, therefore the exposure to interest rate risk on these instruments is considered to be minimal.

At 31 December 2020, the Fund has fixed rate loan investments of €112.6 million (2019: €120.5 million). As all loans are held at amortised cost, a change in the underlying interest rates would not have an impact on net loss unless the loans were sold prior to their maturity date. As this is not part of the Fund's business model no impact on other comprehensive income is expected and therefore the exposure to interest rate risk on these instruments is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to functional currency foreign exchange risk (euro to USD) is outlined in the table below.

	Euro 2020 € million	United States dollars 2020 € million	Tajik Somoni 2020 € million	Total € million
Total assets	66	162	-	228
Total liabilities	(114)	(114)	-	(228)
Net currency position at 31 December	(48)	48	-	-

	Euro 2019 € million	United States dollars 2019 € million	Tajik Somoni 2019 € million	Total € million
Total assets	77	194	1	272
Total current liabilities	(131)	(141)	-	(272)
Net currency position at 31 December	(54)	53	1	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentation currency movement, from a 7 per cent strengthening or weakening (2019: 7 per cent) is €3.0 million (2019: €3.0 million).

Interest rate benchmark reforms
In 2017, the UK Financial Conduct Authority (FCA) announced that financial institutions would no longer be compelled to publish LIBOR rates after December 2021, signalling the effective end of Libor. Regulators globally have signalled clearly that firms should transition away from the London Interbank Offered Rate (LIBOR) to alternative overnight risk-free rates (RFRs).

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

To date, through the project, the Bank has successfully incorporated in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. This work is expected to be completed before the cessation of LIBOR. IT system changes required to accurately capture the new replacement reference rates have commenced and are expected to be completed during 2021.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Rules of the Fund require that operations are financed from the resources of the Fund which comprise of contributions received. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as a liability, which will be returned to the contributors either upon termination of the Fund, or to the extent that funds remain uncommitted, upon request from the contributors. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Special Fund

On 30 May 2008 the International Bank for Reconstruction and Development ("IBRD"), the Bank and other multilateral development banks reached an agreement on the design and establishment of the Climate Investment Fund ("CIF") which comprises the Strategic Climate Fund ("SCF") and the Clean Technology Fund ("CTF"), the Contributors. The IBRD acts as a Trustee for the CIF.

The CTF was established to provide scaled up financing in order to contribute to the demonstration, deployment and transfer of low carbon technologies with significant potential for long-term greenhouse gas emission savings. The objective of the SCF is to support financing for scaled-up, transformational action in support of adaptation and mitigation measures to specific climate change challenges.

The creation of the Fund was approved by the Board at its meeting on 21 October 2009 and is administered, *inter alia*, in accordance with the AEB and the Rules of the Fund. The Fund became operational on 21 April 2010 following the signing of the Financial Procedures Agreements for the SCF and CTF.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Contributions

	2020 € million	2020 $ million	2019 € million	2019 $ million
Cumulative contributions received				
Clean Technology Fund	288	429	363	408
Strategic Climate Fund	28	34	30	34
Contributions received at 31 December	316	463	393	442
Contributions receivable				
Clean Technology Fund	36	44	2	2
Strategic Climate Fund	-	-	-	-
Contributions receivable at 31 December	36	44	2	2
Total contributions				
Clean Technology Fund	324	473	365	410
Strategic Climate Fund	28	34	30	34
Total contributions at 31 December	352	507	395	444

As at 31 December 2020 the total contributions receivable is €36 million (2019: €2 million).

During 2020, €61 million was distributed to contributors (2019: €30 million).

4. Loan investments

	2020 € million	2019 € million
At 1 January	140	122
Disbursements	10	34
Day one fair value adjustment	(3)	(12)
Movement in effective interest rate adjustment	(4)	4
Repayments	(9)	(9)
Foreign exchange movements	1	1
At 31 December	135	140
Impairment at 31 December	(15)	(10)
Total loan investments net of impairment at 31 December	120	130

5. Provision for impairment of loan investments

(Charge)/release for the year	2020 € million	2019 € million
Portfolio provisions for the unidentified impairment of loan investments	(1)	1
Specific provisions for the identified impairment of loan investments	(4)	-
Impairment (charge)/release on loan investments	(5)	1
Movement in provisions		
At 1 January	(10)	(12)
(Charge)/release for the year to the income statement	(5)	1
Foreign exchange movements	-	1
At 31 December	(15)	(10)
Analysed between		
Portfolio provisions for the unidentified impairment of loan investments	(5)	(4)
Specific provisions for the identified impairment of loan investments	(10)	(6)
At 31 December	(15)	(10)

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

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

Set out below is an analysis of the movements in the Fund's loan investments and the associated impairment provisions for each of the stages of impairment.

Movement in provisions	12-month ECL (Stage 1) 2020 € million	Lifetime ECL (Stage 2) 2020 € million	Lifetime ECL (Stage 3) 2020 € million	Total 2020 € million
At 1 January	(3)	(1)	(6)	(10)
Transfer to stage 2 - significant increase in credit risk	3	(4)	-	(1)
Transfer to stage 3 - significant increase in credit risk	-	2	(5)	(3)
Changes in models/risk parameters	(2)	-	1	(1)
Foreign exchange movements	-	-	-	-
At 31 December	(2)	(3)	(10)	(15)

Movement in provisions	12-month ECL (Stage 1) 2019 € million	Lifetime ECL (Stage 2) 2019 € million	Lifetime ECL (Stage 3) 2019 € million	Total 2019 € million
At 1 January	(4)	(2)	(6)	(12)
Changes in models/risk parameters	-	1	-	1
Foreign exchange movements	1	-	-	1
At 31 December	(3)	(1)	(6)	(10)

Movement in loans at amortised cost	**Loans Stage 1 2020 € million**	**Loans Stage 2 2020 € million**	**Loans Stage 3 2020 € million**	**Total 2020 € million**
At 1 January	119	15	6	**140**
Transfer to Stage 2 - significant change in credit risk	(22)	22	-	**-**
Transfer to Stage 3 - significant change in credit risk	-	(17)	17	**-**
New loans originated	10	-	-	**10**
Loan repayments	(9)	-	-	**(9)**
Day one fair value adjustment	(3)	-	-	**(3)**
Movement in effective interest rate adjustment	(4)	-	-	**(4)**
Foreign exchange and other risks	1	-	-	**1**
At 31 December	**92**	**20**	**23**	**135**

Movement in loans at amortised cost	Loans Stage 1 2019 € million	Loans Stage 2 2019 € million	Loans Stage 3 2019 € million	Total 2019 € million
At 1 January	104	12	6	122
Transfer to Stage 2 - significant change in credit risk	(3)	3	-	-
New loans originated	34	-	-	34
Loan repayments	(9)	-	-	(9)
Day one fair value adjustment	(12)	-	-	(12)
Movement in effective interest rate adjustment	4	-	-	4
Foreign exchange and other risks	1	-	-	1
At 31 December	119	15	6	140

6. Concessional loan discount

	2020 € million	2019 € million
Day one fair value	**(1)**	(11)
Release of discount on loan cancellation	**4**	7
Net loan discount movement	**3**	(4)

	2020 € million	2019 € million
At 1 January	**23**	31
Day one fair value adjustment	**(3)**	4
Derecognition of liability on loan disbursement	**(3)**	(12)
Foreign exchange movements	**(1)**	-
At 31 December	**16**	23

7. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	Current 2020 € million	Non-current 2020 € million	Total 2020 € million	Current 2019 € million	Non-current 2019 € million	Total 2019 € million
Placements with credit institutions	72	-	72	140	-	140
Contributions receivable	36	-	36	2	-	2
Loans	6	129	135	6	134	140
Provisions for impairment	(1)	(14)	(15)	(1)	(9)	(10)
Total assets	113	115	228	147	125	272
Liabilities						
Concessional loan discount	(16)	-	(16)	(23)	-	(23)
Contributors' resources	(97)	(115)	(212)	(7)	(242)	(249)
Total liabilities	(113)	(115)	(228)	(30)	(242)	(272)

8. Undrawn commitments

	2020 € million	2019 € million
Loan investments	39	58
Incentive fees	-	2
Technical cooperation expenses	1	1
Undrawn commitments at 31 December	40	61

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2020.

9. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

10. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

11. Related parties

The Fund's related parties are the Bank and the contributors.

Fees are paid to the Bank based on budgeted expenditure as approved by the Trustee for the CIF. During 2020 the Bank incurred €0.8 million of reimbursable expenses on behalf of the Fund (2019: €0.8 million), of which €0.3 million remain payable at year end (2019: €0.5 million). Included in this amount are audit fees of €15,300 (2019: €13,500). No audit fees remain payable to the Bank at year end. The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the EBRD CIF Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the EBRD CIF Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its profit and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the income statement, statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 21 October 2009, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The EBRD Community Special Fund

Annual Financial Report
31 December 2020

The EBRD Community Special Fund

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The EBRD Community Special Fund

Statement of comprehensive income

For the year ended 31 December 2020	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Gift income	-	1
Interest expense	(8)	(6)
Donations	(422)	(460)
Management fees	-	(60)
Net loss and comprehensive expense for the year	(430)	(525)
Attributable to:		
Contributors'	(430)	(525)

Balance sheet

At 31 December 2020	Note	31 December 2020 € 000	31 December 2019 € 000
Assets			
Placements with credit institutions		1,340	1,880
Total assets		1,340	1,880
Liabilities and contributors' resources			
Accrued expenses	3	48	158
Total liabilities		48	158
Contributions	4	3,000	3,000
Reserves and accumulated loss		(1,708)	(1,278)
Total contributors' resources		1,292	1,722
Total liabilities and contributors' resources		1,340	1,880

The EBRD Community Special Fund
Statement of changes in contributors' resources

For the year ended 31 December 2020

	Contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2018	1,000	(753)	247
Contributions received	2,000	-	2,000
Total comprehensive expense for the year	-	(525)	(525)
At 31 December 2019	3,000	(1,278)	1,722
Total comprehensive expense for the year	-	(430)	(430)
At 31 December 2020	**3,000**	**(1,708)**	**1,292**

Statement of cash flows

For the year ended 31 December 2020	€ 000	Year to 31 December 2020 € 000	€ 000	Year to 31 December 2019 € 000
Cash flows used in operating activities				
Net loss for the year	(430)		(525)	
Adjustment to reconcile net profit to net cash flows:				
Working capital adjustment				
Movement in accrued expenses	(110)		93	
Net cash used in operating activities		(540)		(432)
Cash flows from financing activities				
Contributions received	-		2,000	
Net cash from financing activities		-		2,000
Net (decrease)/increase in cash and cash equivalents		(540)		1,568
Cash and cash equivalents at the beginning of the year		1,880		312
Cash and cash equivalents at 31 December		1,340		1,880

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones
Director – Financial Control

Date: 13 May 2021

Fund purpose

The EBRD Community Special Fund ("the Fund") was established to support staff engagement in philanthropic, social and cultural activities relating to economies in which the European Bank for Reconstruction and Development ("the Bank") invests. To achieve this, the resources of the Fund may be used to match staff financial contributions collected for charitable/social causes as well as promote philanthropic, cultural and charitable activities in the Bank's region of operations.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from the contributor as equity on the basis that outside of termination, there are no cash flows contractually payable to the contributor. The termination of the contribution agreement would lead to the winding up of the Fund and the distribution of the residual assets to the contributors.

Statement of cash flows

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

Donations

Donations represent payments to eligible charitable organisations by the Fund. The Fund contributes the equivalent of staff financial contributions collected for charitable causes over a period of time that meet the minimum threshold of €3,000. Donations are recorded as expenditure in the period when the staff fundraising activities become eligible for support from the Fund.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Interest

Interest is recorded on an accruals basis. Interest expense is recognised in the statement of comprehensive income.

Gifted assets and Gift income

The Fund is entitled to include as material resources gifts received by Bank personnel. Gift income is recognised in the period in which entitlement is established, when economic benefit is probable and the value can be measured reliably. Gift items received that are material resources of the Fund are valued at a comparable market rate, or if there is none available, valued by an external independent third party. Gifts and unsold gift items that cannot be reliably measured are not included as assets since their cost is nil and their value is uncertain until sold.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

The EBRD Community Special Fund
Risk management

As the purpose of the Fund is to support the Bank and their staff's engagement in philanthropic activities in their countries of operation rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[1] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness.

The Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources. For banks with which the Fund places its cash, internal credit ratings are determined by Risk Management and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

The Fund's placements with credit institutions were ranked in the second highest internal credit rating risk category assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating of AA+ to AA-.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2020 and 31 December 2019.

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

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The driver of market risk for the Fund is interest rate risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund holds no liabilities and commitments of non-euro denomination as at 31 December 2020. There are no assets held in non-euro denomination as at 31 December 2020. The Fund’s exposure to foreign exchange risk is therefore, expected to be minimal.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that payments to charitable organisations and activities are financed from the resources of the Fund, which comprises of contributions received and investment income.

Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the exposure to liquidity risk is considered to be minimal.

The EBRD Community Special Fund
Notes to the financial statements

1. **Creation of the Special Fund**

   The EBRD Community Special Fund ("the Fund") was established to assist the European Bank for Reconstruction and Development ("the Bank"). The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank at its meeting of 6 April 2016 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund approved by the Board on that date, as may be amended from time to time. The Fund became operational after the Governors of the Bank adopted the 2015 Net Income Allocation Resolution during its Annual Meeting on 12 May 2016.

   The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

   The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. **Statement of Bank's responsibilities**

   The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

   The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:
   - safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
   - ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
   - such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
   - preparing financial statements in accordance with the accounting policies.

   The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. **Accrued expenses**

   This represents unpaid amounts that are eligible to be disbursed by the Fund to charitable organisations.

4. **Contributions**

   There were no contributions received from the Bank in 2020 (2019: €2,000,000).

5. **Fair value of financial assets and liabilities**

   The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

6. **Analysis of current and non-current assets and liabilities**

   All assets and liabilities presented on the balance sheet are classified as current for 2020.

7. **Events after the reporting period**

   There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that would require adjustment to these financial statements are those that provide evidence of conditions that existed at 31 December 2020.

   Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

   At 13 May 2021 there had been no other material events after the reporting period to disclose.

   On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

8. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. As there were no contributions in 2020, there was no management fee paid by the Fund to the Bank (2019: €60,000). There were no accrued management fees payable by the Fund to the Bank at 31 December 2020 (2019: nil).

External auditors' remuneration of €8,600 is payable by the Bank from the management fee (2019: €7,300). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

The EBRD Community Special Fund

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the EBRD Community Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the EBRD Community Special Fund Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 6 April 2016, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The EBRD GEF Investment Special Fund

Annual Financial Report
31 December 2020

The EBRD GEF Investment Special Fund

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The EBRD GEF Investment Special Fund

Income statement

For the year ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest and other similar income			
From loans		118	123
From credit institutions		82	295
Negative interest expense		(5)	-
Technical cooperation and investment grant expenses	3	(2,334)	(1,514)
Foreign exchange movements		257	(36)
Management fee expense	10	(587)	(394)
Impairment provisions on loan investments	4	3,157	576
Concessional loan discount	6	833	1
Net profit/(loss) for the year		1,521	(949)
Attributable to:			
Contributor		1,521	(949)

Statement of comprehensive income

For the year ended 31 December 2020

	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Net profit/(loss) for the year	1,521	(949)
Other comprehensive (expense)/income		
Foreign exchange movement between functional and presentational currencies	(2,437)	433
Total comprehensive loss	(916)	(516)
Attributable to:		
Contributor	(916)	(516)

These items will not subsequently be reclassified to profit or loss.

The EBRD GEF Investment Special Fund

Balance sheet

At 31 December 2020

	Note	€ 000	31 December 2020 € 000	€ 000	31 December 2019 € 000
Assets					
Placements with credit institutions			29,874		25,508
Other financial assets			-		6
Loan investments					
Loans		-		4,116	
Less: Provisions for impairment	4	-		(3,164)	
			-		952
Total assets			29,874		26,466
Liabilities					
Technical cooperation expenses payable			151		38
Provisions for impairment	5		7		-
Interest payable			2		-
Management fees payable			587		-
Other payables			62		-
Concessional loan discount	6		67		244
Contributor's resources			28,998		26,184
Total liabilities			29,874		26,466
Memorandum items					
Undrawn commitments	11		1,932		4,920

Statement of changes in contributor's resources

For the year ended 31 December 2020

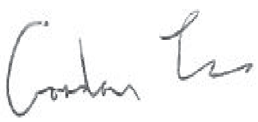
	Contributed resources € 000	General reserve € 000	Total € 000
Balance as at 31 December 2018	23,482	(900)	22,582
Net loss for the year	(949)	-	(949)
Other comprehensive income for the year	-	433	433
Contributions received	5,372	-	5,372
Distribution of funds to contributor	(1,254)	-	(1,254)
At 31 December 2019	26,651	(467)	26,184
Net profit for the year	1,521	-	1,521
Other comprehensive expense for the year	-	(2,437)	(2,437)
Contributions received	8,086	-	8,086
Distribution of funds to contributor	(4,356)	-	(4,356)
At 31 December 2020	**31,902**	**(2,904)**	**28,998**

Statement of cash flows

For the year ended 31 December 2020

		Year to 31 December 2020		Year to 31 December 2019
	€ 000	**€ 000**	€ 000	€ 000
Cash flows from operating activities				
Net profit/(loss) for the year	1,521		(949)	
Adjustments to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	4		(14)	
Unwinding of concessional discount[1]	(60)		(75)	
Foreign exchange movement	(257)		36	
Provisions and concessional loan discount	(3,990)		(577)	
	(2,782)		(1,579)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan	4,787		827	
Funds advanced for loans	-		(501)	
Working capital adjustment				
Movement in interest receivable	6		4	
Movement in fee income	-		9	
Movement in accrued expenses	702		38	
Net cash used in operating activities		2,713		(1,202)
Cash flows from financing activities				
Contributions received	8,086		5,372	
Distribution of funds to contributor	(4,299)		(1,254)	
Net cash from financing activities		3,787		4,118
Net increase in cash and cash equivalents		6,500		2,916
Cash and cash equivalents at the beginning of the year		25,508		22,199
Effect of foreign exchange rate changes		(2,134)		393
Cash and cash equivalents at 31 December		29,874		25,508

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Gordon Jones
Director – Financial Control

Date: 13 May 2021

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding of concessional discount all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement.

The EBRD GEF Investment Special Fund

Fund purpose

The EBRD GEF Investment Special Fund ("the Fund") was established to provide financing to promote environmental and sustainable development. To achieve this, the Fund provides concessional loans alongside the European Bank for Reconstruction and Development's ("the Bank") market rate loans, as well as grants in support of technical cooperation and investment incentives.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets – Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's income statement, with a corresponding liability. The day one loss is recognised upon signing of the loan. Once the Fund disburses the loan to its borrower, the day one loss is reflected within the loan investment as it forms part of the initial fair value of the asset.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment that may be necessary. The initial fair value discount applied to each loan is therefore recovered in the effective interest rate (EIR) at which income is recognised in the income statement over the tenor of the loan.

The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

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

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

Financial liabilities
The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis (the general provision).

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment

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

Financial assets at amortised cost – non-performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, Stage 3 provisions are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence the asset is credit-impaired include:

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

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income,

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended, it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Contributor's resources

The Fund recognises contributions received from the contributor as a liability on the basis the Fund is obligated to return such contributions and cash flows under the terms of the agreement as set out below.

The Fund is required to return to the contributor reflows of interest earned on investments, principal repayments on loan investments and investment income earned on contributed resources. The return of funds to the contributor is disclosed as 'distribution of funds to contributor' in the statement of changes in contributor's resources.

Contributions received in currencies other than USD are translated into USD at the exchange rates ruling at the time of the transaction. Currencies are then subsequently re-translated to euro at the year-end exchange rate.

Contributions are recognised as a receivable and a liability on the balance sheet on the date of project approval by the Board of Directors ("the Board") of the Bank following receipt of a letter of commitment from the Contributor.

General reserve

The general reserve represents foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

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

Technical cooperation and investment grant expenses

Technical cooperation expenses, which represent services provided on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Investment grants are disbursed in coordination with the related Bank loan resources, generally directly to the contractor. Disbursements are made upon verification that the goods, works or services have been delivered or carried out by the contractor.

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement is the euro (EUR).

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities in currencies other than USD are re-translated into USD at year-end exchange rates with the resultant exchange gains or losses taken to the income statement.

For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at year-end exchange rates with the resultant exchange gains and losses taken to other comprehensive income.

Interest and fees

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

The unwinding of the day one loss on concessional loans is recognised in interest income as part of the effective interest rate of the loan.

Fees received in respect of services provided over a period of time are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

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

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the economies in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk.

The Fund’s critical accounting estimates are outlined below:

Provisions for the impairment of loan investments
The Fund’s method for determining the level of impairment of loan investments is described within the Accounting Policies section of the report and further explained under credit risk within the Risk Management section. As described in the Risk Management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank’s risk processes and procedures.

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

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €1,000 (2019: €nil). The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent. A number of critical accounting estimates are therefore made in the calculation of impairment of loan investments.

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 and 2019 are set out by internal rating grade below:

2020 PD rating [4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

2019 PD rating	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

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

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently, forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss Given Default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

[4] The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

Exposure At Default

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

Sensitivity analysis

The sensitivity of portfolio provisions at 31 December 2020 and 31 December 2019 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %	Recalculated provision 2019 €000	Change in provision 2019 €000	Change in provision 2019 %
2020 portfolio provision (Stages 1 and 2)	7	-	-	120	-	-
Staging						
All loans in Stage 1	7	-	-	120	-	-
All loans in Stage 2	18	11	157%	166	46	38%
PD Ratings						
All loans upgraded 1 notch	5	(2)	(29)%	92	(28)	(23)%
All loans downgraded 1 notch	7	-	-	168	48	40%
All loans upgraded 3 notches	3	(4)	(57)%	19	(101)	(84)%
All loans downgraded 3 notches	7	-	-	168	48	40%
Projected GDP						
Projected GDP increased by 1%	7	-	-	110	(10)	(8)%
Projected GDP decreased by 1%	8	1	14%	130	10	8%
Projected GDP increased by 5%	7	-	-	86	(34)	(28)%
Projected GDP decreased by 5%	15	8	114%	166	46	38%
LGD						
All loans decreased by 10%	6	(1)	(14)%	94	(26)	(22)%
All loans increased by 10%	8	1	14%	146	26	22%
EAD						
All undrawn commitments cancelled	-	(7)	(100)%	48	(72)	(60)%
All undrawn commitments disbursed within one month	17	10	143%	123	3	3%
PD Rates - weighting of Bank data and external data						
Increase weighting of Bank data by 10%	6	(1)	(14)%	104	(16)	(13)%
Decrease weighting of Bank data by 10%	8	1	14%	134	16	13%

Risk management

As the primary purpose of the Fund is to provide concessional lending and grants rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund will participate in investments alongside the Bank, although under different terms, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and foreign exchange risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans.

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional level (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

Probability of default ratings (PD ratings)
The Bank assigns its internal risk ratings to all counterparties including borrowers, investee companies, guarantors, put counterparties and sovereigns in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)
NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A Stage 3 provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
At year end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating risk range assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating in the range of AA- to AA+. Placements with credit institutions are considered to have low credit risk.

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	Amortised cost carrying value				**Impairment**		**Total net of impairment**	
Risk rating category	**Stage 1 € 000**	**Credit impaired Stage 3 € 000**	**Total € 000**	**Total %**	**Stage 1 € 000**	**Credit impaired Stage 3 € 000**	**Total net of impairment € 000**	**Impairment provisions %**
7: Special Attention	-	-	-	n/a	(7)	-	(7)	n/a
At 31 December 2020	-	-	-	n/a	(7)	-	(7)	

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	Stage 1 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Stage 1 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions %
7: Special Attention	1,072	-	1,072	26.0%	(120)	-	952	11.2%
8: Non-performing	-	3,044	3,044	74.0%	-	(3,044)	-	100.0%
At 31 December 2019	1,072	3,044	4,116	100.0%	(120)	(3,044)	952	

At 31 December 2020 the Fund had no disbursed loan investments and therefore no security arrangements in place (2019: €3.6 million).

At 31 December 2020 the provisions for impairment relate to undrawn loan commitments.

Credit risk in the loan portfolio
There were no distressed restructured loans[6] at 31 December 2020 (2019: none).

Undrawn loan commitments

The Fund's undrawn loan commitments were internally risk rated at 7 as at 31 December 2020 and 2019.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at the carrying amounts by country.

	Undrawn loan commitments 2020 € 000	**Loans 2020 € 000**	Undrawn loan commitments 2019 € 000	Loans 2019 € 000
Lebanon*	-	-	1,781	(4)
Turkey	-	-	-	3,044
Ukraine	-	-	-	1,076
Egypt	**373**	-	-	-
At 31 December	**373**	-	1,781	4,116

The following table breaks down the main credit risk exposures at the carrying amount by industry sector of the project.

	Undrawn loan commitments 2020 € 000	**Loans 2020 € 000**	Undrawn loan commitments 2019 € 000	Loans 2019 € 000
Transport	-	-	-	4,120
Power and energy*	**373**	-	1,781	(4)
At 31 December	**373**	-	1,781	4,116

*The negative loan amount represents deferred front end fees received on undrawn loans in 2019.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

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

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to functional currency exchange risk is outlined in the table below.

	Euro 2020 € 000	United States dollars 2020 € 000	Total € 000
Total assets	2,837	27,037	29,874
Total liabilities	(39)	(29,835)	(29,874)
Net currency position at 31 December 2020	**2,798**	**(2,798)**	**-**

	Euro 2019 € 000	United States dollars 2019 € 000	Total € 000
Total assets	1,829	24,637	26,466
Total liabilities	(37)	(26,429)	(26,466)
Net currency position at 31 December 2019	1,792	(1,792)	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net profit due to presentation currency movement from a 7 per cent strengthening or weakening (2019: 7 per cent) is +/- €191,000 (2019: +/- €123,000).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Rules of the Fund require that operations are financed from the resources of the Fund which comprise of contributions received. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as a liability, which will be returned to the contributor either upon termination of the Fund, or to the extent that funds remain uncommitted, upon request from the contributor. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank at its meeting of 7 May 2014 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund and the Financial Procedures Agreement ("the FPA").

The FPA was signed between the EBRD and the International Bank for Reconstruction and Development as the Trustee of the Global Environment Facility ("the Trustee") on 6 November 2006. A new FPA was signed on 30 September 2009 superseding the previous version, and further amended on 9 March 2014.

The Fund became operational upon approval of the Rules on 7 May 2014.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund. The objective of the Fund is to finance lending, guarantee or investment operations and provide financing for technical cooperation and investment incentives.

