Income statement

These financial statements have been approved for issue by the Board of Directors on 6 April 2022.

For the year ended 31 December 2021	Note	Year to 31 Dec 2021 € million	Restated[20] Year to 31 Dec 2020 € million
Interest income			
From Banking loans		1,091	1,045
From fixed-income debt securities and other interest		173	222
		1,264	1,267
Other interest			
Interest expense and similar charges		(272)	(468)
Net interest expense on derivatives		(109)	(35)
Net interest income	3	**883**	**764**
Fee and commission income		103	109
Fee and commission expense		(32)	(29)
Net fee and commission income	4	**71**	**80**
Donor-related income		18	10
Donor-related expense		(10)	(10)
Net donor-related income		**8**	**-**
Dividend income		146	112
Net gains from share investments at fair value through profit or loss	5	1,510	212
Net gains/(losses) from loans	6	54	(37)
Net gains from Treasury assets held at amortised cost	7	2	2
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	8	78	105
Fair value movement on non-qualifying and ineffective hedges	9	60	(3)
Impairment provisions on Banking loan investments	10	161	(478)
Impairment provisions on guarantees		3	(1)
General administrative expenses	11	(415)	(414)
Depreciation and amortisation	20, 21	(59)	(52)
Net profit		**2,502**	**290**
Attributable to:			
Equity holders		2,502	290
Memorandum items			
Transfers of net income approved by the Board of Governors	26	(80)	(115)
Net profit after transfers of net income approved by the Board of Governors		2,422	175

Pages 17 to 86 are an integral part of these financial statements.

[20] For details of the restatement please see page 27 in the "Accounting policies" section.

Statement of comprehensive income

For the year ended 31 December 2021	Note	Year to 31 December 2021 € million	Year to 31 December 2020 € million
Net profit		**2,502**	**290**
Other comprehensive income			
1: Items that will not be reclassified subsequently to profit or loss			
– Gains/(losses) on share investments designated as fair value through other comprehensive income	19	26	(7)
– Actuarial gains/(losses) on defined benefit scheme	29	71	(10)
2: Items that may be reclassified subsequently to profit or loss			
– Gains on cash flow hedges		-	(1)
– Losses on fair value hedges		(26)	(69)
– Losses on loans measured at fair value through other comprehensive income		(39)	(27)
Other comprehensive income		**32**	**(114)**
Total comprehensive income		**2,534**	**176**
Attributable to:			
Equity holders		2,534	176

Pages 17 to 86 are an integral part of these financial statements.

Balance sheet

At 31 December 2021	Note	€ million	31 Dec 2021 € million	€ million	31 Dec 2020 € million
Assets					
Placements with and advances to credit institutions	12	22,619		18,690	
Debt securities	13				
At fair value through profit or loss		1,050		1,741	
At amortised cost		10,304		11,243	
			33,973		31,674
Other financial assets	14				
Derivative financial instruments		4,960		5,030	
Other financial assets		470		444	
			5,430		5,474
Loan investments					
Loans at amortised cost	15	27,208		26,016	
Less: Provisions for impairment	10	(963)		(1,141)	
Loans at fair value through other comprehensive income	16	1,907		2,280	
Loans at fair value through profit or loss	17	575		319	
			28,727		27,474
Share investments					
Banking portfolio:					
At fair value through profit or loss	18	6,010		4,872	
Treasury portfolio:					
Share investments at fair value through other comprehensive income	19	131		105	
			6,141		4,977
Intangible assets	20		110		77
Property and equipment	21		392		96
Total assets			**74,773**		**69,772**
Liabilities					
Borrowings					
Amounts owed to credit institutions and other third parties	22	1,000		1,353	
Debts evidenced by certificates	23	49,126		46,926	
			50,126		48,279
Other financial liabilities	24				
Derivative financial instruments		3,133		2,733	
Other financial liabilities		1,169		869	
			4,302		3,602
Total liabilities			**54,428**		**51,881**
Members' equity attributable to equity holders					
Paid-in capital	25	6,217		6,217	
Reserves and retained earnings	26	14,128		11,674	
Total members' equity			**20,345**		**17,891**
Total liabilities and members' equity			**74,773**		**69,772**
Memorandum items					
Undrawn commitments	27		15,867		15,081

Pages 17 to 86 are an integral part of these financial statements.