The FPA was amended on 20 November 2019 to allow either the Bank or the Trustee to terminate the Fund by giving 60 days' notice. The Rules allow the Board of Directors to terminate the Fund after consultation between the Bank and the Trustee.

2. Statement of Bank's responsibilities

The management of the European Bank for Reconstruction and Development (the "Bank") are responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 4.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 4. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Technical cooperation and investment grant expenses

	Commitments approved € 000	Technical Cooperation expenses € 000	Undrawn commitments € 000
Total projects			
At 31 December 2018	1,667	(1,667)	-
Movement in the year	4,653	(1,514)	3,139
At 31 December 2019	6,320	(3,181)	3,139
Movement in the year	754	(2,334)	(1,580)
At 31 December 2020	**7,074**	**(5,515)**	**1,559**

4. Provisions for impairment of loan investments

Release/(charge) for the year	2020 € 000	2019 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	66	(11)
Impairment of loan investments at amortised cost in stage 3	3,091	587
Provisions for impairment of loan investments	3,157	576

Movement in provisions	2020 € 000	2019 € 000
At 1 January	(3,164)	(3,737)
Release for the year to the income statement	3,157	576
Foreign exchange adjustments	-	(3)
At 31 December	(7)	(3,164)
Analysed between:		
Stage 1 and 2 provisions for loan investments at amortised cost	(7)	(120)
Stage 3 provisions for loan investments at amortised cost	-	(3,044)
At 31 December	(7)	(3,164)

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

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

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

Movement in provisions	12 month ECL (Stage 1) 2020 € 000	Lifetime ECL (Stage 3) 2020 € 000	Total 2020 € 000
As at 1 January	(120)	(3,044)	(3,164)
New banking loans	(7)	-	(7)
Transfer to Stage 3 - credit impaired	47	(47)	-
ECL release - repayments/settlements	73	3,091	3,164
As at 31 December	(7)	-	(7)

Movement in provisions	12 month ECL (Stage 1) 2019 € 000	Lifetime ECL (Stage 3) 2019 € 000	Total 2019 € 000
As at 1 January	(106)	(3,631)	(3,737)
Changes in model or risk parameters	(11)	-	(11)
ECL release - repayments/settlements	-	587	587
Foreign exchange and other movements	(3)	-	(3)
As at 31 December	(120)	(3,044)	(3,164)

Movement in loans amortised cost	Loans Stage 1 2020 € 000	Loans Stage 3 2020 € 000	Total 2020 € 000
As at 1 January	1,072	3,044	4,116
Transfer to Stage 3 - credit impaired	(1,129)	1,129	-
Repayments/settlements	-	(4,787)	(4,787)
Release of concessional loan discount	-	678	678
Movement in effective interest rate adjustment	56	-	56
Foreign exchange and other movements	1	(64)	(63)
As at 31 December	-	-	-

Movement in loans amortised cost	Loans Stage 1 2019 € 000	Loans Stage 3 2019 € 000	Total 2019 € 000
As at 1 January	796	3,631	4,427
Disbursements	501	-	501
Day one fair value adjustment	(89)	-	(89)
Repayments/settlements	(240)	(587)	(827)
Movement in effective interest rate adjustment	89	-	89
Foreign exchange and other movements	15	-	15
As at 31 December	1,072	3,044	4,116

5. Loan investments

Operating assets	2020 € 000	2019 € 000
At 1 January	4,116	4,427
Disbursements	-	501
Concessional loan discount movement	678	(89)
Repayments/settlements	(4,787)	(827)
Movement in effective interest rate adjustment	56	89
Foreign exchange movements	(63)	15
At 31 December	-	4,116
Impairment at 31 December	(7)	(3,164)
Total loan investments net of impairment at 31 December	(7)	952

6. Concessional loan discount

	2020 € 000	2019 € 000
Day one fair value adjustment	(69)	1
Release of discount on loan cancellation	224	-
Release of discount on loan repayment	678	-
Concessional loan discount	833	1

	2020 € 000	2019 € 000
At 1 January	(244)	(326)
Day one fair value adjustment	(69)	1
Derecognition of liability on loan disbursement	-	89
Release of discount on loan cancellation	224	-
Foreign exchange movements	22	(8)
At 31 December	(67)	(244)

7. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000	Current 2019 € 000	Non-current 2019 € 000	Total 2019 € 000
Placements with credit institutions	29,874	-	29,874	25,508	-	25,508
Loan investments	-	-	-	41	911	952
Other financial assets	-	-	-	6	-	6
Total assets	29,874	-	29,874	25,555	911	26,466
Liabilities						
Technical cooperation expense	(151)	-	(151)	(38)	-	(38)
Concessional loan discount	(67)	-	(67)	(244)	-	(244)
Interest payable	(2)	-	(2)	-	-	-
Other payables	(61)	-	(61)	-	-	-
Management fees payable	(587)	-	(587)	-	-	-
Provisions for impairment	(7)	-	(7)	-	-	-
Total contributor's resources	(28,999)	-	(28,999)	(25,273)	(911)	(26,184)
Total liabilities	(29,874)	-	(29,874)	(25,555)	(911)	(26,466)

8. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate their fair value.

9. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

10. Related parties

The Fund's related parties are the Bank and the Trustee.

Fees are paid to the Bank based on a fixed fee per contribution as approved by the Trustee. The fees paid during the year are disclosed in the income statement. As at 31 December 2020 there are €587,000 of fees payable to the Bank (2019: nil).

External auditors' remuneration of €8,600 is payable by the Bank from the management fee (2019: €7,300). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

11. Undrawn commitments

Undrawn commitments	2020 € 000	2019 € 000
Loan investments	373	1,781
Technical cooperation and investment grants	1,559	3,139
At 31 December	**1,932**	4,920

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the EBRD GEF Investment Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the EBRD GEF Investment Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its profit and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 7 May 2014, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The EBRD Green Climate Fund Special Fund

Annual Financial Report
31 December 2020

The EBRD Green Climate Fund Special Fund

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The EBRD Green Climate Fund Special Fund

Income statement

For the year ended 31 December 2020	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest income			
From loans		5,010	4,042
From credit institutions		351	1,600
Net interest income		5,361	5,642
Commitment fee income		230	427
Technical cooperation expenses	3	(3,919)	(2,371)
Disbursements for investment grants		(22,795)	(5,044)
Foreign exchange movements		7,771	(922)
Accredited entity fee expense		(1,645)	(5,409)
Impairment charge on loan investments	4	(612)	(526)
Concessional loan discount	5	(5,703)	(17,522)
Operating expenses		(438)	(258)
Net loss for the period		(21,750)	(25,983)

Statement of comprehensive income

For the year ended 31 December 2020	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Net loss for the period	(21,750)	(25,983)
Other comprehensive expense		
Foreign exchange movement between functional and presentational currencies	(26,180)	3,193
Total comprehensive expense	(47,930)	(22,790)
Attributable to:		
Contributor	(47,930)	(22,790)

Balance sheet

As at 31 December 2020	Note	€ 000	31 December 2020 € 000	€ 000	31 December 2019 € 000
Assets					
Placements with credit institutions			178,716		195,919
Other financial assets	6		699		1,036
Loan investments					
Loans	4	110,481		93,634	
Less: Provisions for impairment	4	(1,598)		(1,201)	
			108,883		92,433
Contributions receivable			3,603		1,147
Total assets			291,901		290,535
Liabilities					
Other financial liabilities	7		5,574		4,736
Concessional loan discount	5		17,419		16,073
Contributor's resources			268,908		269,726
Total liabilities			291,901		290,535
Memorandum items					
Undrawn commitments	8		105,524		118,788

The EBRD Green Climate Fund Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2020

	Contributed Resources	General reserve	Total
	€ 000	€ 000	€ 000
At 31 December 2018	207,031	2,424	209,455
Net loss for the year	(25,983)	-	(25,983)
Other comprehensive income in the year	-	3,193	3,193
Contributions received and receivable	86,896	-	86,896
Distribution of funds to contributor	(3,835)	-	(3,835)
As at 31 December 2019	264,109	5,617	269,726
Net loss for the year	(21,750)	-	(21,750)
Other comprehensive expense in the year	-	(26,180)	(26,180)
Contributions received and receivable	54,992	-	54,992
Distribution of funds to contributor	(7,880)	-	(7,880)
As at 31 December 2020	**289,471**	**(20,563)**	**268,908**

Statement of cash flows

For the year ended 31 December 2020		Year to 31 December 2020		Year to 31 December 2019
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the period	(21,750)		(25,983)	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	517		(127)	
Interest income unwinding discount[1]	(1,443)		(413)	
Unwind of concessional loan discount	5,703		17,522	
Foreign exchange movement	(7,771)		922	
Impairment charge on loan investments	612		526	
	(24,132)		(7,553)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan investments	4,420		468	
Funds advanced for loans	(34,422)		(62,396)	
Front end fees received	389		619	
Working capital adjustment				
Movement in interest income[2]	315		(584)	
Movement in fee income	24		(2)	
Accrued expenses	2,106		2,673	
Net cash used in operating activities		(51,300)		(66,775)
Cash flows from financing activities				
Contributions received	52,536		86,396	
Distribution of funds to the contributor	(7,516)		(3,862)	
Net cash from financing activities		45,020		82,534
Net (decrease)/increase in cash and cash equivalents		(6,280)		15,759
Cash and cash equivalents at the beginning of the period		195,919		178,112
Effect of foreign exchange rate changes		(10,822)		2,016
Functional currency adjustment on USD financial assets and liabilities		(101)		32
Cash and cash equivalents at 31 December		178,716		195,919

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones, Director - Financial Control
Date: 13 May 2021

[1] Loan interest income, the effective interest rate adjustment on loans and the interest income unwinding discount all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

The EBRD Green Climate Fund Special Fund

Fund purpose

The Fund was established to provide investments and technical assistance that support the climate resilience of critical infrastructure, boost the production of renewable energy and help industries adopt green technology in the regions the Bank invests in. To achieve this, the Fund can provide loans, grants and technical assistance.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the EBRD Green Climate Fund Special Fund ("the Fund"). The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's income statement, with a corresponding liability. The day one loss is recognised upon signing of the loan. Once the Fund disburses the loan to its borrower, the day one loss is reflected within the loan investment as it forms part of the initial fair value of the asset.

All loans are subsequently measured at amortised cost using the effective interest method less any impairment. The initial fair value discount applied to each concessional loan is therefore recovered in the effective interest rate at which income is recognised in the income statement over the tenor of the loan.

The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

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

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

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost. Other liabilities are recognised on a settlement basis.

Interest rate benchmark reforms

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

In August 2020, the IASB issued 'Interest Rate Benchmark Reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16', which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

- Changes to the basis for determining contractual cash flows because of the reform are required as a practical expedient to be treated as changes to a floating interest rate

The Fund's exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €65.2 million (USD LIBOR) that mature in 2022 or later. These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required.

Impairment of financial assets

Financial assets at amortised cost – performing assets Stages 1 and 2
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis. (the general provision

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

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

For Stage 1 and Stage 2 assets, impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

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

Financial assets at amortised cost – non-performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:

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

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended, it may continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Contributor's resources

The Fund recognises contributions received from the contributor as a liability on the basis the Fund is obligated to return such contributions and cash flows under the terms of the agreement as set out below.

The Fund is required to return to the contributor reflows of interest earned on investment, principal repayments on loan investments and investment income earned on contributed resources. The return of funds to the contributor is disclosed as 'distribution of funds to contributors' in the statement of changes in contributor's resources.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributor were to withdraw from the Fund and contributions returnable to the contributor from operating activities.

Contributions received in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. Currencies are then subsequently re-translated to the presentational currency at the year-end exchange rate.Contributions are recognised as receivable on the balance sheet on the date the conditions precedent to disbursement detailed in the relevant Funding Activity Agreement (FAA) has been met by the Fund. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date. The Fund is satisfied that they will be realised for the amounts stated in the financial statements.

General reserve

The general reserve represents foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

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

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement is the euro.

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities in currencies other than USD are re-translated into USD at spot rates ruling at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at spot rates ruling at the year-end exchange rate with the resultant exchange gains and losses taken to other comprehensive income.

Interest and fees

Interest is recorded using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument. Interest income is recognised within 'net interest income' in the income statement. Negative interest expense is recognised in 'operating expenses' in the income statement.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows.

The unwinding of the day one loss on concessional loans is recognised in interest income as part of the effective interest rate of the loan.

Fees earned in respect of services provided over a period of time, including loan commitment fees are recognised as income as the services are provided.

Technical cooperation expenses and investment grants

Technical cooperation expenses, which represent payments for services provided on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Capital expenditure (investment) grants are disbursed in coordination with the related European Bank for Reconstruction and Development (“the Bank”) loan resources, generally directly to the contractor. Disbursements are made upon verification of the goods works or services have been delivered or carried out by the contractor.

Accredited entity fee expense

Accredited entity fee expense represents fees payable to the Bank for the costs and expenses for administering and managing the Fund.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund’s critical accounting estimates are outlined below:

Provisions for the impairment of loan investments
The Fund’s method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank’s risk processes and procedures.

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

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €343,000 (2019: €nil). The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent.

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 are set out by internal rating grade below:

2020 PD rating [4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

2019 PD rating	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

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

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to the historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

[4] The Bank's internal PD rating scale is explained in detail on page 11 of the Risk Management section.

Loss Given Default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Guarantors

Where the Fund's loans are fully and unconditionally guaranteed, and the PD and/or LGD rating of the guarantor is better than the PD and/or LGD rating of the borrower, the ECL is based on the PD and/or LGD rating of the guarantor. Staging continues to be based solely on the borrower's PD.

Exposure at Default

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

Sensitivity analysis

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

Adjusted risk parameter	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %	Recalculated provision 2019 €000	Change in provision 2019 €000	Change in provision 2019 %
2020 portfolio provision (Stages 1 and 2)	1,598			1,201		
Staging						
All loans in Stage 1	1,597	(1)	(0)%	1,201	-	0%
All loans in Stage 2	6,940	5,342	334%	5,971	4,770	397%
PD Ratings						
All loans upgraded 1 notch	936	(662)	(41)%	553	(648)	(54)%
All loans downgraded 1 notch	2,886	1,288	81%	2,192	991	83%
All loans upgraded 3 notches	551	(1,047)	(66)%	202	(999)	(83)%
All loans downgraded 3 notches	11,234	9,636	603%	11,334	10,133	844%
Projected GDP						
Projected GDP increased by 1%	1,546	(52)	(3)%	1,172	(29)	(2)%
Projected GDP decreased by 1%	1,711	113	7%	1,234	33	3%
Projected GDP increased by 5%	1,471	(127)	(8)%	1,127	(74)	(6)%
Projected GDP decreased by 5%	2,739	1,141	71%	1,698	497	41%
LGD						
All loans decreased by 10%	1,305	(293)	(18)%	920	(281)	(23)%
All loans increased by 10%	1,891	293	18%	1,477	276	23%
EAD						
All undrawn commitments cancelled	1,329	(269)	(17)%	980	(221)	(18)%
All undrawn commitments disbursed within one month	1,964	366	23%	1,463	262	22%
PD Rates - weighting of Bank data and external data						
Increase weighting of Bank data by 10%	1,362	(236)	(15)%	977	(224)	(19)%
Decrease weighting of Bank data by 10%	1,836	238	15%	1,419	218	18%
2020 post-model adjustment (overlay)	343					
2019 TTC PD rates	30					

Financial assets at amortised cost initial recognition

The Fund's method for determining the fair value on the initial recognition of concessional loans is further detailed in the significant accounting policies section of the report.

Risk management

As the primary purpose of the Fund is to provide loans, grants and technical assistance rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments alongside the Bank, although under different terms, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and foreign exchange risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans (see note 8).

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

The Operations Committee reviews all Banking projects (both debt and equity transactions) prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with all portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)

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

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified at the internal risk rating range of 2 and 3 (approximately AA+ to A- in terms of the S&P equivalent). Placements with credit institutions are considered to have low credit risk.

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Total net of impairment € 000	Impairment Provisions %
3: Strong	10,670	-	10,670	9.7%	(5)	-	10,665	0.0%
5: Fair	13,414	-	13,414	12.1%	(36)	-	13,378	0.3%
6: Weak	85,381	-	85,381	77.3%	(1,453)	-	83,928	1.7%
7: Special attention	858	158	1,016	0.9%	(97)	(7)	912	9.5%
At 31 December 2020	110,323	158	110,481	100.0%	(1,591)	(7)	108,883	

	Amortised cost carrying value		Impairment	Total net of impairment	
Risk rating category	Stage 1 and total € 000	Total %	Stage 1 € 000	Total net of impairment € 000	Impairment Provisions %
5: Fair	6,312	6.7%	(14)	6,298	0.2%
6: Weak	86,177	92.1%	(1,121)	85,056	1.3%
7: Special attention	1,145	1.2%	(66)	1,079	5.8%
At 31 December 2019	93,634	100.0%	(1,201)	92,433	

At 31 December 2020 the Fund had security arrangements in place for loan investments with a disbursed value of €75.2 million (2019: €71.9 million).

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

Risk category	Undrawn loan commitments 2020 € 000	Undrawn loan commitments 2019 € 000
5: Fair	12,920	250
6: Weak	43,872	45,513
7: Special attention	21,080	22,268
At 31 December	**77,872**	68,031

The Fund would typically have conditions precedent that would need to be satisfied before further disbursements on debt transactions.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at the carrying amount by country.

	Undrawn loan commitments 2020 € 000	Loans 2020 € 000	Undrawn loan commitments 2019 € 000	Loans 2019 € 000
Armenia	-	3,411	-	4,114
Egypt	20,367	58,475	26,568	53,904
Georgia	10,000	6,051	3,117	3,589
Jordan	2,800	-	-	-
Kazakhstan	20,205	31,738	15,828	26,038
Moldova	500	-	-	-
Mongolia	407	-	-	-
Morocco	2,920	4,873	250	2,433
Republic of Serbia	-	4,916	-	2,411
Tajikistan	20,673	1,017	22,268	1,145
At 31 December	**77,872**	**110,481**	68,031	93,634

The following table breaks down the main credit risk exposures at the carrying amount by industry sector.

	Undrawn loan commitments 2020 € 000	**Loans 2020 € 000**	Undrawn loan commitments 2019 € 000	Loans 2019 € 000
Depository credit (banks)	**24,093**	**24,786**	29,643	9,917
Leasing finance	**407**	**5,251**	-	2,833
Municipal and environmental infrastructure	**12,800**	**-**	-	-
Power and energy	**40,572**	**80,444**	38,388	80,884
At 31 December	**77,872**	**110,481**	68,031	93,634

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk on these instruments is considered to be minimal.

At 31 December 2020, the Fund has fixed rate loan investments of €47,146,000 (2019: €34,655,000). As all loans are held at amortised cost, a change in the underlying interest rates would not have an impact on net profit unless the loans were sold prior to their maturity date. As this is not part of the Fund’s business model no impact on other comprehensive income is expected and therefore the exposure to interest rate risk on these instruments is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to functional currency foreign exchange risk (euro to USD) is outlined in the table below.

	Euro 2020 € 000	**United States dollars 2020 € 000**	**Total 2020 € 000**
Total assets	**84,157**	**207,744**	**291,901**
Total liabilities	**(68,476)**	**(223,425)**	**(291,901)**
Net currency position at 31 December 2020	**15,681**	**(15,681)**	**-**

	Euro 2019 € 000	United States dollars 2019 € 000	Total 2019 € 000
Total assets	78,458	212,077	290,535
Total liabilities	(66,616)	(223,919)	(290,535)
Net currency position at 31 December 2019	11,842	(11,842)	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentation currency movement, from a 7 per cent strengthening or weakening (2019: 7 per cent) is €1,072,000 (2019: €811,000).

Interest rate benchmark reforms

In 2017, the UK Financial Conduct Authority (FCA) announced that financial institutions would no longer be compelled to publish LIBOR rates after December 2021, signalling the effective end of Libor. Regulators globally have signalled clearly that firms should transition away from the London Interbank Offered Rate (LIBOR) to alternative overnight risk-free rates (RFRs).

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

To date, through the project, the Bank has successfully incorporated in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. This work is expected to be completed before the cessation of LIBOR. IT system changes required to accurately capture the new replacement reference rates have commenced and are expected to be completed during 2021.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Rules of the Fund require that operations are financed from the resources of the Fund which comprise of contributions received. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as a liability, which will be returned to the contributor either upon termination of the Fund, or to the extent that funds remain uncommitted, upon request from the contributor. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

The EBRD Green Climate Fund Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Governors at its meeting on 5 July 2017 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules of the Fund and Accreditation Master Agreement (the AMA).

The AMA was signed between the Bank and the Green Climate Fund (GCF), the contributor, on 22 April 2017. The Fund became operational upon approval of the Rules on 5 July 2017.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

The AMA will terminate on 22 April 2022. The AMA allows either the Bank or the GCF to terminate the AMA by giving 180 days' notice. The Rules allow the Board of Directors to terminate the Fund after consultation between the Bank and the GCF.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Technical cooperation expenses

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
As at 31 December 2019	7,800	(2,486)	5,314
Movement in the year	5,196	(3,919)	1,277
As at 31 December 2020	**12,996**	**(6,405)**	**6,591**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2020.

4. Loan investments

Charge for the year	2020 € 000	2019 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	(1,598)	(1,201)
Impairment charge on loan investments	**(1,598)**	(1,201)

Movement in provisions		
At beginning of period	(1,201)	(665)
Charge for the year to the income statement	(612)	(526)
Foreign exchange adjustments	215	(10)
At 31 December	**(1,598)**	(1,201)

Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	(1,598)	(1,201)
At 31 December	**(1,598)**	(1,201)

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages. Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the movements in the Fund's loan investments and the associated impairment provisions for each of the stages of impairment. As these categories did not exist under IAS 39, there are no comparative tables for 2017.

As at 31 December 2020, the Fund has no loan investments or undrawn commitments in Stage 3 (2019: none in Stage 2 or Stage 3).

Movement in provisions	12-month ECL (Stage 1) 2020 € 000	Lifetime ECL (Stage 2) 2020 € 000	Total 2020 € 000	12-month ECL Stage 1 and total 2019 € 000
As at 1 January	(1,201)	-	(1,201)	(665)
New loans originated	(304)	-	(304)	(351)
Transfer to stage 2 - significant increase in credit risk	8	(9)	(1)	-
ECL release - cancelled loans	25	-	25	-
Changes in model or risk parameters	(333)	1	(332)	(175)
Foreign exchange and other movements	214	1	215	(10)
As at 31 December	**(1,591)**	**(7)**	**(1,598)**	(1,201)

Movement in loans at amortised cost	Loans Stage 1 € 000	Loans Stage 2 € 000	Total 2020 € 000	Stage 1 and total 2019 € 000
As at 1 January	93,634	-	93,634	38,287
New banking loans originated	33,141	-	33,141	63,677
Transfer to stage 2 - significant increase in credit risk	(200)	200	-	-
Repayments/settlements	(4,379)	(41)	(4,420)	(468)
Day one fair value adjustment	(3,030)	-	(3,030)	(8,404)
Unwind of concessional loan discount	1,436	7	1,443	413
Movement in effective interest rate adjustment	(890)	(1)	(891)	(211)
Foreign exchange movements	(9,389)	(7)	(9,396)	340
As at 31 December	**110,323**	**158**	**110,481**	93,634

5. Concessional loan discount

	2020	2019
	€ 000	€ 000
At beginning of period	16,073	6,875
Day one fair value adjustment	5,703	17,522
Derecognition of liability on loan disbursement	(3,030)	(8,404)
Foreign exchange movements	(1,327)	80
At 31 December	17,419	16,073

6. Other financial assets

	2020	2019
	€ 000	€ 000
Interest receivable	648	963
Front end fees receivable	10	8
Commitment fees receivable	41	65
As at 31 December	699	1,036

7. Other liabilities

	2020	2019
	€ 000	€ 000
Technical cooperation expenses	4,718	2,275
Accredited entity fees payable	803	1,147
Negative interest rate expense	40	33
Other payable	13	1,281
As at 31 December	5,574	4,736

8. Undrawn commitments

	2020	2019
	€ 000	€ 000
Loan commitments	77,872	68,031
Technical cooperation expenses	6,591	5,314
Investment grants	21,061	45,443
Undrawn commitments at 31 December	105,524	118,788

This represents amounts for which the Fund has contracted for but for which the transaction or service was not undertaken at 31 December 2020.

9. Contributions

	2020	2019
Pledged contributions not yet due	€ 000	€ 000
Total pledged	701,624	760,427
Total received	(360,412)	(307,876)
FX on contributions received	26,145	(5,741)
Contributions receivable	(3,603)	(1,147)
As at 31 December	363,754	445,663

As at 31 December 2020 the total contributions pledged per the signed FAAs is equivalent to €701,624,000 (2019: €760,427,000). The next tranche of contributions can be called when conditions precedent stipulated in the relevant FAA have been met.

During 2020, €7.5 million was distributed to the contributor (2019: €3.8 million).

10. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000	Current 2019 € 000	Non-current 2019 € 000	Total 2019 € 000
Placements with credit institutions	178,716	-	178,716	195,919	-	195,919
Other financial assets	699	-	699	1,036	-	1,036
Loans	5,337	105,144	110,481	2,499	91,135	93,634
Provisions for impairment	(92)	(1,506)	(1,598)	(43)	(1,158)	(1,201)
Contributions receivable	3,603	-	3,603	1,147	-	1,147
Total assets	188,263	103,638	291,901	200,558	89,977	290,535
Liabilities						
Other financial liabilities	5,574	-	5,574	4,736	-	4,736
Concessional loan discount	17,419	-	17,419	16,073	-	16,073
Total contributor's resources	165,270	103,638	268,908	179,749	89,977	269,726
Total liabilities	188,263	103,638	291,901	200,558	89,977	290,535

11. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

12. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

13. Related parties

The Fund's related parties are the Bank and the contributor, the GCF.

The Bank is entitled to an accredited entity fee in accordance with the terms of the relevant FAA. The fees paid during the year are disclosed in the income statement as accredited fee expense.

External auditor's remuneration of €8,600 is payable by the Bank from the accredited entity fee (2019: €7,300). The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

At 31 December 2020 no funds were owing to the Bank from the Fund for the payment of a loan disbursement (2019: €1,281,000). The Accredited entity fees payable from the Fund to the Bank are outlined in note 7.