Statement of changes in equity

	Subscribed capital € million	Callable capital € million	Revaluation reserve € million	Hedging reserve € million	Actuarial remeasurement € million	Retained earnings € million	Total equity € million
At 31 December 2019	29,755	(23,538)	145	41	22	11,405	17,830
Total comprehensive income for the year	-	-	(34)	(70)	(10)	290	176
Transfers of net income approved by the Board of Governors	-	-	-	-	-	(115)	(115)
At 31 December 2020	29,755	(23,538)	111	(29)	12	11,580	17,891

	Subscribed capital € million	Callable capital € million	Revaluation reserve € million	Hedging reserve € million	Actuarial remeasurement € million	Retained earnings € million	Total equity € million
At 31 December 2020	**29,755**	**(23,538)**	**111**	**(29)**	**12**	**11,580**	**17,891**
Total comprehensive income for the year	-	-	(13)	(26)	71	2,502	2,534
Transfers of net income approved by the Board of Governors	-	-	-	-	-	(80)	(80)
Capital contributions	4	(4)	-	-	-	-	-
At 31 December 2021	**29,759**	**(23,542)**	**98**	**(55)**	**83**	**14,002**	**20,345**

Refer to note 26 "Reserves and retained earnings" on page 76 for a further explanation of the Bank's reserves.

Pages 17 to 86 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2021	Note	€ million	Year to 31 Dec 2021 € million	€ million	Year to 31 Dec 2020 € million
Cash flows from operating activities					
Net profit for the year		2,502		290	
Adjustments to reconcile net profit to net cash flows:					
Non-cash items in the income statement					
Depreciation and amortisation	20,21	59		52	
Net provisions (release)/charge for Banking loan losses and guarantees	10	(164)		479	
Fair value movement on share investments	5	(1,510)		(212)	
Fair value movement on loans held at fair value through profit or loss	6	(54)		37	
Fair value movement on Treasury investments	8	(78)		(105)	
Other unrealised fair value movements		(60)		-	
Cash flows from the sale and purchase of operating assets					
Proceeds from repayments of Banking loans		7,925		6,349	
Funds advanced for Banking loans		(8,463)		(9,664)	
Proceeds from sale of Banking share investments		1,005		807	
Funds advanced for Banking share investments		(579)		(393)	
Net cash flows from Treasury derivative settlements		(230)		(759)	
Net placements to credit institutions		(2,310)		(2,765)	
Working capital adjustment:					
Movement in interest income		35		281	
Movement in interest expense		26		(70)	
Movement in net fee and commission income		(2)		7	
Movement in dividend income		-		(2)	
Movement in accrued expenses		49		23	
Net cash used in operating activities			**(1,849)**		**(5,645)**
Cash flows from investing activities					
Proceeds from debt securities at amortised cost		6,939		5,938	
Purchases of debt securities at amortised cost		(5,758)		(5,694)	
Proceeds from debt securities at fair value through profit or loss		5,399		2,671	
Purchases of debt securities at fair value through profit or loss		(4,600)		(2,652)	
Purchase of intangible assets, property and equipment		(84)		(32)	
Cash flows from investing activities			**1,896**		**231**
Cash flows from financing activities					
Capital received		2		-	
Transfers of net income paid		(113)		(62)	
Lease liability payments		(23)		(32)	
Issue of debts evidenced by certificates		14,955		28,065	
Redemption of debts evidenced by certificates		(13,634)		(23,723)	
Net cash from financing activities			**1,187**		**4,248**
Net increase/(decrease) in cash and cash equivalents			**1,234**		**(1,166)**
Cash and cash equivalents at beginning of the year			**3,942**		**5,108**
Cash and cash equivalents at 31 December[21]	**12**		**5,176**		**3,942**

Cash and cash equivalents are amounts with less than three months to maturity from the date of the transactions, which are available for use at short notice and are subject to insignificant risk of change in value. Within the 31 December 2021 balance is €4 million restricted for technical assistance to be provided to member economies in the SEMED region (2020: €5 million).

Interest received was €1,439 million (2020: €2,042 million) and interest paid was €742 million (2020: €1,271 million).

Pages 17 to 86 are an integral part of these financial statements.

[21] See note 12 on page 69 for total amounts in "Placements with and advances to credit institutions".

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. In addition, financial assets and liabilities subject to amortised cost measurement which form part of a qualifying hedge relationship have been accounted for in accordance with hedge accounting rules – see "Derivative financial instruments and hedge accounting" on page 20.

The financial statements have been prepared on a going concern basis. The Bank's Board of Directors considered the Bank's ongoing financial sustainability when approving the Bank's "Strategy Implementation Plan 2022-24" in December 2021, which analysed the Bank's capital and liquidity position. The going concern assessment was confirmed by the President and Vice President, Chief Financial Officer on 6 April 2022, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's policies. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" on page 18 and "Critical accounting estimates" on page 27.

New and amended IFRS mandatorily effective for the current reporting period

In 2020 the Bank adopted early the amendments for "Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS4 and IFRS 16)". These became mandatorily effective for the current reporting period.

In addition there was one further amendment to existing standards, effective for the current reporting period, which has no impact on the Bank's financial statements, namely:

- Amendments to IFRS 16: Leases: Covid-19-Related Rent Concessions.

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	Extends by one year the Covid-19-Related Rent Concessions amendment. Effective for annual reporting periods beginning on or after 1 April 2021.	The Bank anticipates no impact as a result of adopting the changes to the standard.
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 Bank anticipates no impact as a result of adopting the changes to the standard.
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 Bank anticipates no material impact as a result of adopting the changes to the standard.
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 Bank anticipates no impact as a result of adopting the changes to the standard.
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 Bank anticipates no material impact as a result of adopting the 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 Bank anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Bank has yet to assess the impact of adopting the changes to this standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	The amendments aim to help entities provide accounting policy disclosures that are more useful by: • Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and • Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy. Effective for annual reporting periods beginning on or after 1 January 2023.	The Bank anticipates no material impact as a result of adopting the changes to the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Bank anticipates no impact as a result of adopting the changes to the standard.

B. Significant accounting policies and judgements

Financial assets – classification and measurement

The classification of the Bank'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 Bank's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

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

Financial assets at fair value through other comprehensive income

The Bank accounts for a small number of strategic equity investments[22] at fair value through other comprehensive income with no recycling of such fair value gains or losses through the income statement on derecognition. Dividend income received on these investments is recognised in the income statement. Such a classification is available only for equity investments that are not held for trading purposes, following an irrevocable election to do so at the point of initial recognition.

In addition to the above class of financial assets at fair value through other comprehensive income, a category is available whereby gains or losses recognised in other comprehensive income are subsequently recognised in the income statement. An investment is classified as "fair value through other comprehensive income" in this manner only if both of the following criteria are met: the objective of the Bank'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.

A subsection of the Bank's loan 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 fair value, but until derecognition the amounts recorded in the income statement are the interest income measured using the effective interest method less any impairment. The difference between the fair value movements and the amounts recorded in the income statement is recognised in the statement of other comprehensive income. Upon derecognition the fair value gains or losses previously recognised as other comprehensive income are then recycled to the income statement. The Bank's financial assets at fair value through other comprehensive income are recognised at settlement date.

Financial assets at fair value through profit or loss

If neither of the classifications above apply, the financial asset is classified as "fair value through profit or loss". The presence of an embedded derivative, or other features which could potentially change the cash flows arising on a financial asset so that they no longer represent solely payments of principal and interest, requires that instrument to be classified at fair value through profit or loss, an example being a convertible loan.

[22] See note 19 to the financial statements on page 71.

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

The Bank's share investments – equity investments held within its Banking portfolio – are measured at fair value through profit or loss, including associate investments. The Bank considers the latter to be venture capital investments for which IAS 28: Investments in Associates and Joint Ventures does not require the equity method of accounting. This is a critical judgement. The Bank's financial objectives through these investments are to generate returns from capital appreciation and dividend income. The Bank plays no active role in their management and their performance is measured by the Bank on a fair value basis.