Contributions received and receivable from the contributor and amounts returned to the contributors are outlined in note 9.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the EBRD Green Climate Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the EBRD Green Climate Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 5 July 2017, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The EBRD Post-Graduation Special Fund

Annual Financial Report
31 December 2020

The EBRD Post-Graduation Special Fund

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The EBRD Post-Graduation Special Fund

Statement of comprehensive income

For the year ended 31 December 2020	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Operating expenses		(48)	(41)
Technical cooperation expenses	3	-	(17)
Net loss and comprehensive expense for the year		(48)	(58)
Attributable to:			
Contributors		(48)	(58)

Balance sheet

At 31 December 2020	Note	31 December 2020 € 000	31 December 2019 € 000
Assets			
Placements with credit institutions		9,402	9,454
Total assets		9,402	9,454
Liabilities and contributors' resources			
Accrued expenses	4	-	4
Total liabilities		-	4
Contributions	5	10,000	10,000
Reserves and accumulated loss		(598)	(550)
Total contributors' resources		9,402	9,450
Total liabilities and contributors' resources		9,402	9,454

The EBRD Post-Graduation Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2020	Contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2018	10,000	(492)	9,508
Total comprehensive expense for the year	-	(58)	(58)
At 31 December 2019	10,000	(550)	9,450
Total comprehensive expense for the year	-	(48)	(48)
At 31 December 2020	**10,000**	**(598)**	**9,402**

Statement of cash flows

For the year ended 31 December 2020	€ 000	Year to 31 December 2020 € 000	€ 000	Year to 31 December 2019 € 000
Cash flows used from operating activities				
Net loss for the year	(48)		(58)	
Working capital adjustment				
Movement in accrued expenses	(4)		(14)	
Net cash used in operating activities		(52)		(72)
Net decrease in cash and cash equivalents		(52)		(72)
Cash and cash equivalents at the beginning of the year		9,454		9,526
Cash and cash equivalents at 31 December		9,402		9,454

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones,
Director - Financial Control
Date: 13 May 2021

The EBRD Post-Graduation Special Fund

Fund purpose

The EBRD Post-Graduation Special Fund ("the Fund") was established to assist the Bank achieve its mandate of implementing a strategic and comprehensive approach to post-graduation. The resources of the Fund may be used to finance activities and costs to provide expertise to clients in countries where there is a clear perspective on graduation or to support post-graduation business development.

As the primary purpose of the Fund is to assist the Bank to achieve its post-graduation objectives rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention and have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements are disclosed in "Significant accounting policies and judgements". The Fund does not have any areas with accounting estimates for the years presented.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that the termination of the contribution agreement would lead to the winding up of the Fund and the distribution of the residual assets to the contributors.

Statement of cash flows

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

Interest

Interest is recorded on an accruals basis using the effective interest method. Interest income is recognised within 'interest income' in the Statement of comprehensive income. Negative interest rate expense is recognised in 'operating expenses' in the Statement of comprehensive income.

Technical cooperation expenses

Technical cooperation expenses, which represent consultancy services provided to the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

Risk management

Risk governance

The Fund is subject to the European Bank for Reconstruction and Development's (the "Bank") risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[1] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness.

The Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources. For banks with which the Fund places its cash, internal credit ratings are determined by Risk Management and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

At year end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating risk category assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating of AA+ to AA-.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2020 and 31 December 2019.

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

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The driver of market risk for the Fund is interest rate risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund does not hold any assets or liabilities of non-euro denomination, nor does it have any non-euro undrawn commitments as at 31 December 2020, hence it is not exposed to any foreign exchange risk.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that technical assistance is financed from the resources of the Fund, which comprise contributions received and income earned.

Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. As a result, the exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Special Fund

The EBRD Post-Graduation Special Fund ("the Fund") was established to assist the European Bank for Reconstruction and Development ("the Bank"). The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank at its meeting of 26 March 2014 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund approved by the Board on that date, as may be amended from time to time. The Fund became operational after the Governors of the Bank adopted the 2013 Net Income Allocation Resolution during its Annual Meeting on 15 May 2014.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 4. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Technical cooperation expenses

	Commitments approved € 000	Disbursements € 000	Undrawn commitments € 000
Projects in operation			
At 31 December 2018	218	(196)	22
Movement in the year	(5)	(17)	(22)
At 31 December 2019	213	(213)	-
Movement in the year	-	-	-
At 31 December 2020	**213**	**(213)**	**-**

Undrawn commitments represent amounts for which the Fund has contracted but for which the transaction or service was not undertaken at 31 December 2020.

4. Accrued expenses

	2020 € 000	2019 € 000
Negative interest expense payable	-	4
At 31 December	**-**	**4**

5. Contributions

No contributions were received during the year by the Fund (2019: nil).

6. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

7. Analysis of current and non-current assets and liabilities

All assets and liabilities presented on the balance sheet are classified as current for both 2020 and 2019.

8. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

9. Related parties

The Fund's only related party is the Bank.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent of contributions received. During the year ended 31 December 2020, the Fund paid no management fee (2019: nil) and there were no accrued management fees payable by the Fund to the Bank at 31 December 2020 (2019: nil).

External auditors' remuneration of €8,600 (2019: €7,300) is payable by the Bank from the management fee. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the EBRD Post-Graduation Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the EBRD Post Graduation Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.

- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 26 March 2014, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The EBRD Shareholder Special Fund

Annual Financial Report
31 December 2020

The EBRD Shareholder Special Fund

Contents

The EBRD Shareholder Special Fund

Statement of comprehensive income

For the year ended 31 December 2020

	Note	Year to 31 December 2020 € million	Year to 31 December 2020 € million	Year to 31 December 2019 € million	Year to 31 December 2019 € million
Technical cooperation expenses	3	(63)		(67)	
Client cost sharing for technical cooperation		1		-	
Net technical cooperation expenses			(62)		(67)
Disbursements for investment grants			(7)		(12)
Incentive fees			(2)		-
Net unrealised gain from share investments	4		(4)		1
Foreign exchange movement			(2)		-
Other operating expenses			(5)		(5)
Net loss and comprehensive expense for the year			(82)		(83)
Total comprehensive expense attributable to:					
Contributors			(82)		(83)

Balance sheet

At 31 December 2020

	Note	31 December 2020 € million	31 December 2020 € million	31 December 2019 € million	31 December 2019 € million
Assets					
Placements with credit institutions	4		438		473
Contributions receivable	5		144		92
Share investments	6		46		40
Total assets			628		605
Liabilities and contributors' resources					
Accrued technical cooperation expenses			48		43
Financial guarantee liability			1		1
Total liabilities			49		44
Contributions	5	1,135		1,035	
Reserves and accumulated loss		(556)		(474)	
Total contributors' resources			579		561
Total liabilities and contributors' resources			628		605
Memorandum items					
Undrawn commitments	7		128		142

Statement of changes in contributors' resources

For the year ended 31 December 2020

	Contributions € million	Accumulated loss € million	Total € million
At 31 December 2018	940	(391)	549
Contributions received and receivable	95	-	95
Total comprehensive expense for the year	-	(83)	(83)
At 31 December 2019	1,035	(474)	561
Contributions received and receivable	100	-	100
Total comprehensive expense for the year	-	(82)	(82)
At 31 December 2020	**1,135**	**(556)**	**579**

Statement of cash flows

For the year ended 31 December 2020	**€ million**	**Year to 31 December 2020 € million**	€ million	Year to 31 December 2019 € million
Cash flows from/(used in) operating activities				
Net loss for the year	(82)		(83)	
Adjustment to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Net unrealised loss/(gain) on share investments	4		(1)	
Foreign exchange movement	2		-	
Management fees	3		3	
	(73)		(81)	
Cash flows from the sale and purchase of operating assets				
Funds advanced for share investments	(10)		-	
Net placements to credit institutions	160		-	
Working capital adjustment				
Movement in accrued expenses	5		6	
Net cash from /(used in) operating activities		82		(75)
Cash flows from financing activities				
Contributions received	46		-	
Net cash from financing activities		46		-
Net increase/(decrease) in cash and cash equivalents		128		(75)
Effect of foreign exchange rate changes		(3)		-
Cash and cash equivalents at the beginning of the year		163		238
Cash and cash equivalents at 31 December		288		163

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones,
Director - Financial Control
Date: 13 May 2021

Fund purpose

The purpose of the EBRD Shareholder Special Fund ("the Fund") is to assist the European Bank for Reconstruction and Development ("the Bank") to achieve its mandate of promoting transition towards open market-oriented economies by providing:

- Technical assistance (or cooperation) which involves the provision of services, usually those of consultants, to provide expertise to clients in economies in which the Bank invests;
- Non-technical assistance initiatives which are principally used to provide working capital, incentive fees or investment grants; and
- Investment activities, which may include guarantees, equity or debt financing.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting estimates and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment.

The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

All of the share investments held by the Fund are measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used is net asset value.

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

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

Derecognition of financial assets

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

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

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial guarantees which are measured in accordance with IFRS 9, as described under "Financial guarantees" below.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment

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

[1] For calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[2] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Financial assets at amortised cost – non performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:

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

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Financial guarantees

The Fund provides guarantees to:

- Participating Bank ("PB") guarantees: cover a proportion of principal losses of loan investments made by participating banks ("PB") under specific signed loan agreements. When a guarantee is issued, its initial fair value reflects the fees charged for such guarantee, assuming an arm's-length commercial transaction. As the Fund does not charge the PB any fee for its guarantee, its initial fair value is estimated based on the fee that the Fund might otherwise have charged, given the credit risk attaching to the guaranteed portfolio. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement. Subsequently the guarantee is measured at the higher of the initial fair value less cumulative amortisation or, if appropriate, the expenditure required to settle the commitment at the balance sheet date.
- Parallel loan investment guarantees: cover the Bank's principal losses on parallel loan investments, limited to the debt proceeds recovered on the Fund's loan investment. When a guarantee is issued, its initial fair value reflects the fees charged for such guarantee, assuming an arm's-length commercial transaction. As the Fund does not charge the Bank any fee for its guarantee, its initial fair value is estimated based on the fee that the Fund might otherwise have charged, given the credit risk attached to the investment. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement.
- Small and Medium Enterprise Programme (SME) guarantees: cover principal losses of loan investments in the Bank's SME Programme and principal losses the Bank may incur from providing its own guarantee. When a guarantee is issued, its initial fair value reflects the fees charged for such guarantee, assuming an arm's-length commercial transaction. As the Fund does not charge the Bank any fee for its guarantee, its initial fair value is estimated based on the fee that the Fund might otherwise have charged, given the credit risk attached to the investment. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement.

Subsequently the guarantee liabilities are measured at the higher of the initial fair value less cumulative amortisation and the expected credit loss (ECL) at the balance sheet date. Financial guarantees are recognised within financial guarantee liabilities.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

Contributions are recognised as receivable on the balance sheet on the date the conditions precedent to disbursement has been met by the Fund. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date. The Fund is satisfied that they will be realised for the amounts stated in the financial statements.

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

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

Interest

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

Technical cooperation expenses and investment grants

Technical cooperation expenses, which represent services provided on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Client cost sharing for technical cooperation represents reimbursements in relation to consultancy services provided. A letter of engagement indicates expected amounts and timing of payments, however these are not considered due until an invoice is issued from the Fund to the client. Amounts are recorded as income when invoiced. This approach is not materially different from recognising the recovery at the same time as performance of the service.

Capital expenditure (investment) grants are disbursed in coordination with the related Bank loan resources, generally directly to the contractor. Disbursements are made upon verification of the goods works or services that have been delivered or carried out by the contractor.

Incentive fees

Incentive fees are paid to the Bank's clients ("Borrowers") or end-borrowers to encourage eligible lending activities that are defined in the loan agreement between the Bank and the Borrower. The Incentive fees are recognised in the period in which they are incurred, payments are made to Borrowers and end-borrowers either on the basis of disbursement made in a relevant reporting period or verification of the investment.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund's critical accounting estimates are outlined below:

Fair value of share investments

The Fund's method for determining the fair value of share investments is described under "Financial assets" within the Accounting Policies section of the report and an analysis of the share investments portfolio is provided in note 6. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

Financial guarantee liability
The Fund's method for determining the carrying value of financial guarantee liability is determined by assessing the expected credit loss (ECL) of the underlying covered Bank loan investments. In assessing the ECL, the Fund relies on the Bank's risk management processes and procedures.

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

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments. This adjustment had a minimal impact on the Fund's guarantees. The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent. A number of critical accounting estimates are therefore made in the calculation of impairment of loan investments.

Stage assessment

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

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 and are set out by internal rating grade below:

2020 PD rating [4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

2019 PD rating	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

TTC PD rates express the likelihood of a default based on long-term credit risk trend rates and are constructed by using external benchmarks for investment grades and blending internal default experience with external data,

[3] A project is assigned to the Watch List when a risk officer determines that there is a heightened risk that needs to be flagged to Management and Corporate Recovery ("CR") of the project failing to meet debt service and the Bank subsequently suffering a financial loss.
[4] The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

assigning 75 per cent weight to the Bank's internal experience, and 25 per cent to emerging markets data published by Standards & Poor's for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss Given Default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure At Default

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

Sensitivity analysis

A 3-notch PD upgrade on the Bank's loan investments covered by the Fund's guarantees would have decreased the financial guarantees by €0.3 million (2019: €0.3 million). Conversely, a 3-notch PD downgrade would have increased the amount of the financial guarantees provided by €0.6 million (2019: €0.7 million).

Risk management

As the primary purpose of the Fund is to assist the Bank to achieve its transition mandate rather than to generate a return on its assets, not all financial risks are actively managed by the Fund. Credit risk is jointly managed with the Bank; however the Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance, and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:
- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied;
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision making.

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

Included in the placements with credit institutions is a €50 million (2019: €105 million) placement. This arrangement involves the Fund receiving, as collateral, highly liquid securities equal to the value of the placement, for a period of approximately one to three months. The credit risk on the placement is fully mitigated by collateral held. On termination of the arrangement, the placement and collateral are returned to the respective parties, and a new arrangement is entered into based on the Fund's excess available cash. Custodian ensures that the value of the securities held covers the full value of the placement on a daily basis.

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

The Fund is not entitled to sell or repledge the collateral outside of a default. The Fund has not taken possession of any securities held as collateral during the year.

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The majority of the Fund's placements with credit institutions were classified in internal credit rating risk ranges 2 and 3 (approximately AA- to A- in terms of the S&P equivalent). Placements with credit institutions are considered to have low credit risk.

The Fund also has a minimal balance with a credit institution that had an internal credit rating risk range of 6 (approximately B+ to B- in terms of the S&P equivalent).

Financial guarantee liabilities
At 31 December 2020, the total eligible loans outstanding by the Bank under the PB guarantees are €50.9 million (2019: €46.9 million). The guarantees are provided over the sub-loans made from the PB to a sub-borrower. A guarantee liability will be recognised when the loan from the Bank has been disbursed to the PB, and the PB has the

funds available to on-lend to sub-borrowers. At 31 December 2020 the total on-lent from the PB to sub-borrowers outstanding is €32 million (2019: €30 million).

At 31 December 2020, total eligible loans under the parallel loans investment guarantee provided to the Bank are €231,000 (2019: €325,000).

At 31 December 2020, the maximum exposure of eligible operations covered by the guarantees is €8.4 million (2019: €8.0 million). The guarantee liability on the balance sheet of €1.4 million (2019: €1.3 million) represents the initial fair value of the liability recognised when the guarantees were issued adjusted for amortisation and expected credit losses. The Fund does not actively manage credit risk on its guarantee exposure.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.
The Fund's placements are repriced to market interest rates within one month, six months, and twelve months and the floating rate loan investment within three months, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2020 € million	**United States dollars 2020 € million**	**Total € million**
Total assets	546	82	**628**
Total liabilities	(46)	(3)	**(49)**
Net currency position at 31 December 2020	**500**	**79**	**579**

	Euro 2019 € million	United States dollars 2019 € million	Total € million
Total assets	537	68	605
Total liabilities	(40)	(4)	(44)
Net currency position at 31 December 2019	497	64	561

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund’s net loss from a 7 per cent strengthening or weakening (2019: 7 per cent) is +/- €5 million (2019: +/- €4 million). The majority of this impact is represented by the Fund’s Share investments.

Interest rate benchmark reforms
In 2017, the UK Financial Conduct Authority (FCA) announced that financial institutions would no longer be compelled to publish LIBOR rates after December 2021, signalling the effective end of Libor. Regulators globally have signalled clearly that firms should transition away from the London Interbank Offered Rate (LIBOR) to alternative overnight risk-free rates (RFRs).

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

To date, through the project, the Bank has successfully incorporated in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. This work is expected to be completed before the cessation of LIBOR. IT system changes required to accurately capture the new replacement reference rates have commenced and are expected to be completed during 2021.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that technical assistance, non-technical assistance and investment activities are financed from the resources of the Fund, which comprises contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund also recognises contributions received as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

Level 3 - sensitivity analysis
A sensitivity analysis based on reasonably plausible alternative valuations has been included within note 6.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 15 April 2008 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational after the Governors of the Bank adopted the 2007 Net Income Allocation Resolution during its Annual Meeting on 18-19 May 2008.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Technical cooperation expenses

	Commitments approved € million	Technical cooperation expenses € million	Undrawn commitments € million
Total projects			
At 31 December 2018	368	(322)	46
Movement in the year	78	(67)	11
As at 31 December 2019	446	(389)	57
Movement in the year	62	(63)	(1)
As at 31 December 2020	**508**	**(452)**	**56**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2020.

4. Placements with credit institutions

	2020 € million	2019 € million
Cash and cash equivalents	**288**	163
Other current placements	**150**	310
At 31 December	**438**	473

Cash and cash equivalents are those placements which have an original tenor equal to, or less than, three months. "Current" is defined as those assets maturing, or liabilities due, within the next 12 months. All other assets or liabilities are "non-current".

5. Contributions received and receivable

	2020 € million	2019 € million
Cumulative contributions received	988	940
Contributions pledged by Donors		
Contributions receivable	144	92
Management fee expense	3	3
Total contributions at 31 December	1,135	1,035

6. Share investments

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

The main valuation technique used in the valuation of the Fund's share investments is net asset value (NAV). Reasonably plausible alternative valuations have been determined based on adjustments to accounting estimates in the measurement of the NAV and would lead to a favourable change in value of €2.5 million (2019: €3.3 million) and an unfavourable change in value of €5.7 million (2019: €8.9 million).

The table below provides information about the Fund's share investments.

	2020 € million	2019 € million
Outstanding disbursements		
At 1 January	38	38
Disbursements	10	-
At 31 December	48	38
Fair value adjustment		
At 1 January	2	1
Movement in fair value revaluation	(4)	1
At 31 December	(2)	2
Fair value at 31 December	46	40

7. Undrawn commitments

	2020 € million	2019 € million
Technical cooperation expenses	56	57
Incentive fees	9	12
Financial guarantees	7	8
Investment grants	56	65
At 31 December	128	142

This represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2020.

8. Analysis of current and non-current assets and liabilities

Assets	Current 2020 € million	Non-current 2020 € million	Total 2020 € million	Current 2019 € million	Non-current 2019 € million	Total 2019 € million
Placements with credit institutions	438	-	438	473	-	473
Contributions receivable	144	-	144	92	-	92
Share investments	-	46	46	-	40	40
Total assets	**582**	**46**	**628**	565	40	605
Liabilities						
Accrued expenses	48	-	48	43	-	43
Financial guarantee liability	1	-	1	1	-	1
Total liabilities	**49**	**-**	**49**	44	-	44

9. Events after the reporting period

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

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

10. Related parties

The Fund’s only related party is the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee, as determined by the Board of Directors, each time a contribution is made to the Fund. Management fees of €3 million was charged during the year (2019: €2.9 million). There was an accrued management fee payable of €4.4 million by the Fund to the Bank at 31 December 2020 (2019: €2.9 million) offset against contributions receivable.

External auditors’ remuneration of €8,500 (2019: €7,300) is payable by the Bank from the management fee. The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the next external auditors for the five-year period 2020-24 following the completion of Deloitte’s second term.

As at 31 December 2020, €37,900 is receivable from the Bank for bank charges incurred (2019: €36,400).

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the EBRD Shareholder Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the EBRD Shareholder Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.

- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 15 April 2008, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

EBRD SME Special Fund

Annual Financial Report
31 December 2020

The EBRD SME Special Fund

Contents

The EBRD SME Special Fund

Statement of comprehensive income

For the year ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000	Year to 31 December 2019 € 000
Interest income			10		42
Technical cooperation expenses		(753)		(128)	
Client cost sharing for technical cooperation		31		8	
Net technical cooperation expenses			(722)		(120)
Net (loss)/gain from share investments			(421)		114
Foreign exchange movement			(241)		56
Other operating expenses	4		(9)		(7)
Net (loss)/profit and comprehensive (expense)/income for the year			(1,383)		85
Attributable to:					
Contributors			(1,383)		85

Balance sheet

At 31 December 2020

	Note	31 December 2020 € 000	31 December 2020 € 000	Restated* 31 December 2019 € 000	Restated* 31 December 2019 € 000	Restated* 1 January 2019 € 000	Restated* 1 January 2019 € 000
Assets							
Placements with credit institutions			2,546		3,529		3,604
Other financial assets	5		28		8		18
Share investments	6		3,431		3,852		3,738
Total assets			6,005		7,389		7,360
Liabilities							
Other financial liabilities	7		39		40		96
Contributors' resources							
Contributions		40,382		40,382		40,382	
Reserves and accumulated loss		(34,416)		(33,033)		(33,118)	
Total contributors' resources			5,966		7,349		7,264
Total liabilities			6,005		7,389		7,360

*Refer to note 3

The EBRD SME Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2020	Restated* Contributions € 000	Restated* Accumulated Loss € 000	Restated* Total € 000
At 31 December 2018 as previously disclosed	36,632	(29,368)	7,264
Effect of restatement	3,750	(3,750)	-
31 December 2018 restated	40,382	(33,118)	7,264
Net gain and comprehensive income for the year	-	85	85
At 31 December 2019	40,382	(33,033)	7,349
Net loss and comprehensive expense for the year	-	(1,383)	(1,383)
At 31 December 2020	**40,382**	**(34,416)**	**5,966**

*Refer to note 3

Statement of cash flows

For the year ended 31 December 2020

	€ 000	Year to 31 December 2020 € 000	€ 000	Year to 31 December 2019 € 000
Cash flows used in operating activities				
Net (loss)/profit for the year	(1,383)		85	
Adjustment to reconcile gain to net cash flows:				
Non-cash items in the income statement				
Net loss/(gain) from share investments	421		(114)	
Foreign exchange movement	241		(56)	
	(721)		(85)	
Working capital adjustment				
Movement in Client cost sharing for technical cooperati	(20)		10	
Movement in accrued expenses	(1)		(56)	
Net cash used in operating activities		(742)		(131)
Net decrease in cash and cash equivalents		(742)		(131)
Cash and cash equivalents at the beginning of the year		3,529		3,604
Effect of foreign exchange rate changes		(241)		56
Cash and cash equivalents at 31 December		2,546		3,529

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones,
Director – Financial Control
Date: 13 May 2021

The EBRD SME Special Fund

Fund purpose

The Fund was established to assist the development of small (including micro) and medium-size enterprises ("SMEs") in Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, North Macedonia, Moldova, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan (collectively, the "Eligible Countries").

To achieve this, the resources of the Fund may be used to:

- participate alongside the Bank in providing loans to SMEs;
- finance technical assistance which includes procuring consultancy services to assist SMEs;
- Facilitate lending in local currency to SMEs by mitigating exchange rate risk.
- provide guarantees on a first loss basis on the European Bank for Reconstruction and Development's ("the Bank") SME loans; and
- allocate resources to other Funds pursuing similar development objectives.

As the primary purpose of the Fund is to assist the development of SMEs rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the EBRD SME Special Fund ("the Fund"). The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in Significant accounting policies and judgements" and "Critical accounting estimates" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

All of the share investments held by the Fund are measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation technique used is net asset value.

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

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

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from contributors as a liability on the basis that Fund is obligated to return Funds under the terms of the agreement as set out below.

The Fund is required to return to contributors reflows of investment income earned on contributed resources. The return of funds to the contributor is disclosed as 'distribution of funds to contributors' in the statement of changes in contributors' resources.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributor were to withdraw from the Fund and contributions returnable to the contributor from operating activities.

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

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

Contributions

Contributions received in USD are translated into euro at the exchange rates ruling at the time of transaction.

Outstanding contributions are recognised as receivables in the balance sheet on the date of signature of a contribution arrangement by the the Bank and a contributor.

Interest

Interest is recorded on an accruals basis using the effective interest method. Interest income is recognised within 'interest income' in the income statement. Negative interest rate expense is recognised in 'other operating expenses' in the income statement.

Technical cooperation expenses

Technical cooperation expenses, which represent services provided on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Client cost sharing for technical cooperation represents reimbursements in relation to consultancy services provided. A letter of engagement indicates expected amounts and timing of payments, however these are not considered due until an invoice is issued from the Fund to the client. Amounts are recorded as income when invoiced. This approach is not materially different from recognising the recovery at the same time as performance of the service.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund’s critical accounting estimates are outlined below:

Fair value of share investments
The Fund’s method for determining the fair value of share investments is described under “Financial assets” within the accounting policies section of the report and an analysis of the share investment is provided in note 6. Where unobservable market data has been used, a sensitivity analysis has been included note 6.

Risk management

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources, as well as client cost sharing amounts receivable and contributions receivable from the Contributor. For banks with which the Fund places its cash, internal credit ratings are determined by Risk Management and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through the synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

At year end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating risk range assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating of AA+ to AA-. Placements with credit institutions are considered to have low credit risk.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2020 and 31 December 2019.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2020 € 000	**United States dollars 2020 € 000**	**Total € 000**
Total assets	556	5,449	**6,005**
Total liabilities	(6,005)	-	**(6,005)**
Net currency position at 31 December 2020	**(5,449)**	**5,449**	-

	Euro 2019 € 000	United States dollars 2019 € 000	Total € 000
Total assets	668	6,721	7,389
Total liabilities	(7,389)	-	(7,389)
Net currency position at 31 December 2019	(6,721)	6,721	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net loss from a 7 per cent strengthening or weakening (2019: 7 per cent) is €372,000 (2019: €460,000)[1].

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that technical assistance, loan investments and guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as a liability, which may be returned to a contributor upon termination of a contribution agreement. Amounts returned are based on the Fund's net assets and take into account any existing commitments. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

[1] For consistency the 2019 comparatives have been restated to appropriately calculate the foreign exchange risk exposure based on the contributors' resources being classified as euro.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments for which not all market data is observable.