The basis of fair value for listed share investments in an active market is the quoted bid market price on the balance sheet date. The basis of fair value for share investments that are either unlisted or listed in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are net asset value and earnings-based valuations, to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

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

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

Derecognition of financial assets

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

1) substantially all the risks and rewards of the asset or

2) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

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

Financial liabilities

With the exception of derivative instruments that must be measured at fair value, and the Bank's obligations to the Equity Participation Fund,[23] the Bank does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost, unless they qualify for hedge accounting in which case the amortised cost is adjusted for the fair value movements attributable to the risks being hedged. Liabilities are recognised when the Bank becomes party to the contractual provisions of the instrument.

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

Where a financial liability contains an embedded derivative, which is of a different economic character to the host instrument, that embedded derivative is bifurcated and measured at fair value through the income statement. IFRS 9 does not require bifurcation of embedded derivatives in the case of financial assets.

Contingent liabilities

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

[23] See note 31 on page 84 for further details on the Equity Participation Fund.

Derivative financial instruments and hedge accounting

The Bank primarily makes use of derivatives for five purposes:

1) To swap the majority of the Bank's issued securities, excluding commercial paper, back to back so as to convert the issuance proceeds into the currency and interest rate structure sought by the Bank.
2) To manage the net interest rate risks and foreign exchange risks arising from all of its financial assets and liabilities.
3) To provide potential exit strategies for its unlisted equity investments through negotiated put and call options.
4) Through currency swaps, to manage funding requirements for the Bank's loan portfolio.
5) To manage the foreign exchange risks arising from the Bank's expenses, the majority of which are incurred in pound sterling.

All derivatives are measured at fair value through profit and loss unless they form part of a qualifying cash flow hedge, in which case the fair value movement is taken into reserves and released into the income statement at the same time as the risks on the hedged cash flows are recognised therein. Any hedge ineffectiveness will result in the relevant proportion of the fair value movement remaining in the income statement.

Derivative fair values are derived primarily from discounted cash flow (DCF) models, option pricing models and from third party quotes. Derivatives are carried as assets when their fair values are positive and as liabilities when their fair values are negative.

The Bank applies additional valuation measures for its over-the-counter (OTC)[24] derivatives portfolio to reflect credit and funding cost adjustments which the Bank reasonably anticipates will be incorporated into the exit price for such instruments.

In line with market practice, the Bank also applies valuation adjustments to these derivatives attributable to "cheapest-to-deliver" factors, reflecting the value of terms and conditions relating to the posting of collateral in the Bank's Credit Support Annexes (CSA) to the ISDA Master Agreements.

The valuation adjustment deriving from these factors is detailed within the "Risk management" section of the report on page 43.

Hedge accounting

Hedge accounting is designed to bring accounting consistency to financial instruments that would not otherwise be permitted. A valid hedge relationship exists when a specific relationship can be identified between two or more financial instruments in which the change in value of one instrument (the hedging instrument) is highly negatively correlated to the change in value of the other (the hedged item).

The Bank applies IFRS 9 hedge accounting treatment to individually identified hedge relationships. The Bank documents the relationship between hedging instruments and hedged items upon initial recognition of the transaction. The Bank also documents its assessment, on an ongoing basis, of whether the derivatives that are used in hedging transactions have an economic relationship with the hedged items, offsetting changes their fair values or cash flows.

The gains and losses associated with these hedge relationships are recognised within "Fair value movement on non-qualifying and ineffective hedges". Also included within this caption of the income statement are the gains and losses attributable to derivatives that the Bank uses for managing interest-rate risk on a macro basis, but for which the Bank does not apply hedge accounting.

Fair value hedges

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

To qualify for hedge accounting under IFRS 9, there must be a demonstrable economic relationship between the hedged item and the hedging instrument, where credit risk is not a dominant factor in the value changes expected in that relationship.