The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

Level 3 - sensitivity analysis
A sensitivity analysis based on reasonably plausible alternative valuations has been included within note 6.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank on 28 June 2000 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 24 July 2000 following the signing of the first contribution agreement.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 4 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Restatement

A restatement of "contributions received" and "reserves and accumulated loss" has been on the balance sheet in correction of a previous error. The restatement has increased "contributions received" by €3.75m and decreased "reserves and accumulated loss" by the same amount, leaving no net impact on the balance sheet. This change has also been reflected in the equivalent balances represented in the statement of changes in contributors resources with no other impact.

4. Other operating expenses

	2020	2019
	€ 000	€ 000
Audit fees	9	7
At 31 December	**9**	**7**

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditor's remuneration of €8,600 (2019: €7,300). The Bank pays the external auditor's remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2020 no fee (2019: nil) is payable in relation to the 2020 external audit. The pound sterling equivalent of these fees increased to £7,800 (2019: £6,200). The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

5. Other financial assets

	2020	2019
	€ 000	€ 000
Client cost sharing for technical cooperation receivable	28	8
At 31 December	**28**	**8**

6. Share investments

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

The technique used for the Fund's share investment in the SME Local Currency Special Fund is net asset value (NAV). Reasonably plausible alternative valuations have been determined based on adjustments to accounting estimates in the measurement of the NAV and would lead to a favourable change in value of €0.21 million (2019: €0.32 million) and an unfavourable change in value of €0.46 million (2019: €0.86 million).

The table below provides information about the Fund's share investments.

	2020 € 000	2019 € 000
Outstanding disbursements		
At 1 January	3,747	3,747
At 31 December	**3,747**	3,747
Fair value adjustment		
At 1 January	105	(9)
Movement in fair value revaluation	(421)	114
At 31 December	**(316)**	105
Fair value at 31 December	**3,431**	3,852

7. Other financial liabilities

	2020 € 000	2019 € 000
Technical cooperation expenses	39	40
At 31 December	**39**	40

8. Undrawn commitments

	2020 € 000	2019 € 000
Total commitments approved	31,182	30,505
Total technical cooperation expenses	(31,127)	(30,369)
Undrawn commitments at 31 December	**55**	136

This represents amounts for which the Fund has contracted but for which the transaction or service was not performed at 31 December.

9. Analysis of current and non-current assets and liabilities

	Current 2020	Non-current 2020	Total 2020	Current 2019	Non-current 2019	Total 2019
Assets	**€ 000**	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Placements with credit institutions	2,546	-	2,546	3,529	-	3,529
Other financial assets	28	-	28	8	-	8
Share investments	-	3,431	3,431	-	3,852	3,852
Total assets	**2,574**	**3,431**	**6,005**	3,537	3,852	7,389
Liabilities						
Other financial liabilities	39	-	39	40	-	40
Contributors' resources	2,535	3,431	5,966	3,497	3,852	7,349
Total liabilities	**2,574**	**3,431**	**6,005**	3,537	3,852	7,389

10. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

11. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

12. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2.0 per cent of contributions received. There were no management fees paid by the Fund to the Bank in 2020 (2019: nil) and no amount is payable by the Fund to the Bank at 31 December 2020 (2019: nil). Audit fees paid to the bank are outlined in note

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the EBRD SME Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the EBRD SME Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 28 June 2000, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Financial Intermediary and Private Enterprises Investment Special Fund

Annual Financial Report
31 December 2020

The Financial Intermediary and Private Enterprises Investment Special Fund

Contents

Statement of comprehensive income

For the year ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest and other similar income			
From loans		893	1,517
From credit institutions		53	163
Fee income		10	20
Foreign exchange movement		(1,931)	197
Other operating expenses	3	(137)	(214)
Impairment charge on loan investments	4	(6,934)	(447)
Change in concessional loan discount	5	(117)	(161)
Net (loss)/profit and comprehensive (expense)/income for the year		(8,163)	1,075
Attributable to:			
Contributor		(8,163)	1,075

Balance sheet

At 31 December 2020

	Note	31 December 2020 € 000	31 December 2020 € 000	31 December 2019 € 000	31 December 2019 € 000
Assets					
Placements with credit institutions			20,254		16,649
Other financial assets	6		108		236
Loan investments					
Loans	4	33,216		32,542	
Less: Provisions for impairment	4	(9,957)		(3,970)	
			23,259		28,572
Total assets			43,621		45,457
Liabilities					
Concessional loan discount	5		117		182
Contributors' resources			43,504		45,275
Total liabilities			43,621		45,457
Memorandum items					
Undrawn loan commitments			6,478		8,040

Statement of changes in contributors' resources

For the year ended 31 December 2020

	Contributions	Retained Earnings / (Accumulated Loss)	Total
	€ 000	€ 000	€ 000
Balance at 31 December 2018	33,242	3,795	37,037
Total comprehensive income for the year	-	1,075	1,075
Contributions received	7,163	-	7,163
Balance at 31 December 2019	40,405	4,870	45,275
Total comprehensive expense for the year	-	(8,163)	(8,163)
Contributions received	6,392	-	6,392
Balance at 31 December 2020	**46,797**	**(3,293)**	**43,504**

Statement of cash flows

For the year ended 31 December 2020

		Year to 31 December 2020		Year to 31 December 2019
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(8,163)		1,075	
Adjustments to reconcile net (loss)/profit to net cash flows:				
Non-cash items in the income statement				
Unwinding of concessional discount[1]	(327)		(346)	
Effective interest rate adjustment on loans[1]	37		(64)	
Change in concessional loan discount	117		161	
Foreign exchange movement	1,931		(197)	
Impairment charge on loan investments	6,934		447	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	6,647		3,586	
Funds advanced for loans	(8,548)		(3,808)	
Front end fees received	24		-	
Working capital adjustment				
Movement in interest income	118		6	
Movement in fee income	10		(3)	
Net cash (used in)/from operating activities		(1,220)		857
Cash flows from financing activities				
Contributions received	6,392		7,163	
Net cash from financing activities		6,392		7,163
Net increase in cash and cash equivalents		5,172		8,020
Cash and cash equivalents at the beginning of the year		16,649		8,536
Effect of foreign exchange rate changes		(1,567)		93
Cash and cash equivalents at 31 December		20,254		16,649

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones,
Director - Financial Control
Date: 13 May 2021

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding discount all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

The Financial Intermediary and Private Enterprises Investment Special Fund

Fund purpose

The Financial Intermediary and Private Enterprises Investment Special Fund ("the Fund") was established to support financial intermediaries and private enterprises in the economies in which the European Bank for Reconstruction and Development ("the Bank") invests by providing loans, investing in equity capital and providing guarantees or other credit support.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
	Effective for annual reporting periods beginning on or after 1 January 2023.	

IFRS not yet mandatorily effective but adopted early
On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's statement of comprehensive income, with a corresponding liability. The day one loss is recognised upon signing of the loan. Once the Fund disburses the loan to its borrower, the day one loss is reflected within the loan investment as it forms part of the initial fair value of the asset.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment that may be necessary. The initial fair value discount applied to each loan is therefore recovered in the effective interest rate (EIR) at which income is recognised in the statement of comprehensive income over the tenor of the loan.

All loans are subsequently measured at amortised cost using the effective interest method less any impairment. The initial fair value discount applied to each concessional loan is therefore recovered in the effective interest rate at which income is recognised in the statement of comprehensive income over the tenor of the loan.
The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

In August 2020, the IASB issued ‘Interest Rate Benchmark Reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16’, which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

- Changes to the basis for determining contractual cash flows because of the reform are required as a practical expedient to be treated as changes to a floating interest rate.

The Fund’s exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €1.4 million (USD LIBOR) that mature in 2022 or later. These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund’s methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the statement of comprehensive income.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment
In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2 is required, a combination of quantitative and qualitative risk metrics are employed. The determination of what constitutes a significant increase in credit risk is a critical judgement. All loans with at least a three-notch downgrade in PD on the Bank’s internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the “watch list” are transitioned to Stage 2[2].

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

Financial assets at amortised cost – non-performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:
- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, any changes in present value attributable to the modification will to be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Contributors' resources

The Fund recognises contributions received from the contributors as a liability on the basis that, should the contributors choose to withdraw from the Fund, the Fund is obligated to return that contributor's share of contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributors were to withdraw from the Fund and contributions returnable to the contributors from operating activities.

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

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

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction. Outstanding contributions are recognised as receivables in the balance sheet on the date of signature of a contribution agreement by the Bank and a contributors. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date. The Fund is satisfied that they will be realised for the amounts stated in the financial statements.

The Fund is required to settle contributor accounts upon termination of the Contribution Agreement, returning to the contributors reflows of interest earned on investment, principal repayments on loan investments and investment income earned on contributed resources. The return of funds to the contributors is disclosed as 'distribution of funds to the contributors' in the statement of changes in contributors' resources. The reinvestment of funds returned to the contributors is disclosed as 'reinvestment of distribution of funds to the contributors' in the statement of changes in contributors' resources.

Interest and fees

Interest is recorded using the effective interest method. Interest income is recognised within 'interest and similar income' in the statement of comprehensive income. Negative interest expense is recognised in 'operating expenses' in the statement of comprehensive income.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of the expected cash flows.

The unwinding of the day one loss on concessional loans is recognised in interest income as part of the effective interest rate of the loan.

Fees earned in respect of services provided over a period of time are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the statement of comprehensive income during the reporting period.

The Fund's critical accounting estimates are outlined below:

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

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

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €79,000 (2019: €nil). The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent.

Point-in-time PD rates

To calculate expected credit losses for both Stage 1 and Stage 2 assets, a default probability is mapped to each PD rating using historical default data. The Bank uses forward looking point-in-time (PIT) PD rates to calculate the ECL. The PIT PD rates are derived from through-the-cycle (TTC) PD rates adjusted for projected macroeconomic conditions. The cumulative TTC PD rates used in 2020 and 2019 are set out by internal rating grade below:

2020 PD Rating[3]	External rating equivalent	1 year horizon	2 year horizon	3 year horizon	4 year horizon	5 year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

2019 PD Rating	External rating equivalent	1 year horizon	2 year horizon	3 year horizon	4 year horizon	5 year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

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

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession. therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently, forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss Given Default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Guarantors

Where the Fund's loans are fully and unconditionally guaranteed, and the PD and/or LGD rating of the guarantor is better than the PD and/or LGD rating of the borrower, the ECL is based on the PD and/or LGD rating of the guarantor. Staging continues to be based solely on the borrower's PD.

[3] The Bank's internal PD rating scale is explained in detail on page 11 of the Risk Management section.

Exposure At Default

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

Sensitivity analysis

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

Adjusted risk parameter	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %	Recalculated provision 2019 €000	Change in provision 2019 €000	Change in provision 2019 %
2020 portfolio provision (Stages 1 and 2)	403	-	-	1,298	-	-
Staging						
All loans in Stage 1	373	(30)	(7)%	999	(299)	(23)%
All loans in Stage 2	696	293	73%	1,539	241	19%
PD Ratings						
All loans upgraded 1 notch	292	(111)	(28)%	1,034	(264)	(20)%
All loans downgraded 1 notch	518	115	29%	1,409	111	9%
All loans upgraded 3 notches	143	(260)	(65)%	616	(682)	(53)%
All loans downgraded 3 notches	850	447	111%	1,771	473	36%
Projected GDP						
Projected GDP increased by 1%	386	(17)	(4)%	1,185	(113)	(9)%
Projected GDP decreased by 1%	422	19	5%	1,423	125	10%
Projected GDP increased by 5%	343	(60)	(15)%	928	(370)	(29)%
Projected GDP decreased by 5%	514	111	28%	1,852	554	43%
LGD						
All loans decreased by 10%	331	(72)	(18)%	1,010	(288)	(22)%
All loans increased by 10%	475	72	18%	1,586	288	22%
EAD						
All undrawn commitments cancelled	371	(32)	(8)%	1,278	(20)	(2)%
All undrawn commitments disbursed within one month	458	55	14%	1,314	16	1%
PD Rates - weighting of Bank data and external data						
Increase weighting of Bank data by 10%	365	(38)	(9)%	1,194	(104)	(8)%
Decrease weighting of Bank data by 10%	441	38	9%	1,402	104	8%

With respect to Stage 3 provisions, a decrease of ten percent on the current provision cover level would have an impact of - €956,000 (2019: - €267,000). An increase of ten percent on the cover level is not applicable as the loans with specific provisions are fully provided for.

Risk management

As the primary purpose of the Fund is to encourage development in the economies in which the Bank invests, rather than to generate a return on its net assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and foreign exchange.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans (see page 14).

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

The Operations Committee reviews all Banking projects (both debt and equity transactions) prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)
NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
Set out below is an analysis of the Fund's placements with credit institutions classified by internal credit rating risk rankings. Placements with credit institutions are considered to have low credit risk.

Risk rating category	2020 € 000	2019 € 000
2: Very strong	17,486	15,095
4: Good	2,768	1,554
At 31 December	**20,254**	16,649

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions %
4: Good	4,506	-	-	4,506	13.6%	(3)	-	-	4,503	0.1%
5: Fair	9,305	-	-	9,305	28.0%	(22)	-	-	9,283	0.2%
6: Weak	-	-	-	-	0.0%	-	-	-	-	0.0%
7: Special Attention	7,252	2,599	-	9,851	29.6%	(240)	(138)	-	9,473	3.8%
8: Non-performing	-	-	9,554	9,554	28.8%	-	-	(9,554)	-	100.0%
At 31 December 2020	**21,063**	**2,599**	**9,554**	**33,216**	**100.0%**	**(265)**	**(138)**	**(9,554)**	**23,259**	

	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions %
4: Good	4,638	-	-	4,638	14.3%	(3)	-	-	4,635	0.1%
5: Fair	5,110	-	-	5,110	15.7%	(13)	-	-	5,097	0.3%
6: Weak	5,145	-	-	5,145	15.8%	(78)	-	-	5,067	1.5%
7: Special Attention	4,656	10,321	-	14,977	46.0%	(178)	(1,026)	-	13,773	8.0%
8: Non-performing	-	-	2,672	2,672	8.2%	-	-	(2,672)	-	100.0%
At 31 December 2019	19,549	10,321	2,672	32,542	100.0%	(272)	(1,026)	(2,672)	28,572	

At 31 December 2020 the Fund had security arrangements in place for €4.3 million of its disbursed loan investments (2019: €4.5 million).

Undrawn loan commitments
Set out below is an analysis of the Funds undrawn commitments for loan for each of the Bank relevant internal risk rating categories.

Risk category	**Undrawn loan commitments 2020 € 000**	Undrawn loan commitments 2019 € 000
5: Fair	**3,985**	7,347
7: Special attention	**2,493**	693
At 31 December	**6,478**	8,040

The Fund would typically have conditions precedent that would need to be satisfied before further disbursements on its debt transactions.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at their carrying amount by country.[4]

	Undrawn loan commitments 2020 € 000	Loans 2020 € 000	Undrawn loan commitments 2019 € 000	Restated Loans 2019 € 000
Azerbaijan	-	2,397	-	2,672
Lebanon	-	7,158	-	8,108
Moldova	-	2,055	-	2,846
Romania	3,985	13,810	7,347	9,748
Tunisia	-	429	-	858
Turkey	-	4,001	-	5,145
Turkmenistan	-	1,370	-	2,352
Ukraine	2,493	1,996	693	813
At 31 December	6,478	33,216	8,040	32,542

The following table breaks down the main credit risk exposures at the carrying amount by sector.

	Undrawn loan commitments 2020 € 000	Loans 2020 € 000	Undrawn loan commitments 2019 € 000	Loans 2019 € 000
Agribusiness	2,493	9,174	693	10,523
Depository credit (banks)	-	22,491	6,000	20,523
Leasing Finance	-	429	-	858
Non-depository credit (non-bank)	3,985	1,122	1,347	638
At 31 December	6,478	33,216	8,040	32,542

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements and floating rate loan investments are repriced to market interest rates within one and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

At 31 December 2020, the Fund has fixed rate loan investments of €429,000 (2019: €858,000). As all loans are held at amortised cost, a change in the underlying interest rates would not have an impact on net profit unless the loans were sold prior to their maturity date. As this is not part of the Fund’s business model no impact on other comprehensive income is expected and therefore the exposure to interest rate risk on these instruments is considered to be minimal.

[4] For consistency the 2019 comparative table has been retated to more appropriately reflect the credit risk exposures of the borrower country rather than the guarantor country of the loans. This changes has caused €4,638,000 to be reclassified from Italy to Romania in the prior year.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2020 € 000	Romanian Leu 2020 € 000	United States dollars 2020 € 000	Total € 000
Total assets	**22,677**	**4,511**	**16,433**	**43,621**
Total liabilities	**(43,504)**	**(117)**	**-**	**(43,621)**
Net currency position at 31 December 2020	**(20,827)**	**4,394**	**16,433**	**-**

	Euro 2019 € 000	Romanian Leu 2019 € 000	United States dollars 2019 € 000	Total € 000
Total assets	16,209	4,656	24,592	45,457
Total liabilities	(45,436)	(21)	-	(45,457)
Net currency position at 31 December 2019	(29,227)	4,635	24,592	-

The overall potential impact on the Fund's net loss based on the average five year absolute rolling average movement in the below currencies is:

- €1,205,000 (2019: €1,805,000) from a 7 per cent strengthening or weakening in the United States dollar to Euro exchange rate (2019: 7 per cent)
- €49,000 (2019: €51,000) from a 1 per cent strengthening or weakening in the Romanian Leu to Euro exchange rate (2019: 1 per cent).

Interest rate benchmark reforms
In 2017, the UK Financial Conduct Authority (FCA) announced that financial institutions would no longer be compelled to publish LIBOR rates after December 2021, signalling the effective end of Libor. Regulators globally have signalled clearly that firms should transition away from the London Interbank Offered Rate (LIBOR) to alternative overnight risk-free rates (RFRs).

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

To date, through the project, the Bank has successfully incorporated in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. This work is expected to be completed before the cessation of LIBOR. IT system changes required to accurately capture the new replacement reference rates have commenced and are expected to be completed during 2021.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan, equity investments and guarantees are financed from the resources of the Fund, which comprises contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as a liability, which may be returned to the contributors upon termination of a contribution agreement only after relevant liabilities have been discharged and assets disposed of or redeemed. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Management of contributors’ resources

At 31 December 2020, the Fund had four Sub-accounts:

- The United States Agency for International Development (USAID) Horizonte Slovene Enterprise Fund, equity Sub-account;
- The International Cooperation and Development Fund (ICDF) Small Business Account (SBA) III, loan Sub-account;
- The ICDF Agribusiness Account (ABA), loan Sub-account; and
- The ICDF Innovation and Sustainability in Agribusiness Value Chains Account (AVC), loan Sub-account.

The ICDF is the sole remaining contributor to the Fund. The other contributors have chosen to withdraw from the Fund but have some remaining resources to be distributed.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of the Bank at its meeting of 16 December 1996 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 22 May 1997 following the receipt of the first contributions. On 17 March 2015, the Rules and Regulations of the Fund was amended, changing the name of the Fund from "Financial Intermediary Investment Special Fund" to "Financial Intermediary and Private Enterprises Investment Special Fund".

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Other operating expenses

Other operating expenses are comprised of the following:

	2020 € 000	2019 € 000
Management fees	129	211
Interest expense	8	3
	137	214

4. Loan investments

Charge for the year	**2020 € 000**	2019 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	895	(447)
Impairment of loan investments at amortised cost in stage 3	(7,829)	-
Impairment charge on loan investments	**(6,934)**	(447)

Movement in provisions		
At 1 January	(3,970)	(3,462)
Charge for the year to the income statement	(6,934)	(447)
Specific provision unwind	158	-
Foreign exchange adjustments	789	(61)
At 31 December	**(9,957)**	(3,970)

Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	(403)	(1,298)
Stage 3 provisions for loan investments at amortised cost	(9,554)	(2,672)
At 31 December	**(9,957)**	(3,970)

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	
	(Stage 1)	**(Stage 2)**	**(Stage 3)**	**Total**
	2020	**2020**	**2020**	**2020**
Movement in provisions	**€ 000**	**€ 000**	**€ 000**	**€ 000**
As at 1 January	(272)	(1,026)	(2,672)	(3,970)
New loans originated	(84)	-	-	(84)
Transfer to stage 2 - significant increase in credit risk	24	(33)	-	(9)
Transfer to stage 3 - credit impaired	-	838	(4,002)	(3,164)
ECL release - repayments	-	-	51	51
Changes in model or risk parameters	55	95	(3,720)	(3,570)
Foreign exchange and other movements	12	(12)	789	789
As at 31 December 2020	(265)	(138)	(9,554)	(9,957)

	12-month ECL	Lifetime ECL	Lifetime ECL	
	(Stage 1)	(Stage 2)	(Stage 3)	Total
	2019	2019	2019	2019
Movement in provisions	€ 000	€ 000	€ 000	€ 000
As at 1 January	(504)	(338)	(2,620)	(3,462)
New loans originated	(38)	-	-	(38)
Transfer to stage 1	(95)	238	-	143
Transfer to stage 2 - significant increase in credit risk	239	(722)	-	(483)
ECL release - repayments	4	-	-	4
Changes in model or risk parameters	127	(200)	-	(73)
Foreign exchange and other movements	(5)	(4)	(52)	(61)
As at 31 December 2019	(272)	(1,026)	(2,672)	(3,970)

	Loans	**Loans**	**Loans**	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	2020	**2020**	**2020**	**2020**
Movement in loans at amortised cost	**€ 000**	**€ 000**	**€ 000**	**€ 000**
As at 1 January	19,549	10,321	2,672	32,542
New banking loans originated	8,548	-	-	8,548
Transfer to stage 2 - significant increase in credit risk	(808)	808	-	-
Transfer to stage 3 - credit impaired	-	(8,335)	8,335	-
Repayments	(5,850)	(417)	(380)	(6,647)
Day one fair value adjustment	(182)	-	-	(182)
Movement in effective interest rate adjustment	46	63	(1)	108
Foreign exchange and other movements	(240)	159	(1,072)	(1,153)
As at 31 December	21,063	2,599	9,554	33,216

Movement in loans at amortised cost	Loans Stage 1 2019 € 000	Loans Stage 2 2019 € 000	Loans Stage 3 2019 € 000	Total 2019 € 000
As at 1 January	23,180	5,998	2,620	31,798
New banking loans originated	3,807	-	-	3,807
Transfer to stage 1	5,145	(5,145)	-	-
Transfer to stage 2 - significant increase in credit risk	(10,321)	10,321	-	-
Repayments	(2,729)	(857)	-	(3,586)
Day one fair value adjustment	(52)	-	-	(52)
Movement in effective interest rate adjustment	411	-	-	411
Foreign exchange and other movements	108	4	52	164
As at 31 December	19,549	10,321	2,672	32,542

5. Concessional loan discount

	2020 € 000	2019 € 000
At 1 January	**(182)**	(74)
Day one fair value adjustment	**(117)**	(161)
Derecognition of liability on loan disbursement	**182**	52
Foreign exchange movements	**-**	1
As at 31 December	**(117)**	(182)

6. Other financial assets

	2020 € 000	2019 € 000
Interest receivable	**107**	225
Commitment fee income receivable	**1**	11
At 31 December	**108**	236

7. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

8. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	**Current 2020 € 000**	**Non-current 2020 € 000**	**Total 2020 € 000**	Current 2019 € 000	Non-current 2019 € 000	Total 2019 € 000
Placements with credit institutions	**20,254**	**-**	**20,254**	16,649	-	16,649
Other financial assets	**108**	**-**	**108**	236	-	236
Loans	**6,828**	**26,388**	**33,216**	6,510	26,032	32,542
Provisions for impairment	**(116)**	**(9,841)**	**(9,957)**	(282)	(3,688)	(3,970)
Total assets	**27,074**	**16,547**	**43,621**	23,113	22,344	45,457
Liabilities						
Concessional loan discount	**117**	**-**	**117**	182	-	182
Contributors' resources	**26,957**	**16,547**	**43,504**	22,931	22,344	45,275
Total liabilities	**27,074**	**16,547**	**43,621**	23,113	22,344	45,457

9. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

10. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to one to three per cent of contributions received. During the year a management fee of €129,462 was charged by the Bank to the Fund (2019: €211,000). There was no accrued management fee payable by the Fund to the Bank at 31 December 2020 (2019: nil). External auditors' remuneration of €8,600 was paid by the Bank from the management fee (2019: €7,300 payable at year end). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the Financial Intermediary and Private Enterprises Investment Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the Financial Intermediary and Private Enterprises Investment Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 16 December 1996, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Italian Investment Special Fund

Annual Financial Report
31 December 2020

The Italian Investment Special Fund

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The Italian Investment Special Fund

Statement of comprehensive income

For the year ended 31 December 2020	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest income from loans		17	26
Dividend income		-	41
Fee income		7	4
Net (loss)/gains from share investments	3	(168)	508
Financial guarantees movement	4	(136)	(201)
Foreign exchange movement		76	28
Operating expenses	5	(63)	(53)
Impairment release on loan investments	6	(63)	188
Net (loss)/profit and comprehensive (expense)/income for the year		(330)	541
Attributable to:			
Contributor		(330)	541

Balance sheet

At 31 December 2020	Note	31 December 2020 € 000	31 December 2020 € 000	31 December 2019 € 000	31 December 2019 € 000
Assets					
Placements with credit institutions			10,233		10,445
Other financial assets	7		513		379
Loan investments					
Loans at amortised cost	8	726		863	
Less: Provisions for impairment	6	(449)		(442)	
			277		421
Share investments	9		2,578		2,911
Financial guarantee assets			43		51
Total assets			13,644		14,207
Liabilities and contributor's resources					
Other financial liabilities	10		739		1,015
Financial guarantee liabilities	11		1,323		1,280
Total liabilities			2,062		2,295
Contributions			17,524		17,524
Reserves and accumulated loss			(5,942)		(5,612)
Total contributor's resources			11,582		11,912
Total liabilities and contributor's resources			13,644		14,207
Memorandum items					
Undrawn commitments and guarantees[1]	12		2,107		2,920

[1] For consistency the 2019 comparatives have been restated as in the current year, the undrawn equity derivative has been removed from the total undrawn commitments as it is not considered a commitment under IFRS

The Italian Investment Special Fund

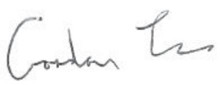
Statement of changes in contributor's resources

For the year ended 31 December 2020	Net contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2018	17,524	(6,153)	11,371
Total comprehensive income for the year	-	541	541
At 31 December 2019	17,524	(5,612)	11,912
Total comprehensive expense for the year	-	(329)	(329)
At 31 December 2020	**17,524**	**(5,941)**	**11,583**

Statement of cash flows

For the year ended 31 December 2020	€ 000	Year to 31 December 2020 € 000	€ 000	Year to 31 December 2019 € 000
Cash flows from operating activities				
Net (loss)/profit for the year	(330)		541	
Adjustment to reconcile net (loss)/profit to net cash flows:				
Non-cash items in the statement of comprehensive income				
Effective interest rate adjustment on loans[1]	-		(5)	
Unwinding discount on stage 3 loans	(17)		(16)	
Net gains from share investments	(282)		(508)	
Foreign exchange movement	(76)		(28)	
Financial guarantees movement	136		201	
Impairment release on loan investments	63		(188)	
	(506)		(3)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan investments	93		208	
Proceeds from return of capital on share investments	378		-	
Funds advanced for share investments	(625)		(313)	
Working capital adjustment				
Movement in interest income	1		4	
Movement in fee income	-		(1)	
Movement in accrued expenses	-		1	
Movement in guarantee payable	450		-	
Movement in other payable	2		4	
Net cash used in operating activities		(207)		(100)
Net decrease in cash and cash equivalents		(207)		(100)
Cash and cash equivalents at the beginning of the year		10,445		10,545
Effect of foreign exchange rate changes		(5)		-
Cash and cash equivalents at 31 December		10,233		10,445

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Gordon Jones,
Director - Financial Control
Date: 13 May 2021

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding discount on specific provisions all make up the interest income from loans figure in the Statement of comprehensive income but have been separated for presentation in the cash flow statement

The Italian Investment Special Fund

Fund purpose

The Italian Investment Special Fund ("the Fund") has been established to assist the modernisation, restructuring, expansion and development of small and medium size enterprises (SMEs) in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Egypt, Jordan, Kosovo, Montenegro, Morocco, North Macedonia, Romania, Serbia, Tunisia and Turkey. To achieve this, the Fund has participated, alongside the European Bank for Reconstruction and Development ("the Bank"), in providing equity investments and loans to such businesses. The Fund's resources are also used to mitigate the Bank's risk exposure by providing guarantees on some of the Bank's investments.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Italian Investment Special Fund ("the Fund"). The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
In 2019 the Fund adopted early the amendments for "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)". These became mandatorily effective for the current reporting period.

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

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.

Pronouncement	Nature of change	Potential impact
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

IFRS not yet mandatorily effective but adopted early
On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

All loans are subsequently measured at amortised cost using the effective interest method less any impairment. The initial fair value discount applied to each concessional loan is therefore recovered in the effective interest rate at which income is recognised in the Statement of comprehensive income over the tenor of the loan.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

All of the share investments held by the Fund are measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are multiples applied to net asset value and earnings-based valuations to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

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

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

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

All financial liabilities are measured at amortised cost, except for derivative instruments, which must be measured at fair value, and financial guarantees which are measured in accordance with IFRS 9, as described under “Financial guarantees” below.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to benchmark reforms.

Impairment of financial assets

Financial assets at amortised cost – performing assets (stages 1 and 2)
Under IFRS 9 the Fund’s methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the Statement of comprehensive income.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

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

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund’s loans at amortised cost), not the date of the initial recognition of the asset on the Fund’s balance sheet.
[3] A project is assigned to the “watch list” when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Financial assets at amortised cost – nonperforming assets (stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the Statement of comprehensive income, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:

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

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the Statement of comprehensive income. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the Statement of comprehensive income.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the Statement of comprehensive income.

Derivative financial instruments

The Fund makes use of derivatives for two purposes:

- to guarantee a minimum return to the European Bank for Reconstruction and Development ("the Bank") in respect of share investments in which the Fund makes a parallel investment. The Fund's liability to make up the minimum return is limited to the recoverable amount of its own parallel investment; and
- to provide potential exit strategies for its unlisted equity investments through negotiated put options.

All derivatives are measured at fair value through the Statement of comprehensive income. Fair values are derived from option-pricing models. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Financial guarantees

The Fund provides guarantees to cover the principal losses of the Bank's loan investments, either:

- to cover the principal losses of parallel loan investments, limited to the debt proceeds recovered on the Fund's loan investment. When a guarantee is issued, it is initially recognised at its fair value, which is estimated using the risk margin, principal and tenor of the guaranteed loan as a proxy for the fees which may have been received if the transaction had been at arm's length. These Financial guarantees are recognised within other financial liabilities; or

- to cover the principal losses of the Bank's unilateral loan investments, limited to the Fund's percentage of the aggregate committed amount of the unilateral investment that is to be covered by the Fund's first loss risk coverage. As the Fund charges the Bank a fee for these guarantees, the initial fair value is estimated based on the present value of fees the Fund is expected to receive over the period of the financial guarantee and recognised within other financial assets and other financial liabilities.

Subsequently the guarantee liabilities are measured at the higher of the initial fair value less cumulative amortisation and the expected credit loss (ECL) at the balance sheet date. The guarantee assets are measured at the unamortised balance of the initial present value.

Contributor's resources

The Fund recognises contributions received from the contributor as equity on the basis that outside of termination, there are no cash flows contractually payable to the contributor. The termination of the contribution agreement would lead to the winding up of the Fund and the distribution of the residual assets to the contributor.

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the Statement of comprehensive income.

Interest, fees and dividends

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows. Negative interest rate expense is recognised in 'operating expenses' in the Statement of comprehensive income.

Fees earned in respect of services provided over a period of time, including loan guarantee fees are recognised as income as the services are provided.

Dividends relating to share investments are recognised in accordance with IFRS 9 when the Fund's right to receive payments has been established, and when it is probable that the economic benefits will flow to the Fund and the amount can be reliably measured.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied upon goods and services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

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

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the economies in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk.

The Fund's critical accounting estimates are outlined below:

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

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the accounting policies section of the report and an analysis of the share investment portfolio is provided in note 9. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

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

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 and 2019 are set out by internal rating grade below:

2020 PD rating [4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

2019 PD rating	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

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

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

[4] The Bank's internal PD rating scale is explained in detail on page 11 of the Risk Management section.

Loss Given Default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Guarantors

Where the Fund's loans are fully and unconditionally guaranteed, and the PD and/or LGD rating of the guarantor is better than the PD and/or LGD rating of the borrower, the ECL is based on the better of the PD and LGD ratings of the borrower and the guarantor. Staging continues to be based solely on the borrower's PD.

Exposure At Default

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

Sensitivity analysis

As there are no Stage 1 or Stage 2 provisions at 31 December 2020 (2019: nil).

With respect to Stage 3 provisions, an increase or decrease of ten percent on the current provision cover level would have an impact of +/-€73,000 (2019: +/-€84,000).

Financial guarantee liability
The Fund's method for determining the fair value of financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained under credit risk within the risk management section of the report.

A 3 notch PD upgrade on the Bank's loan investments covered by the Fund's guarantees would have decreased the financial guarantees by €38,000 (2019: €56,000). Conversely, a 3 notch PD downgrade would have increased the amount of the financial guarantees provided by the Fund by €7,000 (2019: €44,000).

Risk management

As the primary purpose of the Fund is to assist the development of SMEs rather than to generate a return on its net assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate, foreign exchange and equity price risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans and guarantees (see note 12).

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

The Operations Committee reviews all Banking projects (both debt and equity transactions) prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional level (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Fund operates.

EBRD internal ratings

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

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

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

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
	7.0 7.3	CCC CCC-/CC/C		
8	8.0	D	Non-performing	NPL/Credit-impaired assets

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
Set out below is an analysis of the Fund's placements with credit institutions classified by internal credit rating risk rankings. Placements with credit institutions are considered to have low credit risk.

	2020	2019
Risk rating category	**€ 000**	€ 000
2: Very strong	**10,210**	10,440
6: Weak	**23**	5
At 31 December	**10,233**	10,445

Derivative financial assets
Derivative financial assets represent option contracts to provide potential exit routes for the Fund on its unlisted equity investments. All derivative financial assets are currently valued at nil.

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

As at 31 December 2020, the Fund has no loan investments in Stage 1 and Stage 2 (2019: no loans in Stage 1).

Risk rating category	Amortised cost carrying value Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Impairment Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions %
8: Non-performing	-	726	726	100.0%	-	(449)	277	61.8%
As at 31 December 2020	-	726	726	100.0%	-	(449)	277	

Risk rating category	Amortised cost carrying value Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Impairment Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions %
7: Special attention	19	-	19	2.2%	-	-	19	0.0%
8: Non-performing	-	844	844	97.8%	-	(442)	402	52.4%
As at 31 December 2019	19	844	863	100.0%	-	(442)	421	

At 31 December 2020 the Fund had security arrangements in place for €613,000 of its disbursed loan investments (2019: €684,000).

Credit risk in the loan portfolio
There were no distressed restructured loans[6] at 31 December 2020 (2019: none).

Undrawn commitments and guarantees
Set out below is an analysis of the Bank's undrawn commitments and guarantees for each of the Bank's relevant internal risk rating categories.[7]

	Undrawn commitments and guarantees 2020 € 000	Undrawn commitments and guarantees 2019 € 000
5: Fair	-	375
6: Weak	375	-
7: Special attention	970	985
8: Non-performing	1,205	1,335
At 31 December	**2,550**	2,695

Guarantees and derivative financial instrument liabilities
The Fund's assets may be used to guarantee the Bank's potential future default losses that are incurred on specific loan operating assets and share investments, as at 31 December 2020 the relevant amounts outstanding were €18.4 million (2019: €27.8 million). At 31 December 2020, the Fund's maximum exposure under such guarantees was €3.5 million (2019: €4.5 million). An amount of €0.3 million (2019: €1.0 million) is recognised as "Derivative financial instrument liabilities" and an amount of €1.4 million (2019: €1.3 million) is recognised as "Financial guarantee liabilities" on the balance sheet.

[6] Defined as a loan in which any of the key terms and conditions have been amended due to the financial stress of the borrower, and without such amendment(s) would likely have become an impaired loan
[7] Guarantees include both on-balance sheet liabilities and off-balance sheet undrawn commitments.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at their carrying amounts by country.

	Loans	Undrawn commitments and guarantees	Total	Loans	Undrawn commitments and guarantees	Total
	2020	2020	2020	2019	2019	2019
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Albania	243	618	861	242	647	889
Bulgaria	-	815	815	-	818	818
Croatia	-	375	375	-	375	375
Egypt	-	155	155	-	149	149
Montenegro	-	-	-	19	19	38
Serbia	372	351	723	422	378	800
Turkey	111	236	347	180	309	489
At 31 December	726	2,550	3,276	863	2,695	3,558

The following table breaks down the main credit risk exposures at the carrying amounts by the industry sector of the project.

	Loans	Undrawn commitments and guarantees	Total	Loans	Undrawn commitments and guarantees	Total
	2020	2020	2020	2019	2019	2019
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Agribusiness	111	391	502	180	458	638
Manufacturing and services	615	2,159	2,774	683	2,237	2,920
At 31 December	726	2,550	3,276	863	2,695	3,558

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk, foreign exchange risk and equity risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements and floating rate loan investments are repriced to market interest rates within one and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk excluding share investments is outlined in the table below. The exposure to foreign exchange risk for share investments is outlined under equity price risk below.

	British Pounds	Euro	Turkish lira	
	2020	2020	2020	Total
	€ 000	€ 000	€ 000	€ 000
Total assets	5	13,604	35	13,644
Total liabilities	(6)	(1,819)	(237)	(2,062)
Net currency position at 31 December 2020	(1)	11,785	(202)	11,582

	British Pounds 2019 € 000	Euro 2019 € 000	Turkish lira 2019 € 000	Total € 000
Total assets	5	14,165	37	14,207
Total liabilities	(19)	(1,966)	(310)	(2,295)
Net currency position at 31 December 2019	(14)	12,199	(273)	11,912

Based on the average five year absolute rolling average movement in the below currencies, the potential impact on comprehensive income is €31,000 (2019: €38,000):

- 6.5 per cent strengthening or weakening in the British pound to euro exchange rate (2019: 6.0 per cent); and
- 17.8 per cent strengthening or weakening in the Turkish lira to euro exchange rate (2019: 15.5 per cent).

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund expects the effect of equity price risk on net profit will bear some correlation to the movement in equity indices. The following table breaks down the main equity price risk at their net fair value by country.

	Equities 2020 € 000	Equities 2019 € 000
Albania	**169**	110
Bosnia and Herzegovina	**169**	110
Croatia	**338**	220
Kosovo	**916**	982
Montenegro	**169**	110
North Macedonia	**254**	165
Serbia	**563**	1,214
At 31 December	**2,578**	2,911

As the above currencies are closely linked to the EUR, the impact in the fluctuation of foreign exchange rates is expected to be minimal.

Based on the five year rolling average movement in the Croatia Zagreb Stock Exchange Crobex Index and the Belgrade Stock Exchange BELEX15 Index, the potential impact on the Fund's fair value of share investments from a 9 per cent movement (2019: 8 per cent) in equity prices is €232,000 (2019: €242,000).

Interest rate benchmark reforms
In 2017, the UK Financial Conduct Authority (FCA) announced that financial institutions would no longer be compelled to publish LIBOR rates after December 2021, signalling the effective end of Libor. Regulators globally have signalled clearly that firms should transition away from the London Interbank Offered Rate (LIBOR) to alternative overnight risk-free rates (RFRs).

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

To date, through the project, the Bank has successfully incorporated in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. This work is expected to be completed before the cessation of LIBOR. IT system changes required to accurately capture the new replacement reference rates have commenced and are expected to be completed during 2021.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan investments, equity investments and guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund's guarantees are limited to the proceeds recoverable on the Fund's parallel investment. The Fund also recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund or one of its sub-Funds. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

The fair values of the Fund's share investments, derivative financial instruments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.
At 31 December 2020, the Fund's balance sheet approximates to the fair value of all financial assets and liabilities.

The table below provides a reconciliation of the fair values of the Bank's Level 3 financial assets and financial liabilities.

	Banking share investments 2020	**Derivative financial instruments 2020**	**Total 2020**	Banking share investments 2019	Derivative financial instruments 2019	Total 2019
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Balance as at 1 January	2,911	(1,007)	1,904	2,497	(1,037)	1,460
Net gains/(losses) recognised in:						
- Net gains from share investments at fair value through profit or loss	(446)	278	(168)	1,227	30	1,257
Purchases	625	-	625	313	-	313
Sales	(512)	-	(512)	(377)	-	(377)
Settlements	-	450	450	-	-	-
Write offs	-	-	-	(749)	-	(749)
Balance at 31 December	**2,578**	**(279)**	**2,299**	2,911	(1,007)	1,904
Net gains/(losses) recognised for the year for Level 3 instruments held at 31 December 2020 recognised in:						
- Net gains from share investments at fair value through profit or loss	(286)	118	(168)	478	30	508

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2020 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2020	
	Carrying amount	Favourable change	Unfavourable change
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments and associated derivatives	2,299	755	(661)
At 31 December 2020	**2,299**	**755**	**(661)**

		Impact on net profit in 2019	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments and associated derivatives	1,904	327	(484)
At 31 December 2019	1,904	327	(484)

Level 3 financial liabilities relate to derivatives attached to share investments which have been analysed together in the table above.

Share investments and associated derivatives

The Fund's unlisted equity portfolio comprises direct share investments, equity derivatives and equity funds. The valuation techniques/models used to fair value these financial instruments are net asset value multiples, earnings before interest, tax, depreciation and amortisation (EBITDA) multiples, book cost and discounted cash flow models. Reasonable possible alternative valuations have been determined based on the net asset value and EBITDA multiple ranges used in the valuations.

A valuation model is used to fair value the guarantee of a minimum rate of return on the Bank's parallel share investments. The inputs into the model include the euro yield curve, the valuation of the underlying parallel investments, future dividend yields, equity volatility, the subscription price and an equity valuation additional amount. Reasonable possible alternative valuations have been determined based on the favourable and unfavourable change in the underlying direct share investments.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of the Bank at its meeting of 15/16 September 1998 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 19 January 1999 following the receipt of the first contribution.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Net (losses)/gains from share investments

	2020 € 000	2019 € 000
Net (losses)/gains from share investments and equity related derivatives	(168)	1,257
Net losses from share investments written off	-	(749)
Net (losses)/gains from share investments	**(168)**	**508**

4. Financial guarantees movement

	2020 € 000	2019 € 000
Financial guarantee issued	-	(8)
Movement in financial guarantee for Stage 1 and Stage 2 loans	90	(128)
Charge for estimated settlement of credit impaired guaranteed loans	(226)	(65)
Financial guarantees movement	**(136)**	**(201)**

5. Operating expenses

	2020 € 000	2019 € 000
Audit fees	9	7
Negative interest rate expense on placements	54	46
At 31 December	**63**	**53**

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditor's remuneration of €8,600 (2019: €7,300). The Bank pays the external auditor's remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2020 no fee (2019: no fee) is payable to the Bank in relation to the 2020 external audit. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

6. Provision for impairment of loan investments

(Charge)/Release for the year	2020 € 000	2019 € 000
Impairment of loan investments at amortise cost in stages 1 and 2	-	2
Impairment of loan investments at amortise cost in stage 3	(63)	186
Provisions for impairment of loan investments	**(63)**	**188**

Movement in provisions		
As at 1 January	(442)	(663)
(Charge)/Release for the year to the income statement	(63)	188
Unwinding discount relating to loan investments in stage 3	17	16
Foreign exchange adjustments	39	17
At 31 December	**(449)**	(442)
Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	-	-
Stage 3 provisions for loan investments at amortised cost	(449)	(442)
At 31 December	**(449)**	(442)

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

As at 31 December 2020, the Fund has no loan investments in Stage 1 and Stage 2 (2019: no loans in Stage 1).

Movement in provisions	12-month ECL (Stage 1) 2020 € 000	Lifetime ECL (Stage 2) 2020 € 000	Lifetime ECL (Stage 3) 2020 € 000	Total 2020 € 000
As at 1 January	-	-	(442)	(442)
Changes in model or risk parameters	-	-	(63)	(63)
Unwinding discount relating to the identified impairment of assets	-	-	17	17
Foreign exchange movements	-	-	39	39
As at 31 December	-	-	**(449)**	**(449)**

Movement in loans at amortised cost	Loans Stage 1 2020 € 000	Loans Stage 2 2020 € 000	Loans Stage 3 2020 € 000	Total 2020 € 000
As at 1 January	-	19	844	863
Repayments/settlements	-	(19)	(74)	(93)
Foreign exchange movements	-	-	(44)	(44)
As at 31 December	-	-	**726**	**726**

Movement in provisions	12-month ECL (Stage 1) 2019 € 000	Lifetime ECL (Stage 2) 2019 € 000	Lifetime ECL (Stage 3) 2019 € 000	Total 2019 € 000
As at 1 January	(2)	-	(661)	(663)
Transfer to stage 2 - significant increase in credit risk	1	(1)	-	-
ECL release - repayments/settlements	1	1	92	94
Changes in model or risk parameters	-	-	94	94
Unwinding discount relating to the identified impairment of assets	-	-	16	16
Foreign exchange movements	-	-	17	17
As at 31 December	-	-	(442)	(442)

Movement in loans at amortised cost	Loans Stage 1 2019 € 000	Loans Stage 2 2019 € 000	Loans Stage 3 2019 € 000	Total 2019 € 000
As at 1 January	128	-	956	1,084
Transfer to stage 2 - significant increase in credit risk	(52)	52	-	-
Repayments/settlements	(78)	(38)	(92)	(208)
Movement in effective interest rate adjustment	-	5	-	5
Foreign exchange movements	2	-	(20)	(18)
As at 31 December	-	19	844	863

7. Other financial assets

	2020 € 000	2019 € 000
Interest receivable on loans	-	1
Fee income receivable	1	1
Receivable from the Bank	512	377
At 31 December	513	379

8. Loan investments

	2020 € 000	2019 € 000
At 1 January	863	1,084
Repayments	(93)	(208)
Movement in effective interest rate adjustment	-	5
Foreign exchange movement	(44)	(18)
At 31 December	726	863
Impairment at 31 December	(449)	(442)
Total loan investments net of impairment at 31 December	277	421

9. Share investments

	2020 € 000	2019 € 000
Outstanding disbursements		
At 1 January	3,674	4,487
Disbursements	625	313
Disposals	(765)	(377)
Written off	-	(749)
At 31 December	3,534	3,674
Fair value adjustment		
At 1 January	(763)	(1,990)
Movement in fair value revaluation	(193)	1,227
At 31 December	(956)	(763)
Fair value at 31 December	2,578	2,911

10. Other financial liabilities

	2020 € 000	2019 € 000
Fair value of equity related derivatives	279	1,007
Negative interest rate expense payable	4	4
Guarantee payable	450	-
Other payable	6	4
At 31 December	739	1,015

11. Financial guarantee liabilities

	2020 € 000	2019 € 000
At 1 January	1,280	1,073
Financial guarantee movement	136	201
Unamortised fair value of loan guarantee	(8)	35
Foreign exchange movement	(85)	(29)
At 31 December	1,323	1,280

Represented by:	2020 € 000	2019 € 000
Guarantees on Stage 1 and Stage 2 loans	118	216
Guarantees on credit impaired loans	1,205	1,064
At 31 December	1,323	1,280

12. Undrawn commitments and guarantees

	2020 € 000	2019 € 000
Guarantees	1,227	1,415
Undrawn share commitments	880	1,505
Undrawn commitments and guarantees at 31 December	2,107	2,920

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not undertaken at 31 December.

13. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000	Current 2019 € 000	Non-current 2019 € 000	Total 2019 € 000
Assets						
Placements with credit institutions	10,233	-	10,233	10,445	-	10,445
Other financial assets	513	-	513	379	-	379
Loan investments at amortised cost	-	726	726	249	614	863
Provisions for impairment	-	(449)	(449)	(121)	(321)	(442)
Share investments	225	2,353	2,578	299	2,612	2,911
Financial guarantee assets	7	36	43	-	51	51
Total assets	10,978	2,666	13,644	11,251	2,956	14,207
Liabilities						
Derivative financial instruments	225	54	279	299	708	1,007
Other financial liabilities	460	-	460	8	-	8
Financial guarantee liabilities	29	1,294	1,323	320	960	1,280
Total liabilities	714	1,348	2,062	627	1,668	2,295

14. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

15. Related parties

The Fund's related parties are the Bank and the contributor.

The Bank is entitled to charge the Fund a management fee of an amount equal to 1.5 per cent of contributions received. As there were no contributions received in 2020, there were no management fees paid by the Fund to the Bank (2019: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2020 (2019: nil). Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

The Fund charges the Bank a fee on the first loss risk coverage guarantees. The fees received during the year are disclosed in the Statement of comprehensive income as fee income. At 31 December 2020 €1,000 was owing to the Fund from the Bank (2019: €1,000).

At 31 December 2020 €512,000 was owing from the Bank to the Fund for proceeds from return of capital on share investments (2019: €377,000). Amounts receivable from the Bank are outlined in note 7. At 31 December 2020 €6,000 was owing to the Bank from the Fund for an overpayment of a loan repayment (2019: €4,000) as well as €450,000 for guarantee loss on share disposal. Amounts payable from the Bank are outlined in note 10.

Independent auditors’ report to the Governors of the European Bank for Reconstruction and Development (the “Bank”) in respect of the Italian Investment Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the Italian Investment Special Fund’s (the ‘Fund’) non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund’s financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors’ resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”) and applicable law. Our responsibilities under ISAs are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA Code”) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors’ 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 15 September 1998, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Multi-Donor Trust Fund for the West Bank and Gaza

Financial Report
31 December 2020

The Multi-Donor Trust Fund for the West Bank and Gaza

Contents

The Multi-Donor Trust Fund for the West Bank and Gaza

Statement of comprehensive income

For the year/period ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Period to 31 December 2019 € 000
Operating expenses	3	(9)	(59)
Technical cooperation expenses	4	(341)	(94)
Net loss and comprehensive expense for the period		(350)	(153)
Attributable to:			
Contributors		(350)	(153)

Balance sheet

At 31 December 2020

	Note	31 December 2020 € 000	31 December 2019 € 000
Assets			
Placements with credit institutions		1,186	1,267
Total assets		1,186	1,267
Liabilities and contributors' resources			
Other financial liabilities	5	227	41
Total liabilities		227	41
Contributions	6	1,462	1,379
Reserves and accumulated loss		(503)	(153)
Total contributors' resources		959	1,226
Total liabilities and contributors' resources		1,186	1,267

Statement of changes in contributors' resources

For the year to 31 December 2020

	Contributions	Accumulated loss	Total
	€ 000	€ 000	€ 000
At 27 February 2019	-	-	-
Contributions received	1,379	-	1,379
Total comprehensive expense for the period	-	(153)	(153)
At 31 December 2019	1,379	(153)	1,226
Contributions received	83	-	83
Total comprehensive expense for the year	-	(350)	(350)
At 31 December 2020	**1,462**	**(503)**	**959**

Statement of cash flows

For the year/period to 31 December 2020

	Year to 31 December 2020		Period to 31 December 2019	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the period	(350)		(153)	
Adjustments to reconcile net loss to net cash flows:				
Working capital adjustment				
Movement in accrued expenses	186		41	
Net cash used in operating activities		(164)		(112)
Cash flows from financing activities				
Contributions received	83		1,379	
Net cash from financing activities		83		1,379
Net (decrease)/increase in cash and cash equivalents		(81)		1,267
Cash and cash equivalents at the beginning of the period		1,267		-
Cash and cash equivalents at 31 December		1,186		1,267

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones,
Director - Financial Control
Date: 13 May 2021

Fund purpose

The purpose of the Multi-Donor Trust Fund for the West Bank and Gaza (“the Fund”) is to provide financial assistance to support the economic development of West Bank and Gaza (“WB&G”) and thereby contribute to the stability and prosperity of the southern and eastern Mediterranean region.

The resources of the Fund may be used to finance:

- Technical assistance which involves the provision of project preparation and implementation in support of lending, guarantee or investment operational activities or other types of technical assistance, in support of activities that foster the economic development and transition of WB&G; and
- Non-technical assistance initiatives which are principally used to provide incentive fees or to pay for goods and works contracts in support of a lending, guarantee or investment operational activities of the Bank in the WB&G; and
- Investment activities which may include guarantees, equity or debt financing.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund’s financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The Fund does not have any areas with accounting estimates and judgements for the period presented.

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

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued “Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)” with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies

Financial assets – classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund’s financial assets at amortised cost are recognised at settlement date.

The Fund’s financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as “fair value through other comprehensive income” only if both of the following criteria are met: the objective of the Fund’s business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Financial liabilities

All financial liabilities are measured at amortised cost.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the period-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

Statement of cash flows

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

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Technical cooperation expenses

Technical cooperation expenses, which represent services provided on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Interest

Interest is recorded on an accruals basis. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

Management fees

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent, 3 per cent or 4 per cent of contributions received, depending on the amount of the contribution received.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Risk management

Not all financial risks are actively managed by the Fund. Credit risk is managed in line with Bank policies. The Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness.

The Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources. For banks with which the Fund places its cash, internal credit ratings are determined by Risk Management and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

At period end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating risk category assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating of AA+ to AA-.

The carrying amounts of placements presented on the balance sheet best represents the Fund's maximum exposure to credit risk at 31 December 2020 and 31 December 2019.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The driver of market risk for the Fund is interest rate risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro € 000	United States dollars € 000	Total € 000
Total assets	1,186	-	**1,186**
Total liabilities	113	114	227
Net currency position at 31 December 2020	**1,299**	**114**	**1,413**

	Euro € 000	United States dollars € 000	Total € 000
Total assets	1,267	-	1,267
Total liabilities	(24)	(17)	(41)
Net currency position at 31 December 2019	1,243	(17)	1,226

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net loss from a 7 per cent strengthening or weakening (2020: 7 percent) is +/- €7,790 (2019: +/- €1,400).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that operations are financed from the resources of the Fund, which comprise of contributions received.

Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund also recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Trust Fund

The creation of the Fund was approved by the Board of Governors ("the Board") at its meeting on 10 May 2017 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Guidelines of the Fund. The Fund became effective after two contributors pledged contributions and a contribution was received from one of the contributors.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 20.1 (vii) of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but the privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Operating expenses

Operating expenses comprised the following:

	2020	2019
	€ 000	€ 000
Management fees	**(3)**	(55)
Negative interest rate expense	**(6)**	(4)
For the period ended 31 December	**(9)**	(59)

4. Technical cooperation expenses

	Commitments approved € 000	**Disbursements € 000**	**Undrawn commitments € 000**
Projects in operation			
At 27 February 2019	-	-	-
Movement in the period	247	(94)	153
At 31 December 2019	**247**	**(94)**	**153**
Movement in the period	585	(341)	244
At 31 December 2020	**832**	**(435)**	**397**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2020.

5. Other financial liabilities

Other financial liabilities consist of accrued technical cooperation expenses of €227,000 (2019: €41,000).

6. Contributions

Contributions received are set out below.

Cumulative contributions received	2020 € 000	2019 € 000
Netherlands	800	800
United Kingdom	662	579
At 31 December	**1,462**	1,379

7. Analysis of current and non-current assets and liabilities

All assets and liabilities on the balance sheet are classified as current for 2020 and 2019.

8. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

9. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent, 3 per cent or 4 per cent of contributions received, depending on the amount of the contribution received. Management fees of €3,344 were paid during the period (2019: €55,147) and there were no accrued management fees payable by the Fund to the Bank at period end (2019: Nil).

External auditors' remuneration of €8,600 (2019: €7,300) is payable by the Bank from the management fee. The pound sterling of these fees is £7,700. The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Contributions received from the contributors are outlined in note 6.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the Multi-Donor Trust Fund for the West Bank and Gaza

Report on the audit of the financial statements

Opinion

In our opinion, the Multi-Donor Trust Fund for the West Bank and Gaza's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 10 May 2017, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Russia Small Business Investment Special Fund

Annual Financial Report
31 December 2020

The Russia Small Business Investment Special Fund

Contents

The Russia Small Business Investment Special Fund

Income statement

For the year ended 31 December 2020	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest and similar income			
From loans		(6)	132
From credit institutions		309	1,236
Total interest income		303	1,368
Dividend income		79	114
Net (loss)/gain from share investments		(624)	429
Foreign exchange movement		90	(46)
Financial guarantees movement	3	8	(10)
Other operating expenses	4	(9)	(7)
Impairment provisions on loan investments	5	10	(10)
Net (loss)/profit for the year		(143)	1,838
Attributable to:			
Contributors		(143)	1,838

Statement of comprehensive income

For the year ended 31 December 2020	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Net (loss)/profit for the year	(143)	1,838
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	(5,851)	1,279
Total comprehensive (expense)/income for the year	(5,994)	3,117
Attributable to:		
Contributors	(5,994)	3,117

This item will not subsequently be reclassified to profit or loss.

Balance sheet

At 31 December 2020	Note	31 December 2020 € 000	31 December 2020 € 000	31 December 2019 € 000	31 December 2019 € 000
Assets					
Placements with credit institutions			61,737		67,082
Other financial assets	6		63		20
Loan investments					
Loans	7	11		150	
Less: Provisions for impairment	5	(11)		(24)	
			-		126
Share investments	8		1,424		2,198
Total assets			63,224		69,426
Liabilities and contributors' resources					
Financial guarantee liability	9		626		834
Total liabilities			626		834
Contributions	10	59,351		59,351	
Reserves and retained earnings		3,247		9,241	
Total contributors' resources			62,598		68,592
Total liabilities and contributors' resources			63,224		69,426
Memorandum items					
Guarantees			821		1,763

The Russia Small Business Investment Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2020	Contributions	General reserve	Retained earnings	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2018	59,351	4,614	1,510	65,475
Total comprehensive income for the year	-	1,279	1,838	3,117
At 31 December 2019	59,351	5,893	3,348	68,592
Total comprehensive expense for the year	-	(5,851)	(143)	(5,994)
At 31 December 2020	**59,351**	**42**	**3,205**	**62,598**

Statement of cash flows

For the year ended 31 December 2020		Year to 31 December 2020		Year to 31 December 2019
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(143)		1,838	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Interest income on previously impaired loan	-		(95)	
Effective interest rate adjustment on loans	16		(16)	
Impairment charge on loan investments	(10)		10	
Net loss/(gain) from share investments	624		(429)	
Foreign exchange movement	(90)		46	
Financial guarantees movement	(8)		10	
	389		1,364	
Cash flows from the sale and purchase of operating assets				
Proceeds from sale of share investments	8		-	
Proceeds from repayment of loans	103		123	
Working capital adjustment				
Movement in other financial assets	(45)		16	
Net cash from operating activities		455		1,503
Net increase in cash and cash equivalents		455		1,503
Cash and cash equivalents at the beginning of the year		67,082		64,270
Effect of foreign exchange rate changes		(5,800)		1,309
Cash and cash equivalents at 31 December		61,737		67,082

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones,
Director- Financial Control
Date: 13 May 2021

The Russia Small Business Investment Special Fund

Fund purpose

The Russia Small Business Investment Special Fund ("the Fund") was established to assist the development of small businesses in the private sector in the Russian Federation. To achieve this, the resources of the Fund may be used to:

- participate alongside the European Bank for Reconstruction and Development ("the Bank") in providing loans to small businesses;
- participate alongside the Bank in equity investments; and
- provide guarantees on a first loss basis on the Bank's parallel loans and investments.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- IFRS 3: Business Combinations
- Amendments to IFRS 16: Leases

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

IFRS not yet mandatorily effective but adopted early
On 27 August 2020, the IASB issued “Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)” with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund’s financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as “fair value through other comprehensive income” only if both of the following criteria are met: the objective of the Fund’s business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as ‘fair value through profit or loss’.

All of the share investments held by the Fund are measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are multiples applied to net asset value and earnings-based valuations to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

The Fund’s share investments are recognised on a trade date basis.

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

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial guarantees

The Fund provides guarantees to cover losses incurred by the Bank in parallel loan and equity investments, such guarantees being limited to the resources of the Fund.

When a guarantee is issued, its initial fair value reflects the fees charged for such guarantee, assuming an arm's-length commercial transaction. As the Fund does not charge the Bank any fee for its guarantee, its estimated initial fair value is based on the fee that the Fund might otherwise have charged, given the credit risk attaching to the guaranteed portfolio. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement. Subsequently the guarantees are measured at the higher of the initial fair value less cumulative amortisation and the expected credit loss (ECL) at the balance sheet date.

Financial liabilities

The Fund does not designate any other financial liabilities at fair value through profit or loss. All others are measured at amortised cost.

Interest rate benchmark reforms

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

In August 2020, the IASB issued 'Interest Rate Benchmark Reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16', which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

- Changes to the basis for determining contractual cash flows because of the reform are required as a practical expedient to be treated as changes to a floating interest rate.

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis (the general provision)

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

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

For Stage 1 and Stage 2 assets, impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Financial assets at amortised cost – non-performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is objective evidence of an impairment loss include:

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

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

- deterioration in the value of collateral.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

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

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

General reserve

The general reserve represents foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

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

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement is the euro (EUR).

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities denominated in currencies other than USD are re-translated into USD at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at the year-end exchange rate with the resultant exchange gains and losses taken to other comprehensive income.

Contributions

Contributions received in USD are translated into euro at the exchange rates ruling at the time of the transaction.

Interest, dividends and fees

Interest is recorded on an accruals basis using the effective interest method. All interest income is recognised within 'interest and similar income' in the income statement.

Dividends relating to share investments are recognised in accordance with IFRS 9 when the Fund's right to receive payments has been established, and when it is probable that the economic benefits will flow to the Fund and the amount can be reliably measured.

Fees received in respect of services provided over a period of time are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

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

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

The Fund's critical accounting estimates are outlined below:

Financial guarantees
The Fund's method for determining the fair value of financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained under credit risk within the risk management section of the report.

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the accounting policies section of the report and an analysis of the share investment portfolio is provided in note 8. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report and in note 8.

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

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

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

Stage assessment

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

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 are set out by internal rating grade below:

PD rating[2]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

TTC PD rates express the likelihood of a default based on long-term credit risk trend rates and are constructed by using external benchmarks for investment grades and blending internal default experience with external data, assigning 75 per cent weight to the Bank's internal experience, and 25 per cent to emerging markets data published by Standards & Poor's for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default. The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. Consequently forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss Given Default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure at Default

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

There were no Stage 1 or Stage 2 provisions for the unidentified impairment of loan investments at 31 December 2020 (2019: €10,000).

With respect to specific provisions, a decrease of ten percent on the current provision cover level would have an impact of €1,000 (2019: - €1,000).

2 The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

Risk management

Risk governance

As the primary purpose of the Fund is to assist the development of small businesses in the Russian Federation rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate, foreign exchange and equity price risk.

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[3] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The carrying amounts of financial assets presented on the balance sheet, together with the guarantees as shown under memorandum items, best represents the Fund's maximum exposure to credit risk at 31 December 2020 and 31 December 2019, without taking account of any collateral held or other credit enhancements.

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

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional level (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were classified in internal credit rating risk range 2, (approximately AA+ to AA- in terms of the S&P equivalent). Placements with credit institutions are considered to have low credit risk.

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	Amortised cost carrying value				Impairment			Total net of impairment	
		Credit				Credit		Total	
	Stage 2	Stage 3	Total	Total	Stage 2	Stage 3	Total	impairment	provisions
Risk rating category	€ 000	€ 000	€ 000	%	€ 000	€ 000	€ 000	€ 000	%
7: Special attention	-	-	-	0.0%	-	-	-	-	0%
8: Non-performing	-	11	11	100.0%	-	(11)	(11)	-	100.0%
At 31 December 2020	**-**	**11**	**11**	**100%**	**-**	**(11)**	**(11)**	**-**	

	Amortised cost carrying value				Impairment			Total net of impairment	
		Credit impaired				Credit impaired		Total net of	Impairment
	Stage 2	Stage 3	Total	Total	Stage 2	Stage 3	Total	impairment	provisions
Risk rating category	€ 000	€ 000	€ 000	%	€ 000	€ 000	€ 000	€ 000	%
7: Special attention	136	-	136	90.7%	(10)	-	(10)	126	7.4%
8: Non-performing	-	14	14	9.3%	-	(14)	(14)	-	100.0%
At 31 December 2019	**136**	**14**	**150**	**100%**	**(10)**	**(14)**	**(24)**	**126**	

Guarantees
In accordance with the Fund's Rules and Regulations, losses incurred in respect of the Fund's investments and the parallel Bank investments up to a maximum aggregate amount of USD 75 million will be borne by the resources of the Fund. Thereafter, losses will be borne equally by the Fund and the Bank.

At 31 December 2020, the Bank had outstanding parallel loans and share investments amounting to €1.4 million for which, in the event of a future default or loss, losses incurred by the Bank may be refunded in part from the resources of the Fund (2019: €1.8 million). At 31 December 2020, the Fund's maximum exposure under such guarantees was €1.4 million (2019: €1.8 million).

At 31 December 2020 €0.6 million of €1.4 million has been recognised as a financial guarantee liability as a result of a specific impairment on a Bank loan (2019: €0.8 million). The Fund does not actively manage credit risk on its guarantee exposure.

Concentration of credit risk exposure

The Fund's credit risk exposure on loan investments is concentrated in a single geographic region, the Russian Federation.

The following table breaks down the main credit risk exposures at the carrying amount by industry sector of the project.

	2020	2019
	€ 000	€ 000
Depository Credit (banks)	**11**	14
Non-depository Credit (non-bank)	**-**	136
At 31 December	**11**	150

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk, foreign exchange risk and equity risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

Based on the average five year absolute rolling average movement in the Russian rouble to United States dollar exchange rate, the potential functional currency impact on the Fund's income statement from a 22 per cent strengthening or weakening (2019: 24 per cent) is €0.1 million (2019: €0.3 million).

The potential impact on other comprehensive income due to presentational currency movement based on the average five year absolute rolling average movement, from a 7 per cent strengthening or weakening of the USD (2019: 7 per cent) is €4.3 million (2019: €4.6 million).

	Euro 2020 € 000	Russian rouble 2020 € 000	United States dollar 2020 € 000	Total € 000
Total assets (excluding share investments)	3	63	61,734	**61,800**
Share investments	-	1,220	204	**1,424**
Total liabilities	-	(626)	-	**(626)**
Net currency position at 31 December 2020	**3**	**657**	**61,938**	**62,598**

	Euro 2019 € 000	Russian rouble 2019 € 000	United States dollar 2019 € 000	Total € 000
Total assets	3	296	66,929	67,228
Share investments	-	1,975	223	2,198
Total liabilities	-	(834)	-	(834)
Net currency position at 31 December 2019	3	1,437	67,152	68,592

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund expects the effect of equity price risk on net profit will bear some correlation to the movement in equity indices for the Russian rouble based equity investment.

Based on the five year rolling average movement in the Russian RTS index, the potential impact on the Fund's net profit from a 22 per cent strengthening or weakening (2019: 22 per cent) is €0.3 million (2019: €0.4 million).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan investments, equity investments and guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

The fair values of the Fund's share investments, derivative financial instruments and loans at fair value have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

A sensitivity analysis based on reasonably plausible alternative valuations has been included within note 8.

The Russia Small Business Investment Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of the Bank at its meeting of 18 October 1993 and is administered, inter alia, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational in 1994 following the commitment of USD 3 million by contributors. The pilot phase of the programme was further extended during that year. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from euro to United States dollars. However, consistent with the Bank's financial statements, the unit of measurement for the presentation of the Fund's financial statements is euro. The full-scale phase of the Russia Small Business Fund Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Financial guarantees movement

	2020	2019
	€ 000	€ 000
Release/(charge) for estimated settlement of impaired guaranteed loans	**8**	(10)
Financial guarantees movement	**8**	(10)

4. Other operating expenses

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditors' remuneration of €8,600 (2019: €7,300). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2020 no fee (2019: €nil) is payable to the Bank in relation to the 2020 external audit. In 2019 the Bank approved the appointment of PricewaterhouseCoopers LLP as the next external auditors for the five-year period 2020-24 following the completion of Deloitte LLP's second term.

5. Provision for impairment of loan investments

Release/(charge) for the year	2020 € 000	2019 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	10	(10)
Provisions for impairment of loan investments	**10**	**(10)**

Movement in provisions	2020 € 000	2019 € 000
At 1 January	(24)	(13)
Release/(charge) for the year to the income statement	10	(10)
Foreign exchange movement	3	(1)
At 31 December	**(11)**	**(24)**
Stage 1 and 2 provisions for loan investments at amortised cost	-	(10)
Stage 3 provisions for loan investments at amortised cost	(11)	(14)
At 31 December	**(11)**	**(24)**

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

Movement in provisions	Lifetime ECL (Stage 2) 2020 € 000	Lifetime ECL (Stage 3) 2020 € 000	Total 2020 € 000
As at 1 January 2020	(10)	(14)	(24)
Repayments/settlements	8	-	8
Foreign exchange and other movements	2	3	5
As at 31 December 2020	-	(11)	(11)

Movement in loans at amortised cost	Loans Stage 2 2020 € 000	Loans Stage 3 2020 € 000	Total 2020 € 000
As at 1 January 2020	136	14	150
Repayments/settlements	(103)	-	(103)
Effective interest rate adjustment	(16)	-	(16)
Foreign exchange and other movements	(17)	(3)	(20)
As at 31 December 2020	-	11	11

Movement in provisions	Lifetime ECL (Stage 2) 2019 € 000	Lifetime ECL (Stage 3) 2019 € 000	Total 2019 € 000
As at 1 January 2019	-	(13)	(13)
Changes in model or risk parameters	-	(10)	(10)
Transfer to Stage 2 - significant decrease in credit risk	(10)	10	-
Foreign exchange and other movements	-	(1)	(1)
As at 31 December 2019	(10)	(14)	(24)

Movement in loans at amortised cost	Loans Stage 2 2019 € 000	Loans Stage 3 2019 € 000	Total 2019 € 000
As at 1 January 2019	-	141	141
Transfer to Stage 2 - significant decrease in credit risk	93	(93)	-
Repayments reclassified as interest income on previously impaired loan	95	-	95
Repayments/settlements	(87)	(36)	(123)
Effective interest rate adjustment	16	-	16
Foreign exchange and other movements	19	2	21
As at 31 December 2019	136	14	150

6. Other financial assets

	2020 € 000	2019 € 000
Interest receivable on loans	**-**	2
Interest receivable on placements with credit institutions	**-**	18
Receivable from the Bank	**63**	-
At 31 December	**63**	20

7. Loan investments

	2020 € 000	2019 € 000
At 1 January	**150**	141
Interest on previously impaired loan	**-**	95
Repayments	**(103)**	(123)
Movement in effective interest rate adjustment	**(14)**	16
Foreign exchange movements	**(22)**	21
At 31 December	**11**	150
Impairment at 31 December	**(11)**	(24)
Total loan investments net of impairment at 31 December	**-**	126

8. Share investments

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

The main valuation technique used in the valuation of these share investments is net asset value (NAV). Reasonably plausible alternative valuations have been determined based on the NAV multiple range used in the valuation and would lead to a favourable change in value of €0.4 million (2019: €0.7 million) and an unfavourable change in value of €0.4 million (2019: €0.7 million).

The table below provides information about the Fund's share investments.

	2020 € 000	2019 € 000
Outstanding disbursements		
At 1 January	9,054	9,054
At 31 December	9,054	9,054
Fair value adjustment		
At 1 January	(6,856)	(7,294)
Movement in fair value revaluation	(624)	429
Movement in functional currency	(150)	9
At 31 December	(7,630)	(6,856)
Fair value at 31 December	1,424	2,198

9. Financial guarantee liability

	2020 € 000	2019 € 000
At 1 January	(834)	(720)
Financial guarantee movement	8	(10)
Foreign exchange movement	200	(104)
At 31 December	(626)	(834)

10. Contributions

Contributions received are set out below:

Cumulative contributions received	2020 € 000	%	2019 € 000	%
Canada	2,707	4.5	2,707	4.5
France	7,686	12.9	7,686	12.9
Germany	9,843	16.6	9,843	16.6
Italy	8,402	14.2	8,402	14.2
Japan	21,162	35.7	21,162	35.7
Switzerland	2,360	4.0	2,360	4.0
United States of America	7,191	12.1	7,191	12.1
At 31 December	59,351	100.0	59,351	100.0

11. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

12. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

	Current	**Non-current**	**Total**	Current	Non-current	Total
	2020	**2020**	**2020**	2019	2019	2019
Assets	**€ 000**	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Placements with credit institutions	61,737	-	61,737	67,082	-	67,082
Other financial assets	63	-	63	20	-	20
Loans	-	11	11	136	14	150
Provisions for impairment	-	(11)	(11)	(10)	(14)	(24)
Share investments	-	1,424	1,424	-	2,198	2,198
Total assets	61,800	1,424	63,224	67,228	2,198	69,426
Liabilities						
Financial guarantee liability	-	(626)	(626)	(10)	(824)	(834)
Total liabilities	-	(626)	(626)	(10)	(824)	(834)

13. Events after the reporting period

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

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.
On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

14. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. As there were no contributions received in 2020, there were no management fees paid by the Fund to the Bank (2019: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2020 (2019: nil).

At 31 December 2020 an amount €63,000 was receivable from the Bank as outlined in note 6.

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

Audit fees paid to the Bank are outlined in note 4.

Contributions received from the contributors are outlined in note 10.

Independent auditors’ report to the Governors of the European Bank for Reconstruction and Development (the “Bank”) in respect of the Russia Small Business Investment Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the Russia Small Business Investment Special Fund’s (the ‘Fund’) non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund’s financial statements comprise:

- the balance sheet as at 31 December 2020;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors’ resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”) and applicable law. Our responsibilities under ISAs are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA Code”) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors’ 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 18 October 1993, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Russia Small Business Technical Cooperation Special Fund

Annual Financial Report
31 December 2020

The Russia Small Business Technical Cooperation Special Fund

Contents

Income statement

For the year ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest income			
From credit institutions		6	26
Other operating expenses	3	(9)	(7)
Net (loss)/profit for the year		(3)	19
Attributable to:			
Contributors		(3)	19

Statement of comprehensive income

For the year ended 31 December 2020

	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Net (loss)/profit for the year	(3)	19
Other comprehensive (expense)/income		
Foreign exchange movement between functional and presentational currencies	(150)	34
Total comprehensive (loss)/profit for the year	(153)	53
Attributable to:		
Contributors	(153)	53

These items will not subsequently be reclassified to profit or loss.

Balance sheet

As at 31 December 2020

	Note	31 December 2020 € 000	31 December 2020 € 000	31 December 2019 € 000	31 December 2019 € 000
Assets					
Placements with credit institutions			1,597		1,750
Total assets			1,597		1,750
Liabilities and contributors' resources					
Contributions	4	69,580		69,580	
Reserves and accumulated loss		(67,983)		(67,830)	
Total contributors' resources			1,597		1,750
Total liabilities and contributors' resources			1,597		1,750

Statement of changes in contributors' resources

For the year ended 31 December 2020

	Contributions	General reserve	Accumulated loss	Total
	€ 000	€ 000	€ 000	€ 000
As 31 December 2018	69,580	964	(68,847)	1,697
Total comprehensive income for the year	-	34	19	53
As 31 December 2019	69,580	998	(68,828)	1,750
Total comprehensive expense for the year	-	(150)	(3)	(153)
At 31 December 2020	**69,580**	**848**	**(68,831)**	**1,597**

Statement of cash flows

For the year ended 31 December 2020

	Year to 31 December 2020		Year to 31 December 2019	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(3)		19	
Net cash (used in)/generated from operating		(3)		19
Net (decrease)/increase in cash and cash		(3)		19
Cash and cash equivalents at the beginning of the year		1,750		1,697
Effect of foreign exchange rate changes		(150)		34
Cash and cash equivalents at 31 December		1,597		1,750

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Gordon Jones,
Director - Financial Control
Date: 13 May 2021

Fund Purpose

The Russia Small Business Technical Cooperation Special Fund ("the Fund") was established to finance technical cooperation for the design and implementation of the pilot, extended pilot and full-scale phase operations of the Russia Small Business Programme ("the Programme").
As the purpose of the Fund is to assist the operations of the Programme rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The Fund does not have any areas with accounting estimates and judgements for the years presented.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies

Financial assets – classification and measurement

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

Financial assets at amortised cost

All financial assets are measured at amortised cost.

Financial assets at fair value through other comprehensive income

A financial asset is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

General reserve

The general reserve represents foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

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

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement is the euro (€).

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities in currencies other than USD are re-translated into USD at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at the year-end exchange rate with the resultant exchange gains and losses taken to other comprehensive income.

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Interest

Interest is recorded on an accruals basis. All interest is recognised within 'interest income' in the income statement.

Technical cooperation expenses

Technical cooperation expenses, which represent consultancy services provided to the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Risk management

The Fund was established to finance technical cooperation for the design and implementation of the pilot, extended pilot and full-scale phase operations of the Russia Small Business Programme ("the Programme").

As the purpose of the Fund is to assist the operations of the Programme rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Risk governance

The Fund is subject to the European Bank for Reconstruction and Development's ("the Bank") risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[1] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness.

The Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources. For banks with which the Fund places its cash, internal credit ratings are determined by Risk Management and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through synthesis of externally provided credit research and market data, including

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

approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

At year end the Fund's cash was placed with a single financial institution which ranked in the second highest internal credit rating risk category assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating in the range of AA+ to AA-.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2020 and 31 December 2019.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to functional currency foreign exchange risk (euro to USD) is considered to be minimal, as all assets are denominated in USD.

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentational currency movement from a 7 per cent strengthening or weakening (2019: 7 per cent) is €0.1 million (2019: €0.1 million).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that technical assistance is financed from the resources of the Fund, which comprises contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. As a result, the exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank at its meeting of 18 October 1993 and is administered, *inter alia*, under the terms of the Rules and Regulations of the Fund. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from the European Currency Unit to United States dollars. The full-scale phase of the Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 4.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 4. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Other operating expenses

Other operating expenses represent external auditors' remuneration of €8,600 (2019: €7,300). The Bank pays the remuneration on behalf of the Fund, who in turn reimburses the Bank in full. At 31 December 2020, no fee (2019: no fee) is payable to the Bank in relation to the 2020 external audit. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

4. Contributions

Contributions received are set out below:

	2020		2019	
Cumulative contributions received	**€ 000**	**%**	**€ 0**	**%**
Canada	**4,309**	**6.2**	4,309	6.2
France	**4,980**	**7.2**	4,980	7.2
Germany	**3,025**	**4.3**	3,025	4.3
Italy	**1,360**	**2.0**	1,360	2.0
Japan	**3,295**	**4.7**	3,295	4.7
The Russia Small Business Investment Special Fund	**8,848**	**12.7**	8,848	12.7
Switzerland	**1,244**	**1.8**	1,244	1.8
United Kingdom	**12,824**	**18.4**	12,824	18.4
United States of America	**29,695**	**42.7**	29,695	42.7
At 31 December	**69,580**	**100.00**	69,580	100.00

5. Undrawn commitments

All contracts were completed and closed in 2018, there are no remaining amounts undrawn.

6. Analysis of current and non-current assets and liabilities

All assets and liabilities on the balance sheet are classified as current for both 2020 and 2019.

7. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

8. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

9. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. As there were no contributions received in 2020, there were no management fees paid by the Fund to the Bank (2019: nil), and there was no accrued management fee payable by the Fund to the Bank at 31 December 2020 (2019: nil).