One of the principal causes of ineffectiveness in the Bank's fair value hedging relationships is the foreign currency basis spread, a pricing factor applicable to the cross-currency swaps designated as hedging items in many of the Bank's hedge relationships. Changes in foreign currency basis risk leads to hedge ineffectiveness as it causes movements in the value of the hedging instrument, the cross-currency swap, but does not directly lead to movements in the value of the hedged item. The Bank applies the option available under IFRS 9 to separate the foreign currency basis spread of a financial instrument in a hedging relationship, with changes in its value recognised in "Other comprehensive income". The amounts recognised in "Other comprehensive income" are subsequently amortised through the income statement over the remaining life of the hedging relationship in "Fair value movement on non-qualifying and ineffective hedges".

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

Any remaining ineffectiveness arising from the Bank's fair value hedging relationships after separating the foreign currency basis risk is recognised in "Fair value movement on non-qualifying and ineffective hedges" in the income statement.

Cash flow hedges

The Bank typically engages in cash flow hedges to minimise the exchange rate risk associated with the fact that the majority of its administrative expenses are incurred in pound sterling. The amount and timing of such hedges fluctuate in line with the Bank's view on opportune moments to execute the hedges. The movement in the fair value of these hedges is recognised as other comprehensive income until such time as the relevant expenditure is incurred, when the hedge gains or losses will be reflected as part of the euro-equivalent expenses for the year. At 31 December 2021 the Bank had yet to hedge any of the 2022 budgeted cash flows.

For further information on risk and related management policies see the "Risk management" section of this report on page 31.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Bank is exposed have undergone reform. The reforms are intended to create a more transparent system that minimises the reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, non-US dollar LIBORs (that is all GBP, EUR, CHF and JPY LIBOR settings) and the one-week and two-month USD LIBORs are no longer published. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) will no longer be published after 30 June 2023.

The International Swaps and Derivatives Association (ISDA) published its IBOR fallback protocols, which are designed to address the transition for those derivative contracts that are still yet to transition to the new benchmarks, on 25 January 2021. However, market participants are encouraged to amend or close out existing IBOR contracts, rather than waiting to use the fallback mechanism.

In September 2019, the IASB issued "Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7". As a result of the ongoing interest rate benchmark reforms there will be a period of uncertainty before affected hedged items or hedging instruments are amended. These IASB amendments modify specific hedge accounting requirements to allow hedge accounting to continue during this period. In applying the amendments the Bank has made the following significant assumptions and judgements:

1) The interest rate benchmark reform specifically will not affect the probability of occurrence of cash flows for hedging relationships and as such the Bank will continue to meet the qualifying criteria for cash flow hedge accounting.

2) As part of the Bank's ongoing assessment of hedging relationships, on whether the financial instruments used in the hedging transactions have an economic relationship with the hedged items, offsetting changes their fair values or cash flows, the Bank will assume that the interest rate benchmark reform will not affect the future cash flows. As such, the Bank will continue to apply hedge accounting for qualifying hedging relationships.

In August 2020, complementing the earlier amendments issued in 2019, 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:

1) 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.

2) The Bank's hedging relationships may continue upon the replacement of an existing interest rate benchmark with a risk-free rate. The reliefs require the Bank to amend the hedge designations and hedge documentation.

These amendments are relevant to the Bank in that the majority of the Bank's hedging relationships contain exposure to affected interest rate benchmarks. Uncertainty over the future cash flows of instruments in a hedging relationship could lead to the discontinuation of the hedge under the unadjusted accounting standards. The adoption of the amendments allows the Bank's hedge accounting relationships to continue to qualify for hedge accounting during the current period of transition.

The Bank is exposed, through its hedging instruments in fair value hedging relationships, to interest rate benchmarks which are subject to the reforms described above. The Bank's exposures through these instruments are listed in the table below.

At 31 December 2021 Hedged item	Benchmark	Pay/Receive	Matures pre 30 Jun 2023 Nominal € million	Matures 30 Jun 2023 or later Nominal € million	Total Nominal € million	Transition progress
Debt securities	GBP LIBOR	Receive	32	38	70	Transitioned to SONIA in January 2022
	USD LIBOR	Receive	1,750	4,999	6,749	Expected to transition to RFR by 30 June 2023
Debts evidenced by certificates	EUR LIBOR	Pay	-	179	179	Transitioned to EURIBOR/ESTR in January 2022
	GBP LIBOR	Pay	8	724	732	Expected to transition to SONIA in H1 2022
	GBP LIBOR	Receive	-	704	704	Expected to transition to SONIA in H1 2022
	USD LIBOR	Pay	10,078	17,344	27,422	Expected to transition to RFR by 30 June 2023
	USD LIBOR	Receive	123	569	692	Expected to transition to RFR by 30 June 2023

At 31 December 2020 Hedged Item	Benchmark	Pay/Receive	Matures pre-2022 Nominal € million	Matures 2022 or later Nominal € million	Total Nominal € million
Debt securities	GBP LIBOR	Receive	-	66	66
	USD LIBOR	Receive	716	5,299	6,015
Debts evidenced by certificates	CHF LIBOR	Receive	19	69	88
	EUR LIBOR	Pay	-	568	568
	GBP LIBOR	Pay	-	684	684
	GBP LIBOR	Receive	-	900	900
	JPY LIBOR	Pay	-	52	52
	JPY LIBOR	Receive	24	143	167
	USD LIBOR	Pay	6,367	19,797	26,164
	USD LIBOR	Receive	-	573	573

In addition to these exposures, the Bank has significant volumes of derivative and non-derivative financial instruments in its banking and trading books, which are also exposed to interest rate benchmarks undergoing reform, that are not included in hedge accounting relationships.

The table below shows the Bank's associated exposure to significant benchmark interest rates that are subject to reform and where the trades 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 below contains both instruments where the interest rate benchmarks are yet to transition (for example USD LIBOR), as well as instruments where the interest rate benchmark has already transitioned but the instruments' next interest payment is based on a previous LIBOR fixing. Those trades will transition away from LIBOR-based interest at the next interest payment date.

At 31 December 2021	Benchmark	Non-derivative financial assets € million	Non-derivative financial liabilities € million	Derivatives not in hedge relationship Nominal € million
	AUD LIBOR	641	-	-
	GBP LIBOR	-	(660)	10
	USD LIBOR	6,558	(32)	490
		7,199	(692)	500

Matures 2022 or after At 31 December 2020	Benchmark	Restated[25] Non-derivative financial assets € million	Restated Non-derivative financial liabilities € million	Restated Derivatives not in hedge relationship Nominal € million
	AUD LIBOR	628	-	-
	GBP LIBOR	67	(1,179)	12
	USD LIBOR	7,310	(1,813)	298
		8,005	(2,992)	310

[25] This table has been restated in order to correct for errors in the 2020 disclosure.

Issued financial guarantees

Issued financial guarantees are initially recognised at their fair value, with an asset representing the discounted value of the guarantee fee income and a liability representing the expected credit loss (ECL). After initial recognition, the guarantee asset continues to be recognised at the discounted value of the future fee income. The guarantee liability is subsequently measured at the higher of the amortised value at initial recognition or the expected credit losses. The differences between the unwinding of the discount on the asset and the movements of the liability are recognised in the income statement. The financial guarantee assets and liabilities are recognised within "other financial assets" and "other financial liabilities".

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)

Under IFRS 9 the Bank'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,[26] with the stage allocation being based on the financial asset's probability of default (PD) and additional qualitative considerations. 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, the Bank 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. The Bank additionally makes transfers within its reserves, maintaining a separate loan loss reserve to supplement the cumulative amount provisioned through the Bank's income statement for Stage 1 assets. The amounts held within the loan loss reserve equate to the difference between the ECL calculated on a lifetime basis and the ECL calculated over a 12-month horizon for the assets held in Stage 1.

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. All loans with at least a three-notch downgrade in PD on the Bank's internal ratings scale since origination (or a two-notch downgrade in the case of loans originated with a higher level of credit risk),[27] 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.[28]

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

Where there is objective evidence that an identified loan asset is credit-impaired, any specific provisions for impairment that are required are recognised in the income statement and, under IFRS 9, the asset is classified in Stage 3. The data that the Bank uses to determine if 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.