Audit fees paid to the Bank are outlined in note 3.

Contributions received from the contributors are outlined in note 4.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the Russia Small Business Technical Cooperation Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the Russia Small Business Technical Cooperation Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 18 October 1993, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The SME Local Currency Special Fund

Annual Financial Report
31 December 2020

The SME Local Currency Special Fund

Contents

The SME Local Currency Special Fund

Income statement

For the year ended 31 December 2020	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest income		202	843
Financial guarantees movement	3	(1,212)	(590)
Net (loss)/profit for the year		(1,010)	253
Attributable to:			
Contributors		(1,010)	253

Statement of comprehensive income

For the year ended 31 December 2020	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Net (loss)/profit for the year	(1,010)	253
Other comprehensive (expense)/income		
Foreign exchange movement between functional and presentational currencies	(4,576)	1,011
Total comprehensive (expense)/income for the year	(5,586)	1,264
Attributable to:		
Contributors	(5,586)	1,264

Balance sheet

At 31 December 2020	Note	31 December 2020 € 000	31 December 2019 € 000
Assets			
Placements with credit institutions		62,420	57,274
Total assets		62,420	57,274
Liabilities and contributors' resources			
Financial guarantee liability	4	6,145	5,413
Total liabilities		6,145	5,413
Contributions	5	60,731	50,731
Reserves and accumulated (loss)/profit		(4,456)	1,130
Total contributors' resources		56,275	51,861
Total liabilities and contributors' resources		62,420	57,274
Memorandum items			
Guarantees*		62,420	57,274

*See section on credit risk exposures on page 8 for additional details.

The SME Local Currency Special Fund

Statement of changes in contributors’ resources

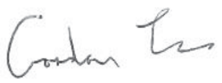
For the year ended 31 December 2020

	Contributions € 000	General reserve € 000	Accumulated loss € 000	Total € 000
At 31 December 2018	50,731	3,690	(3,824)	50,597
Total comprehensive income for the year	-	1,011	253	1,264
At 31 December 2019	50,731	4,701	(3,571)	51,861
Contributions received	10,000	-	-	10,000
Total comprehensive loss for the year	-	(4,576)	(1,010)	(5,586)
At 31 December 2020	**60,731**	**125**	**(4,581)**	**56,275**

Statement of cash flows

For the year ended 31 December 2020	Year to 31 December 2020 € 000	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000	Year to 31 December 2019 € 000
Cash flows from operating activities				
Net (loss)/profit for the year	(1,010)		253	
Adjustment to reconcile net profit to net cash flows:				
Financial guarantees movement	1,212		590	
	202		843	
Net cash from operating activities		202		843
Cash flows from financing activities				
Contributions received	10,000		-	
Net cash from financing activities		10,000		-
Net increase in cash and cash equivalents		10,202		843
Cash and cash equivalents at the beginning of the year		57,274		55,324
Effect of foreign exchange rate changes		(5,056)		1,107
Cash and cash equivalents at 31 December		62,420		57,274

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Gordon Jones,
Director - Financial Control
Date: 13 May 2021

The SME Local Currency Special Fund

Fund purpose

The Fund was established to support an increase in local currency lending in the Early Transition Countries ("the ETCs") and extended to cover small and medium enterprises (SME). The Fund provides guarantees on a first-loss basis for the European Bank for Reconstruction and Development's ("the Bank") SME Local Currency Programme.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of SME Local Currency Special Fund ("the Fund"). The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in ""Significant accounting policies and judgements" and "Critical accounting estimates" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early

On 27 August 2020, the IASB issued "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial guarantees which are measured in accordance with IFRS 9, as described under "Financial guarantees" below.

Interest rate benchmark reforms

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

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

General reserve

The general reserve represents foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

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

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement is the euro (€).

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities denominated in currencies other than USD are re-translated into USD at spot rates ruling at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at spot rates ruling at the year-end exchange rate with the resultant exchange gains and losses taken to other comprehensive income.

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Financial guarantees

The Fund provides guarantees to the Bank to cover principal losses of loan investments in the Bank's SME Programme and principal losses the Bank may incur from providing its own guarantees, limited to the resources of the Fund. When a guarantee is issued, its initial fair value reflects the fees charged for such guarantee, assuming an arm's-length commercial transaction. As the Fund does not charge the Bank any fee for its guarantee, its initial fair value is estimated based on the fee that the Fund might otherwise have charged, given the credit risk attaching to the guaranteed portfolio. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement.

Subsequently the guarantee liabilities are measured at the higher of the initial fair value less cumulative amortisation and the expected credit loss (ECL) at the balance sheet date.

Interest

Interest is recorded on an accruals basis. All interest income is recognised within 'interest income' in the income statement.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund's critical accounting estimate is outlined below:

Financial guarantee liability
The Fund's method for determining the carrying value of financial guarantee liability is determined by assessing the expected credit loss (ECL) of the underlying covered Bank loan investments. In assessing the ECL, the Fund relies on the Bank's risk management processes and procedures.

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

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments. The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent.

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 and 2019 are set out by internal rating grade below:

2020 PD rating [1]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

2019 PD rating	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

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

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently, forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

[1] The Bank's internal PD rating scale is explained in detail on page 10 of the Risk Management section.

Loss given default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure at default

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

Sensitivity analysis

Financial guarantee liability
The sensitivity of the financial guarantee relating to stage 1 and 2 loans is provided below.

Adjusted risk parameter	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %
Financial guarantee liability on stage 1 and 2 loans	**5,853**		
Staging			
All loans in Stage 1	5,724	(129)	(2)%
All loans in Stage 2	8,277	2,424	41%
PD Ratings			
All loans upgraded 1 notch	4,216	(1,637)	(28)%
All loans downgraded 1 notch	7,953	2,100	36%
All loans upgraded 3 notches	2,568	(3,285)	(56)%
All loans downgraded 3 notches	13,177	7,324	125%
Projected GDP			
Projected GDP increased by 1%	5,661	(192)	(3)%
Projected GDP decreased by 1%	6,094	241	4%
Projected GDP increased by 5%	5,218	(635)	(11)%
Projected GDP decreased by 5%	7,460	1,607	27%
LGD			
All loans decreased by 10%	4,983	(870)	(15)%
All loans increased by 10%	6,725	872	15%
EAD			
All undrawn commitments cancelled	5,620	(233)	(4)%
All undrawn commitments disbursed within one month	6,222	369	6%
PD Rates - weighting of Bank data and external data			
Increase weighting of Bank data by 10%	4,983	(870)	(15)%
Decrease weighting of Bank data by 10%	6,725	872	15%

With respect to the portion of the guarantee liability related to Stage 3 loans, a decrease of 10 percentage points would decrease the guarantee liability by €29,000.

Risk management

As the purpose of the Fund is to promote local currency lending in the SMEs rather than to generate a return on its assets, not all financial risks are actively managed by the Fund. Credit risk is jointly managed with the Bank; however, the Fund does not hedge against market risk and is hence exposed to interest rate risk and foreign exchange risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[2] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness.

The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The carrying amounts of financial assets presented on the balance sheet, together with the guarantees as shown under memorandum items, best represents the Fund's maximum exposure to credit risk at 31 December 2020 and 31 December 2019.

Credit risk management and measurement

As previously stated, the Fund participates alongside the Bank as a guarantor for the financing of investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
At year end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating risk range assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating in the range of AA+ to AA-. Placements with credit institutions are considered to have low credit risk.

Guarantees
At 31 December 2020, the Bank had outstanding loans amounting to €253 million (2019: €310 million), for which, in the event of a future default, losses incurred by the Bank may be refunded in part from the resources of the Fund. At 31 December 2020, the Fund's maximum exposure under such guarantees was €62.4 million (2019: €57.3 million).

At 31 December 2020, the guarantee liability on the balance sheet is €6.1 million (2019: €5.4 million). The Fund does not actively manage credit risk on its guarantee exposure.

During the year, no amount was paid from the Fund to the Bank (2019: €nil) for losses incurred by the Bank on a loan covered under the Fund's guarantee.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placement is repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund has no exposure to functional currency foreign exchange risk (euro to USD) as all assets and liabilities are held in USD as at 31 December 2020 and 31 December 2019.

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive expense due to presentational currency movement, from a 7 per cent strengthening or weakening (2019: 7 per cent) is €3.8 million (2019: €3.6 million).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund's guarantees are limited to the resources of the Fund, and contributions received are recognised as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. As a result, the exposure to liquidity risk is considered to be minimal.

The SME Local Currency Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 15 February 2011 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 4 April 2011 when the initial aggregate resources of the Fund equalled €10 million. An amendment to the Rules and Regulations was approved by the Board on 9 May 2012 to change the denomination of the Fund from euro to the United States dollar. In 2016, following consultation with the Contributors to the Fund, the Bank's Board of Directors approved an amendment renaming the Fund from the "ETC Local Currency Risk Sharing Special Fund" to the "SME Local Currency Special Fund".

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Financial guarantees movement

	2020	2019
	€ 000	€ 000
Movement in expected credit loss for guaranteed loans	1,212	590
Financial guarantees movement	1,212	590

4. Financial guarantee liability

	2020	2019
	€ 000	€ 000
At 1 January	5,413	4,727
Financial guarantee movement	1,212	590
Movement in functional currency	(481)	96
At 31 December	6,144	5,413

5. Contributions

Cumulative contributions received	2020 € 000	2019 € 000
EBRD Shareholder Special Fund	48,834	38,834
Finland	155	155
Germany	78	78
Ireland	71	71
Japan	3,218	3,218
Korea	117	117
Luxembourg	62	62
Netherlands	1,168	1,168
Norway	312	312
Spain	310	310
Sweden	210	210
Switzerland	1,736	1,736
Taiwan ICDF	108	108
United Kingdom	605	605
United States of America	3,747	3,747
Total contributions at 31 December	60,731	50,731

6. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000	Restated Current 2019 € 000	Restated Non-current 2019 € 000	Total 2019 € 000
Placements with credit institutions	62,419	-	62,419	57,274	-	57,274
Total assets	**62,419**	-	**62,419**	57,274	-	57,274
Liabilities						
Financial guarantee liability	5,936	208	6,144	454	4,959	5,413
Total liabilities	**5,936**	**208**	**6,144**	454	4,959	5,413

7. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

8. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

9. Related parties

The Fund's related parties are the Bank and contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent of contributions received, taking into account the amount of any management fees paid to the Bank previously for contributions transferred from existing funds managed and administered by the Bank. During the period there was no management fee charged by the Bank to the Fund (2019: nil). At 31 December 2020 there was no accrued management fee payable by the Fund to the Bank (2019: nil). External auditor's remuneration of €8,700 (2019: €7,300) is payable by the Bank from the management fee. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

Contributions received from the contributors are outlined in note 5.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the SME Local Currency Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, the SME Local Currency Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 15 February 2011, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Special Fund for the High Impact Partnership on Climate Action
(Previously known as The EBRD Green Energy Special Fund)

Annual Financial Report
31 December 2020

The Special Fund for the High Impact Partnership on Climate Action

Contents

The Special Fund for the High Impact Partnership on Climate Action

Statement of comprehensive income
For the year ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest income			
From loans		286	257
From credit institutions		2	4
Total interest		288	261
Fee income		150	112
Operating expenses		(286)	(258)
Foreign exchange movement		(358)	79
Impairment provisions on loan investments	3	(1,934)	(109)
Concessional loan discount	4	(35)	(6,724)
Net loss and comprehensive expense for the year		(2,175)	(6,639)
Attributable to:			
Contributor		(2,175)	(6,639)

Balance sheet
At 31 December 2020

		31 December 2020		31 December 2019	
	Note	€ 000	€ 000	€ 000	€ 000
Assets					
Placements with credit institutions			24,660		30,974
Interest receivable			23		32
Commitment fees receivable			21		18
Loan investments					
Loans	5	20,942		5,326	
Less: Provisions for impairment	3	(2,227)		(293)	
			18,715		5,033
Total assets			43,419		36,057
Liabilities					
Negative interest expense payable			10		12
Concessional loan discount	4		6,800		11,024
Contributor's resources			36,609		25,021
Total liabilities			43,419		36,057
Memorandum items					
Undrawn loan commitments			28,550		48,537
Pledged contributions not yet due	8		16,294		31,175

The Special Fund for the High Impact Partnership on Climate Action

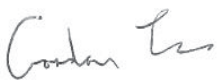
Statement of changes in contributor's resources
For the year ended 31 December 2020

	Contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2018	20,612	(2,105)	18,507
Total comprehensive expense for the year	-	(6,639)	(6,639)
Contributor's resource transactions			
Contributions received	13,175	-	13,175
Distribution of funds to the contributor	(22)	-	(22)
At 31 December 2019	33,765	(8,744)	25,021
Total comprehensive expense for the year	-	(2,175)	(2,175)
Contributor's resource transactions			
Contributions received	13,763	-	13,763
At 31 December 2020	**47,528**	**(10,919)**	**36,609**

Statement of cash flows
For the year ended 31 December 2020

	€ 000	31 December 2020 € 000	€ 000	31 December 2019 € 000
Cash flows from operating activities				
Net loss for the year	(2,175)		(6,639)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Effective interest rate adjustment on loans[1]	86		(37)	
Unwind of concessional loan discount[1]	(237)		(68)	
Concessional loan discount	35		6,724	
Foreign exchange movement	358		(79)	
Impairment charge on loan investments	1,934		109	
	1		10	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	478		600	
Funds advanced for loans	(20,487)		(1,220)	
Working capital adjustment				
Movement in interest income	9		11	
Movement in fee income	(3)		(4)	
Movement in accrued expenses	(2)		7	
Net cash used in operating activities		(20,004)		(596)
Cash flows from financing activities				
Contributions received	13,763		13,175	
Distribution of funds to the contributor	-		(22)	
Net cash from financing activities		13,763		13,153
Net (decrease)/increase in cash and cash equivalents		(6,241)		12,557
Cash and cash equivalents at the beginning of the year		30,974		18,422
Effect of foreign exchange rate changes		(73)		(5)
Cash and cash equivalents at 31 December		24,660		30,974

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Gordon Jones, Director - Financial Control
Date: 13 May 2021

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding discount on specific provisions all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

The Special Fund for the High Impact Partnership on Climate Action

Fund purpose

The Special Fund for the High Impact Partnership on Climate Action ("the Fund") was established to provide financial support to eligible projects related to sustainable and green energy investments. To achieve this, the Fund provides concessional loans alongside the Bank's market rate loans in support of projects and activities which promote energy efficiency and the reduction of carbon emissions.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early
On 27 August 2020, the IASB issued “Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)” with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's income statement, with a corresponding liability. The day one loss is recognised upon signing of the loan. Once the Fund disburses the loan to its borrower, the day one loss is reflected within the loan investment as it forms part of the initial fair value of the asset.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment that may be necessary. The initial fair value discount applied to each loan is therefore recovered in the effective interest rate at which income is recognised in the income statement over the tenor of the loan.

The Fund’s financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as “fair value through other comprehensive income” only if both of the following criteria are met: the objective of the Fund’s business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as ‘fair value through profit or loss’.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

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

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

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

In August 2020, the IASB issued 'Interest Rate Benchmark Reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16', which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

- Changes to the basis for determining contractual cash flows because of the reform are required as a practical expedient to be treated as changes to a floating interest rate

The Fund's exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €3.1 million (USD LIBOR). These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required.

Impairment of financial assets

Financial assets at amortised cost – performing assets stages 1 and 2
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis. (the general provision

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

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

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Financial assets at amortised cost – non performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit impaired include:

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

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Contributor's resources

The Fund recognises contributions received from the contributor as a liability on the basis that, should a contributor choose to withdraw from the Fund, the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributor were to withdraw from the Fund and contributions returnable to the contributor from operating activities.

The Fund is required to return to contributors reflows of investment income earned on contributed resources. The return of funds to the contributor is disclosed as 'distribution of funds to contributors' in the statement of changes in contributors' resources.

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

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

Contributions

Contributions received in USD are translated into euro at the exchange rates ruling at the time of the transaction.

The Fund is required to return to contributors reflows of interest earned on investment, principal repayments on loan investments and investment income earned on contributed resources. The return of funds to the contributor is disclosed as 'distribution of funds to contributors' in the statement of changes in contributors' resources.

Interest and fees

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

The unwinding of the day one loss on concessional loans is recognised in interest income as part of the effective interest rate of the loan.

Fees earned in respect of services provided over a period of time, including loan commitment fees are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

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

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the economies in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk.

The Fund's critical accounting estimates are outlined below:

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the Risk Management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

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

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €396,000 (2019: €nil). The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent.

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 and 2019 are set out by internal rating grade below:

2020 PD rating [4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

2019 PD rating	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

TTC PD rates express the likelihood of a default based on long-term credit risk trend rates and are constructed by using external benchmarks for investment grades and blending internal default experience with external data, assigning 75 per cent weight to the Bank's internal experience, and 25 per cent to Emerging Markets data published by Standards & Poor's for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

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

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

[4] The Bank's internal PD rating scale is explained in detail on page 10 of the Risk Management section.

Guarantors

Where the Fund's loans are fully and unconditionally guaranteed, and the PD and/or LGD rating of the guarantor is better than the PD and/or LGD rating of the borrower, the ECL is based on the better of the PD and LGD ratings of the borrower and the guarantor. Staging continues to be based solely on the borrower's PD.

Exposure at Default

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

Sensitivity analysis

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

Adjusted risk parameter	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %	Recalculated provision 2019 €000	Change in provision 2019 €000	Change in provision 2019 %
2020 portfolio provision (Stages 1 and 2)	2,227			293		
Staging						
All loans in Stage 1	1,006	(1,221)	(55)%	293	0%	0%
All loans in Stage 2	2,984	757	34%	1,633	1,340	457%
PD Ratings						
All loans upgraded 1 notch	1,294	(933)	(42)%	150	(143)	(49)%
All loans downgraded 1 notch	2,664	437	20%	513	220	75%
All loans upgraded 3 notches	969	(1,258)	(56)%	56	(237)	(81)%
All loans downgraded 3 notches	3,548	1,321	59%	2,849	2,556	872%
Projected GDP						
Projected GDP increased by 1%	2,146	(81)	(4)%	272	(21)	(7)%
Projected GDP decreased by 1%	2,322	95	4%	318	25	9%
Projected GDP increased by 5%	1,952	(275)	(12)%	229	(64)	(22)%
Projected GDP decreased by 5%	2,797	570	26%	436	143	49%
LGD						
All loans decreased by 10%	1,816	(411)	(18)%	223	(70)	(24)%
All loans increased by 10%	2,637	410	18%	362	69	24%
EAD						
All undrawn commitments cancelled	1,493	(734)	(33)%	11	(282)	(96)%
All undrawn commitments disbursed within one mo	2,596	369	17%	564	271	92%
PD Rates - weighting of Bank data and external data						
Increase weighting of Bank data by 10%	2,120	(107)	(5)%	246	(47)	(16)%
Decrease weighting of Bank data by 10%	2,334	107	5%	340	47	16%

Financial assets at amortised cost initial recognition
The Fund's method for determining the fair value on the initial recognition of concessional loans is further detailed in the significant accounting policies section of the report.

Risk management

As the primary purpose of the Fund is to provide concessional lending rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments alongside the Bank, although under different terms, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and foreign exchange risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector, or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the fund's investments could become impaired. In addition, the Fund is exposed to credit risk for contributions pledged by the contributor.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans.

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to the senior management of the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

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

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL loans held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified in internal credit rating risk range 2 (approximately AA+ to AA- in terms of S&P equivalent). Placements with credit institutions are considered to have low credit risk.

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	Amortised cost carrying value				Impairment		Total net of impairment	
	Stage 1	Stage 2	Total	Total	Stage 1	Stage 2	Total net of impairment	Impairment provisions
Risk rating category	€ 000	€ 000	€ 000	%	€ 000	€ 000	€ 000	%
5: Fair	3,824	-	3,824	18.3%	(8)	-	3,816	0.2%
6: Weak	5,432	7,075	12,507	59.7%	(103)	(1,570)	10,834	1.9%
7: Special attention	236	4,375	4,611	22.0%	(110)	(436)	4,065	46.6%
At 31 December 2020	9,492	11,450	20,942	100%	(221)	(2,006)	18,715	

	Amortised cost carrying value				Impairment		Total net of impairment	
	Stage 1	Stage 2	Total	Total	Stage 1	Stage 2	Total net of impairment	Impairment provisions
Risk rating category	€ 000	€ 000	€ 000	%	€ 000	€ 000	€ 000	%
5: Fair	1,083	-	1,083	0.2	(4)	-	1079	0.4%
6: Weak	3,714	-	3,714	69.8%	(204)	-	3,510	5.5%
7: Special attention	529	-	529	9.9%	(85)	-	444	16.1%
At 31 December 2019	5,326	-	5,326	100%	(293)	-	5,033	

At 31 December 2020 the Fund had no security arrangements for disbursed loan investments (2019: none).

Credit risk in the loan portfolio
As at 31 December 2020 there were distressed restructured loans[6] with a disbursed value of €5.5 million (2019: none).

Undrawn commitments

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

Risk rating	2020 € 000	2019 € 000
5: Fair	5,732	8,780
6: Weak	16,518	36,000
7: Special attention	6,300	3,757
At 31 December	28,550	48,537

The Fund would typically have conditions precedent that would need to be satisfied before further disbursements on its loan transactions.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at their carrying amount by country.

	Undrawn loan commitments 2020 € 000	Loans 2020 € 000	Undrawn loan commitments 2019 € 000	Loans 2019 € 000
Bosnia and Herzegovina	11,280	6,518	18,780	1,088
Bulgaria	-	3,934	3,675	-
Jordan	-	2,974	-	3,709
Moldova	82	441	82	529
Romania	5,000	-	5,000	-
Serbia	12,188	7,075	21,000	-
At 31 December	28,550	20,942	48,537	5,326

The following table breaks down the main credit risk exposures at their carrying amount by the industry sector of the project.

	Undrawn loan commitments 2020 € 000	Loans 2020 € 000	Undrawn loan commitments 2019 € 000	Loans 2019 € 000
Manufacturing and services	732	3,824	3,780	1,083
Municipal and environmental infrastructure	17,270	14,424	29,757	4,243
Power and energy	10,548	2,694	15,000	-
At 31 December	28,550	20,942	48,537	5,326

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

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

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal. The Fund also has a fixed rate loan investment. Based on reasonable basis point change in the underlying interest rates, this potential impact on the fund's net profit is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2020 € 000	United States dollars 2020 € 000	Total 2020 € 000
Total assets	**38,985**	**4,434**	**43,419**
Total liabilities	**(43,419)**	**-**	**(43,419)**
Net currency position at 31 December 2020	**(4,434)**	**4,434**	**-**

	Euro 2019 € 000	United States dollars 2019 € 000	Total 2019 € 000
Total assets	31,805	4,252	36,057
Total liabilities	(36,057)	-	(36,057)
Net currency position at 31 December 2019	(4,252)	4,252	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net loss from a 7 per cent strengthening or weakening (2019: 7 per cent) is €0.3 million (2019: €0.3 million).

Interest rate benchmark reforms
In 2017, the UK Financial Conduct Authority (FCA) announced that financial institutions would no longer be compelled to publish LIBOR rates after December 2021, signalling the effective end of Libor. Regulators globally have signalled clearly that firms should transition away from the London Interbank Offered Rate (LIBOR) to alternative overnight risk-free rates (RFRs).

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

To date, through the project, the Bank has successfully incorporated in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. This work is expected to be completed before the cessation of LIBOR. IT system changes required to accurately capture the new replacement reference rates have commenced and are expected to be completed during 2021.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan investments are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and pledged contributions and cannot borrow funds to finance operations. If the Fund has not received sufficient contributions to fund loan disbursements, payments under the loan agreement are not legally binding. The Fund recognises contributions received as a liability, which may be returned to a contributor upon termination of a contribution agreement. Amounts returned are based on the Fund's net assets and take into account existing commitments. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund (previously The EBRD Green Energy Special Fund) was approved by the Board of Directors ("the Board") of the Bank at its meeting of 29 March 2011 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 19 May 2011 following the signing of the first Contribution Agreement.

The Amendment to the Rules and Regulations of the Green Energy Special Fund including the change of name to "Special Fund for the High Impact Partnership on Climate Action" was approved by the Board of the Bank at its meeting of 11 December 2020.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Provisions for impairment of loan investments

Charge for the year	2020 € 000	2019 € 000
Portfolio provisions for the unidentified impairment of loan investments	(1,934)	(109)
Provisions for impairment of loan investments	**(1,934)**	**(109)**

Movement in provisions		
At 1 January	(293)	(184)
Charge for the year to the income statement	(1,934)	(109)
At 31 December	**(2,227)**	**(293)**
Representing:		
Portfolio provisions for the unidentified impairment of loan investments	(2,227)	(293)
At 31 December	**(2,227)**	**(293)**

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

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

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

Movement in provisions	12 month ECL (Stage 1) 2020 € 000	Lifetime ECL (Stage 2) 2020 € 000	Total 2020 € 000
As at 1 January	(293)	-	(293)
New loans originated	(32)		(32)
Transfer to stage 2 - significant increase in credit risk	255	(2,175)	(1,920)
Changes in model or risk parameters	(151)	169	18
As at 31 December	**(221)**	**(2,006)**	**(2,227)**

Movement in provisions	12 month ECL (Stage 1) 2019 € 000	Lifetime ECL (Stage 2) 2019 € 000	Total 2019 € 000
As at 1 January	(170)	(14)	(184)
New loans originated	(27)	-	(27)
Transfer to stage 1 - significant decrease in credit risk	(14)	14	-
Changes in model or risk parameters	(82)	-	(82)
As at 31 December	(293)	-	(293)

Movement in loans at amortised cost	Loans Stage 1 2020 € 000	Loans Stage 2 2020 € 000	Total 2020 € 000
As at 1 January	5,326	-	5,326
New banking loans originated	20,487	-	20,487
Transfer to stage 2 - significant increase in credit risk	(11,451)	11,451	-
Repayments	(478)	-	(478)
Day one fair value adjustment	(4,259)	-	(4,259)
Movement in effective interest rate adjustment	67	84	151
Foreign exchange and other movements	(285)	-	(285)
As at 31 December	**9,407**	**11,535**	**20,942**

Movement in loans at amortised cost	Loans Stage 1 2019 € 000	Loans Stage 2 2019 € 000	Total 2019 € 000
As at 1 January	3,946	704	4,650
New banking loans originated	1,220	-	1,220
Transfer to stage 1 - significant decrease in credit risk	704	(704)	-
Repayments	(600)	-	(600)
Day one fair value adjustment	(133)	-	(133)
Movement in effective interest rate adjustment	105	-	105
Foreign exchange and other movements	84	-	84
As at 31 December	5,326	-	5,326

4. Concessional loan discount

	2020 € 000	2019 € 000
At 1 January	(11,024)	(4,433)
Derecognition of liability on loan disbursement	4,259	133
Day one fair value adjustment	(35)	(6,724)
At 31 December	**(6,800)**	(11,024)

5. Loan investments

Operating assets	2020 € 000	2019 € 000
At 1 January	5,326	4,650
Disbursements	20,487	1,220
Day one fair value adjustment	(4,259)	(133)
Movement in effective interest rate adjustment	151	105
Repayments	(478)	(600)
Foreign exchange movements	(285)	84
At 31 December	20,942	5,326
Impairment at 31 December	(2,227)	(293)
Total loan investments net of impairment at 31 December	18,715	5,033

6. Analysis of current and non-current assets and liabilities

Assets	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000	Current 2019 € 000	Non-current 2019 € 000	Total 2019 € 000
Placements with credit institutions	24,660	-	24,660	30,974	-	30,974
Interest receivable	23	-	23	32	-	32
Commitment fees receivable	21	-	21	18	-	18
Loan investments						
Loans	1,655	19,287	20,942	1,532	3,794	5,326
Less: Provisions for impairment	(176)	(2,051)	(2,227)	(87)	(206)	(293)
Total assets	26,183	17,236	43,419	32,469	3,588	36,057
Liabilities						
Negative interest expense payable	(10)	-	(10)	(12)	-	(12)
Concessional loan discount	(6,800)	-	(6,800)	-	(11,024)	(11,024)
Contributor's resources	(19,373)	(17,236)	(36,609)	-	(25,021)	(25,021)
Total liabilities	(26,183)	(17,236)	(43,419)	(12)	(36,045)	(36,056)

7. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

8. Contributions

Pledged contributions not yet due	Executing agency	2020 € 000	2019 € 000
Total pledged	ICDF	64,070	65,188
Total received	ICDF	(47,776)	(34,013)
At 31 December		16,294	31,175

The next tranche of contributions can be called when the threshold of loan commitments have disbursed.

9. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

10. Related parties

The Fund's related parties are the Bank and the contributor, International Cooperation Development Fund (TaiwanICDF).

The Bank is entitled to charge the Fund a management fee of an amount equal to 1 per cent on contributions greater than €10 million and 2 per cent on contributions of less than €10 million. Contributions of €13,762,730 was received in 2020, and management fees of €126,668 was paid by the Fund to the Bank (2019: €131,752) and there are no accrued management fees payable by the Fund to the Bank as at 31 December 2020 (2019: nil).

External auditor's remuneration of €8,600 (2019: €7,300) is payable by the Bank from the management fee. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the Special Fund for the High Impact Partnership on Climate Action

Report on the audit of the financial statements

Opinion

In our opinion, the Special Fund for the High Impact Partnership on Climate Action's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 19 May 2011, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021

European Bank
for Reconstruction and Development

The Trust Fund for the West Bank and Gaza

Financial Report
31 December 2020

The Trust Fund for the West Bank and Gaza

Contents

The Trust Fund for the West Bank and Gaza

Statement of comprehensive income

For the year ended 31 December 2020

	Note	Year to 31 December 2020 € 000	Year to 31 December 2019 € 000
Interest and other similar income			
From loans at amortised cost		448	592
From loans at fair value through profit and loss		14	-
From credit institutions		61	173
Total interest income		523	765
Fee income		3	1
General adminstrative expenses and depreciation	3	(408)	(502)
Technical cooperation expenses	4	(525)	(344)
Financial guarantees movement		(104)	-
Impairment provision on loan investments	5	(1,442)	46
Management fees	8	(450)	(600)
Negative interest expense		(201)	(115)
Foreign exchange movement		(3,311)	362
Net loss and comprehensive expense for the year		(5,915)	(387)
Attributable to:			
Contributors		(5,915)	(387)

Balance sheet

At 31 December 2020

	Note	31 December 2020 € 000	31 December 2020 € 000	31 December 2019 € 000	31 December 2019 € 000
Assets					
Placements with credit institutions			62,118		58,264
Interest receivable			68		91
Share investments			4		-
Trade finance guarantees			12		-
Loan investments at fair value through profit and loss	6		282		-
Loan investments at amortised cost					
Loans	7	16,579		9,869	
Less: Provisions for impairment	5	(1,569)		(213)	
			15,010		9,656
Office equipment	9		7		9
Total assets			77,501		68,020
Liabilities and contributors' resources					
Other financial liabilities	10		694		414
Trade finance guarantees			116		-
Total liabilities			810		414
Contributions		85,000		70,000	
Reserves and accumulated loss		(8,309)		(2,394)	
Total contributors' resources			76,691		67,606
Total liabilities and contributors' resources			77,501		68,020
Memorandum items					
Undrawn commitments	12		11,193		4,234

The Trust Fund for the West Bank and Gaza

Statement of changes in contributors' resources

For the year ended 31 December 2020

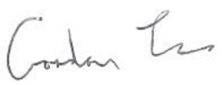
	Contributions	Accumluated loss	Total
	€ 000	**€ 000**	**€ 000**
At 31 December 2018	50,000	(2,007)	47,993
Contributions received	20,000	-	20,000
Total comprehensive expense for the year	-	(387)	(387)
At 31 December 2019	70,000	(2,394)	67,606
Contributions received	15,000	-	15,000
Total comprehensive expense for the year	-	(5,915)	(5,915)
At 31 December 2020	**85,000**	**(8,309)**	**76,691**

Statement of cash flows

For the year ended 31 December 2020

	Year to 31 December 2020		Year to 31 December 2019	
	€ 000	**€ 000**	€ 000	€ 000
Cash flows from operating activities				
Net loss for the year	(5,915)		(387)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Depreciation	2		14	
Effective interest rate adjustment on loans[1]	40		(16)	
Financial guarantees movement	104		-	
Impairment provision	1,442		(46)	
Foreign exchange movement	3,311		(362)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayments of loan investments	2,420		561	
Funds advanced for loans	(10,712)		(496)	
Front end fees received	68		-	
Funds advanced for share investments	(5)		-	
Working capital adjustment				
Movement in accrued expenses	280		198	
Movement in interest income	23		8	
Net cash used in operating activities		(8,942)		(526)
Cash flows from financing activities				
Contributions received	15,000		20,000	
Net cash from financing activities		15,000		20,000
Net increase in cash and cash equivalents		6,058		19,474
Cash and cash equivalents at the beginning of the year		58,264		38,619
Effect of foreign exchange rate changes		(2,204)		171
Cash and cash equivalents at 31 December		62,118		58,264

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Gordon Jones,
Director - Financial Control
Date: 13 May 2021

[1] Loan interest income and the effective interest rate adjustment on loans make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

Fund purpose

The purpose of the Trust Fund for the West Bank and Gaza ("the Fund") is to provide financial assistance to support the economic development of West Bank and Gaza ("WB&G") and thereby contribute to the stability and prosperity of the southern and eastern Mediterranean region.

The resources of the Fund may be used to finance:

- Technical assistance which involves the provision of project preparation and implementation in support of lending, guarantee or investment operational activities or other types of technical assistance, in support of activities that foster the economic development and transition of WB&G; and
- Non-technical assistance initiatives which are principally used to provide incentive fees or to pay for goods and works contracts in support of a lending, guarantee or investment operational activities in the WB&G; and
- Investment activities which may include guarantees, equity or debt financing.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The Bank on 13 May 2021, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

New and amended *IFRS mandatorily effective for the current reporting period*
There are a number of new standards and amendments to existing standards effective for the current reporting period which have negligible or no impact on the Fund's financial statements, namely:

- Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IFRS 3: Business Combinations

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Updates the standard with exemptions for Covid-19 related rent concessions. Effective for annual reporting periods beginning on or after 1 June 2020.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.

Pronouncement	Nature of change	Potential impact
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

IFRS not yet mandatorily effective but adopted early
On 27 August 2020, the IASB issued “Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)” with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. While the amendments have a mandatory application date for annual reporting periods beginning on or after 1 January 2021, the Fund has adopted these amendments in the current reporting period.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The share investment and one loan investment held by the Fund is measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are multiples applied to net asset value and earnings-based valuations to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

The Fund's share investment is recognised on a trade date basis.

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

Derecognition of financial assets

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

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

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

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

In August 2020, the IASB issued 'Interest Rate Benchmark Reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16', which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include changes to the basis for determining contractual cash flows because of the reform are required as a practical expedient to be treated as changes to a floating interest rate.

The Fund's exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €14.1 million (USD LIBOR) that mature in 2022 or later. These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. Note that the table excludes exposures to benchmark interest rates that will expire before transition is required.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis (the general provision).

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

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

Financial assets at amortised cost – nonperforming assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:

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

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Financial guarantees

The Fund currently provides guarantees to international commercial banks to cover the political and commercial payment risk of the transaction undertaken by participating banks in The West Bank and Gaza in relation to the trade facilitation programme.

When a guarantee is issued, it is initially recognised at its fair value. This is measured as the present value of the fees to be received by the Fund for the provision of those guarantees. This initial fair value represents both an asset for the Fund and a liability for the same amount.

Subsequently the guarantee liabilities are measured at the higher of the initial fair value less cumulative amortisation and the expected credit loss (ECL) at the balance sheet date. The guarantee assets are measured at the unamortised balance of the initial present value.

Financial guarantees are recognised within other financial assets and other financial liabilities.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

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

Statement of cash flows

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

Technical cooperation expenses

Technical cooperation expenses, which represents payments for services provided on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Interest and fees

Interest recorded using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

Fees earned in respect of services provided over a period of time, including loan commitment fees are recognised as income as the services are provided.

Office equipment

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

Office equipment	Ten years
Leasehold improvements	Lease term

All leasehold improvements were fully depreciated as at 31 December 2020.

Management fees and general administrative expenses

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received.

The Bank is also entitled to recover direct costs associated with the implementation of the operations of the Fund, these are recognised in the period the service is provided as ‘general administrative expenses’.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Judgements not involving estimation

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

C. Critical accounting estimates

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

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

Financial guarantees
The Fund's method for determining the fair value of financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained under credit risk within the risk management section of the report.

Provisions for the impairment of loan investments
The Fund’s method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section, credit risk is managed by the Bank. Accordingly, the risk management disclosures are based on the Bank’s risk processes and procedures.
In accordance with IFRS 9, ECL represents the average credit losses weighted by the PD whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan’s effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

In 2020, in addition to the modelled ECL thus calculated, the Bank has further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €599,000 (2019: €nil).

The purpose of this adjustment is to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model has yet to fully reflect the changes in economic circumstances in 2020. Specifically, this adjustment was based on assumptions around delayed PD rating downgrades, as weaker financial situation of some of the borrowers is confirmed or revealed through audited financial statements; and weakening of creditworthiness of financial institution clients once extraordinary government support measures are withdrawn and the magnitude of problem loans on their balance sheets becomes more apparent.

Point-in-time PD rates

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

The cumulative TTC PD rates used in 2020 and 2019 are set out by internal rating grade below:

2020 PD rating [4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.13%	0.23%	0.35%	0.48%
4.0	BBB	0.14%	0.40%	0.65%	1.07%	1.47%
5.0	BB	0.32%	0.90%	1.64%	2.54%	3.45%
6.0	B	1.35%	2.89%	4.15%	5.33%	6.29%
7.0	CCC	8.70%	12.78%	16.34%	19.17%	21.55%

2019 PD rating	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.03%	0.12%	0.21%	0.31%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.36%
3.0	A	0.05%	0.14%	0.24%	0.37%	0.50%
4.0	BBB	0.15%	0.42%	0.68%	1.10%	1.50%
5.0	BB	0.31%	0.92%	1.70%	2.65%	3.61%
6.0	B	1.39%	2.95%	4.22%	5.40%	6.37%
7.0	CCC	8.87%	12.99%	16.71%	19.80%	22.45%

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

The Bank has broken down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession therefore considering two distinct forward-looking macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 85 per cent at the end of 2020 (2019: 81 per cent). Whilst the weighted average projected growth has increased slightly year on year, this reflects an expectation that the significant downturn in 2020 will be reversed, rather than an incremental growth as compared to end 2019 GDP levels. Given the regions in which the Bank operates, and the related scarcity of historical macro-financial data, no other variable besides GDP growth has been assessed significant in establishing PIT PD rates. Consequently, forward-looking country-specific probabilities of macroeconomic growth and recession are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss Given Default rates

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

[4] The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure At Default

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

Sensitivity analysis

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

Adjusted risk parameter	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %	Recalculated provision 2019 €000	Change in provision 2019 €000	Change in provision 2019 %
2020 portfolio provision (Stages 1 and 2)	1,569			213		
Staging						
All loans in Stage 1	1,569	-	-	213	-	-
All loans in Stage 2	1,705	136	9%	317	104	49%
PD Ratings						
All loans upgraded 1 notch	1,269	(300)	(19)%	142	(71)	(33)%
All loans downgraded 1 notch	1,609	40.00	0.03	246	33	15%
All loans upgraded 3 notches	863	(706)	(45)%	57	(156)	(73)%
All loans downgraded 3 notches	1,817	248.00	0.16	454	241	113%
Projected GDP						
Projected GDP increased by 1%	1,537	(32.00)	(0.02)	203	(10)	(5)%
Projected GDP decreased by 1%	1,604	35	2%	236	23	11%
Projected GDP increased by 5%	1,446	(123.00)	(0.08)	197	(16)	(8)%
Projected GDP decreased by 5%	1,779	210	13%	426	213	100%
LGD						
All loans decreased by 10%	1,353	(216)	(14)%	166	(47)	(22)%
All loans increased by 10%	1,784	215	14%	260	47	22%
EAD						
All undrawn commitments cancelled	970	(599)	(38)%	213	-	0%
All undrawn commitments disbursed within one month	1,569	-	0%	217	4	2%
PD Rates - weighting of Bank data and external data						
Increase weighting of Bank data by 10%	1,442	(127)	(8)%	184	29	(14)%
Decrease weighting of Bank data by 10%	1,696	127	8%	242	(29)	14%

Risk management

Not all financial risks are actively managed by the Fund. Credit risk is managed in line with Bank policies. The Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired. The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet.

Credit risk management and measurement

The Fund participates in the financing of investments in WB&G. It benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

All Banking projects in WB&G (both debt and equity transactions) are reviewed by the Operations Committee prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio at least on an annual basis. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level reporting
Management provides the Board with quarterly updates on activities in WB&G. These updates form a part of wider reports on the development of the Bank's portfolio, which are discussed at the Audit Committee of the Board. The reports include a summary of key factors affecting the portfolio and provide analysis and commentary on trends within the portfolio and various sub-portfolios. They also include reporting on compliance with all portfolio risk limits including an explanation of any limit breaches.

In addition, on an annual basis, Management provides the Board with narrative and financial reports in respect of the operational activities financed with, and the utilisation of, the resources of the Fund, including information on the current status of the approved, committed and disbursed resources.

EBRD internal ratings

Probability of default ratings (PD ratings)
The Bank assigns its internal risk ratings to all counterparties in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. For operations in WB&G, probability of default ratings are normally capped by the rating of the territory's government, except where the Bank has recourse to a guarantor from outside the territory which may have a better rating.

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

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)
NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified at the internal risk rating range of 3 (approximately A+ to A- in terms of S&P equivalent).

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

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

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

	Amortised cost carrying value			**Impairment**	**Total net of impairment**	
Risk rating category	**Stage 1 € 000**	**Total € 000**	**Total %**	**Stage 1 € 000**	**Total net of impairment € 000**	**Impairment provisions %**
6: Weak	4,588	4,588	27.7%	(41)	4,547	0.9%
7: Special Attention	11,991	11,991	72.3%	(1,528)	10,463	12.7%
At 31 December 2020	**16,579**	**16,579**	**100.0%**	**(1,569)**	**15,010**	

	Amortised cost carrying value			Impairment	Total net of impairment	
Risk rating category	Stage 1 € 000	Total € 000	Total %	Stage 1 € 000	Total net of impairment € 000	Impairment provisions %
6: Weak	5,952	5,952	60.3%	(37)	5,915	0.6%
7: Special Attention	3,917	3,917	39.7%	(176)	3,741	4.5%
At 31 December 2019	9,869	9,869	100.0%	(213)	9,656	

At 31 December 2020 the Fund had security arrangements in place for €1.8 million of its disbursed loan investments (2019: €1.5 million).

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

	Fair value 2020 € 000	Fair value 2019 € 000
7: Special Attention	282	-
At 31 December	282	-

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

Risk category	Undrawn loan commitments 2020 € 000	Guarantees 2020 € 000	Undrawn loan commitments 2019 € 000	Guarantees 2019 € 000
6: Weak	-	2,444	623	2,672
7: Special attention	8,268	295	440	-
At 31 December	8,268	2,739	1,063	2,672

Concentration of credit risk exposure on loan investments
The following table breaks down the main credit risk exposures at the carrying amount by geographical region.

	Undrawn loan commitments and guarantees 2020 € 000	Loans 2020 € 000	Undrawn loan commitments and guarantees 2019 € 000	Loans 2019 € 000
Egypt*	2,444	-	2,672	-
Jordan*	-	1,749	623	1,537
West Bank and Gaza	8,563	15,112	440	8,332
At 31 December	11,007	16,861	3,735	9,869

*These loans and guarantees are issued to companies headquartered in Egypt and Jordan, but will be used for projects benefiting the West Bank and Gaza.

The following table breaks down the main credit risk exposures at the carrying amount by industry.

	Undrawn loan commitments and guarantees 2020 € 000	Loans 2020 € 000	Undrawn loan commitments and guarantees 2019 € 000	Loans 2019 € 000
Depository credit (banks)	10,886	13,628	2,672	8,332
Educational services	121	282	440	-
Health care and social assistance	-	1,749	623	1,537
Non-depository Credit (non-bank)	-	1,202	-	-
At 31 December	11,007	16,861	3,735	9,869

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The driver of market risk for the Fund is interest rate risk, foreign exchange risk and equity risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

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 fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements and floating rate loan investments are repriced to market interest rates within one and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

The Fund also has a fixed rate loan investment. Based on a reasonable basis point change in the underlying interest rates, the potential impact to the Fund's net profit is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2020 € 000	United States dollars 2020 € 000	Israeli new shekel 2020 € 000	Total 2020 € 000
Total financial assets	40,006	37,476	12	**77,494**
Total financial liabilities	(672)	(22)	(116)	**(810)**
Net currency position at 31 December 2020	**39,334**	**37,454**	**(104)**	**76,684**

	Euro 2019 € 000	United States dollars 2019 € 000	Israeli new shekel 2019 € 000	Total 2019 € 000
Total financial assets	34,976	33,035	-	68,011
Total financial liabilities	(414)	-	-	(414)
Net currency position at 31 December 2019	34,562	33,035	-	67,597

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net loss, from a 7 per cent strengthening or weakening of the USD (2019: 7 per cent) is +/- €2.6 million (2019: €2.7 million).

Based on the average five year absolute rolling average movement in the ILS to euro exchange rate, the potential impact on the Fund's net profit, from a 5 per cent strengthening or weakening of the ILS is nil.

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, the potential impact to the Fund's net profit is considered to be minimal.

Interest rate benchmark reforms
In 2017, the UK Financial Conduct Authority (FCA) announced that financial institutions would no longer be compelled to publish LIBOR rates after December 2021, signalling the effective end of Libor. Regulators globally have signalled clearly that firms should transition away from the London Interbank Offered Rate (LIBOR) to alternative overnight risk-free rates (RFRs).

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

To date, through the project, the Bank has successfully incorporated in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. This work is expected to be completed before the cessation of LIBOR. IT system changes required to accurately capture the new replacement reference rates have commenced and are expected to be completed during 2021.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that operations are financed from the resources of the Fund, which comprise of contributions received.
Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund also recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Trust Fund

The creation of the Fund was approved by the Board of Governors ("the Board") on 10 May 2017 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Guidelines of the Fund. The Fund became effective after the Governors of the Bank adopted Resolution No. 203 *2016 Net Income Allocation* and Resolution No. 204 *EBRD's Engagement in the West Bank and Gaza* during its Annual Meeting on 10 May 2017.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 20.1 (vii) of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but the privileges and immunities available to the Bank are extended to the Fund.

2. Statement of Bank's responsibilities

The European Bank for Reconstruction and Development (the "Bank") is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless they are satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. General administrative expenses and depreciation

The Fund bears the administrative expenses of the Bank in relation to the operations of the Fund and the direct costs associated with the origination and implementation of investment operations through the Fund.

	2020	2019
	€ 000	€ 000
General administrative expenses	**406**	488
Depreciation charge	**2**	14
At 31 December	**408**	502

4. Technical cooperation expenses

	Commitments approved € 000	**Technical cooperation expenses € 000**	**Undrawn commitments € 000**
Total projects			
At 31 December 2018	168	(123)	45
Movement in the period	793	(344)	449
At 31 December 2019	961	(467)	494
Movement in the period	333	(525)	(192)
At 31 December 2020	**1,294**	**(992)**	**302**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December.

5. Provisions for impairment of loan investments

(Charge)/release for the period	2020 € 000	2019 € 000
Impairment of loan investments at amortised cost in stage 1	(1,442)	46
Provisions for impairment of loan investments	**(1,442)**	**46**

Movement in provisions		
At 1 January	(213)	(254)
(Charge)/release for the year to the income statement	(1,442)	46
Foreign exchange adjustments	86	(5)
At 31 December	**(1,569)**	**(213)**
Representing:		
Stage 1 provisions for loan investments at amortised cost	(1,569)	(213)
At 31 December	**(1,569)**	**(213)**

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

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

Set out below is an analysis of the movements in loan investments and the associated impairment provisions for each of the stages of impairment. As at 31 December 2020, the Fund has no loan investments or undrawn commitments in Stage 2 or Stage 3 (2019: none).

Movement in provisions	12-month ECL Stage 1 and total 2020 € 000	12-month ECL Stage 1 and total 2019 € 000
At 1 January	(213)	(254)
New loans originated	(1,338)	(12)
Changes in model or risk parameters	(104)	58
Foreign exchange and other movements	86	(5)
At 31 December 2020	**(1,569)**	**(213)**

Movement in loans at amortised cost	Loans Stage 1 and total 2020 € 000	Loans Stage 1 and total 2019 € 000
At 1 January	9,869	9,722
New banking loans originated	10,404	496
Repayments/settlements	(2,420)	(561)
Movement in effective interest rate adjustment	(109)	16
Foreign exchange and other movements	(1,165)	196
At 31 December	**16,579**	**9,869**

6. Loan investments at fair value through profit and loss

	2020 € 000	2019 € 000
Carrying amount as at 1 January	-	-
Disbursements	308	-
Foreign exchange movement	(26)	-
Carrying amount as at 31 December	**282**	-

7. Loan investments at amortised cost

Operating assets	2020 € 000	2019 € 000
At 1 January	9,869	9,722
Disbursements	10,404	496
Repayments	(2,420)	(561)
Movement in effective interest rate adjustment	(109)	16
Foreign exchange movements	(1,165)	196
At 31 December	16,579	9,869
Impairment at 31 December	(1,569)	(213)
Total loan investments net of impairment at 31 December	15,010	9,656

8. Related parties

The Fund's only related party is the Bank.

Management fees of €450,000 (2019: €600,000) were paid during the period and there were no accrued management fees payable by the Fund to the Bank at period end. During the period the Bank incurred €406,000 (2019: €488,000) of general administrative expenses on behalf of the Fund, of which €89,000 (2019: €73,000) remains payable to the Bank at period end (note 3 and note 10).

External auditors' remuneration of €8,600 (2019: €7,300) is payable by the Bank from the management fee. The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

9. Office equipment

Cost	Office equipment 2020 € 000	Leasehold improvements 2020 € 000	Total 2020 € 000
At 1 January	11	20	31
At 31 December	11	20	31
Depreciation			
At 1 January	(2)	(20)	(22)
Charge	(2)	-	(2)
At 31 December	(4)	(20)	(24)
Net book value at 31 December	7	-	7

Cost	Office equipment 2019 € 000	Leasehold improvements 2019 € 000	Total 2019 € 000
At 1 January	11	20	31
At 31 December	11	20	31
Depreciation			
At 1 January	(1)	(7)	(8)
Charge	(1)	(13)	(14)
At 31 December	(2)	(20)	(22)
Net book value at 31 December	9	-	9

10. Other financial liabilities

	2020 € 000	2019 € 000
General administrative expense payable	89	73
Accrued technical cooperation expense	582	326
Accrued negative interest rate expense	23	15
At 31 December	**694**	414

11. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	**Current 2020 € 000**	**Non-current 2020 € 000**	**Total 2020 € 000**	Current 2019 € 000	Non-current 2019 € 000	Total 2019 € 000
Placements with credit institutions	62,118	-	62,118	58,264	-	58,264
Interest receivable	68	-	68	91	-	91
Share investments	-	4	4	-	-	-
Trade finance guarantees	12	-	12	-	-	-
Loan investments at fair value through profit and loss	282	-	282	-	-	-
Loan investments at amortised cost	8,381	8,198	16,579	2,474	7,395	9,869
Provisions for impairment	(793)	(776)	(1,569)	(53)	(160)	(213)
Office equipment	-	7	7	-	9	9
Total assets	70,068	7,433	77,501	60,776	7,244	68,020
Liabilities						
Accrued expenses	(694)	-	(694)	(414)	-	(414)
Trade finance guarantees	(116)	-	(116)	-	-	-
Total liabilities	(810)	-	(810)	(414)	-	(414)

12. Undrawn commitments and guarantees

Analysis by instrument	2020 € 000	2019 € 000
Undrawn commitments		
Loan investments at amortised cost	8,147	1,063
Loan investments at fair value through profit and loss	121	-
Share investments	-	5
Technical cooperation expenses	302	494
At 31 December	**8,570**	1,562
Guarantees		
Trade finance guarantees	2,623	2,672
At 31 December	**2,623**	2,672
Undrawn commitments and guarantees at 31 December	**11,193**	4,234

13. Events after the reporting period

Events after the reporting period that are indicative of conditions that arose after the reporting period do not lead to adjustment of the financial statements, but are disclosed in the event that they are material. There have been no such non-adjusting events requiring disclosure.

At 13 May 2021 there had been no other material events after the reporting period to disclose.

On 13 May 2021 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of the Trust Fund for the West Bank and Gaza

Report on the audit of the financial statements

Opinion

In our opinion, the Trust Fund for the West Bank and Gaza's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and of its loss and cash flows for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund'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 fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

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.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 10 May 2017, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021 and 12 April 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2021