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

[26] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Bank's loans at amortised cost), not the date of the initial recognition of the asset on the Bank's balance sheet.
[27] Prior to 2021, this exception for loans originated with high credit risk was not applied. This change was implemented to more accurately reflect the credit risk associated with lower quality assets.
[28] 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 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 on 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 has been significantly amended it 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 assets at fair value through other comprehensive income

Impairment of financial assets held at fair value through other comprehensive income is assessed in the same way as for financial assets at amortised cost. The impairment gains and losses thus calculated are recorded in the income statement within impairment provisions on Banking loan investments. Unlike amortised cost instruments, on the balance sheet no separate provision is recorded, with the impairment gains and losses instead forming part of the overall fair value of these assets.

Write offs

Financial assets are written off when the Bank assesses that there is no longer any reasonable expectation of further recoveries. The Bank continues to apply its enforcement processes even for financial assets that have been written off. In the event that further recoveries are made after a financial asset has been written off, these are credited to the income statement as a reversal of previous impairment losses.

Statement of cash flows

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

Foreign currencies

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

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

Capital subscriptions

The Bank's share capital is denominated in euros and is divided into paid-in and callable shares. Paid-in shares are recognised on the balance sheet as "Members' equity". The paid-in shares are puttable instruments where the Bank has made a critical judgement by electing to assess the present value of the puttable amount by assessing the timing of the expected future cash flows. At the point of issuance, and at subsequent reporting dates, there was no significant likelihood that members would exercise their right to request repurchase of their shares by the Bank within the foreseeable future. This is due to the fact that the terms of this option are not financially advantageous, and also because the Bank benefits from very strong support for its mandate from shareholders, whose backing is not primarily driven by the financial returns associated with their membership of the Bank. Consequently the future redemption amount associated with this option had no material present value at issuance and at subsequent reporting dates and no separate liability representing the option has therefore been recognised. To date no member has ever exercised this option.

Callable shares will not be recorded on the balance sheet unless the Bank exercises its right to call the shares.

Transfers of net income

Transfers of net income approved by the Board of Governors are accounted for as transactions with equity holders recorded in the statement of changes in equity.

Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the staff costs of the software development team.

Expenditure that enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and is added to the original cost of the software. Computer software development costs recognised as intangible assets are amortised using the straight-line method over an estimated life of three to ten years.

Accounting for leases

Short-term leases of 12 months or less and low-value leases of assets worth less than £5,000 are accounted for as a general administrative expense, recognised in the income statement on a straight-line basis over the period of the lease.

The leases for the Bank's office accommodation do not qualify for this simplified treatment under IFRS 16. Instead, at the inception of such a lease, the Bank recognises a lease liability and a "right-of-use" asset on the balance sheet.

The lease liability is calculated as the present value of the remaining lease payments, discounted at the Bank's incremental cost of borrowing. Over the life of the lease the discount to the future lease payments is unwound and recognised in the income statement as an interest expense. The right-of-use asset represents the value to the Bank of its right to operate the leased asset over the life of the lease. This asset is depreciated on a straight-line basis over the life of the lease. The total cost of the lease is therefore recognised through a combination of both interest expense and depreciation over the life of the lease.

Under the terms of the Bank's headquarters lease, the Bank has a reinstatement obligation to restore the premises at end of its tenancy. A provision for estimated cost of this obligation is recognised in other financial liabilities.

Property and equipment

In 2017 the Bank took legal ownership of a stock of railcars in part settlement of a loan which was in default, and which had been fully provisioned. The loan and associated provision were each reduced by the value attributed to the railcars. The railcars are classified as "property and equipment" with income generated from the operation of the railcars classified as fee and commission income.

Property and 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:

Improvements on leases of less than 50 years unexpired	Unexpired periods
Right-of-use assets (leases)	Unexpired periods
Office equipment	Between three and ten years
Other (railcars)	20 years

Interest, fees, commissions and dividends

Interest income and expense is recognised 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 attached 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. Further details are provided below.

- Banking loans: this represents interest income on banking loans. Interest is recognised on credit-impaired loans through unwinding the discount used in deriving the present value of expected future cash flows.
- Fixed-income debt securities and other: this represents interest income on Treasury investments with the exception of those measured at fair value where the interest is recognised in "net gains from Treasury activities at fair value through profit or loss". Where hedge accounting is applied to an underlying investment – typically using a swap to convert fixed-rate interest into floating – the net interest of the swap is included within this interest income line.
- Interest expense and similar charges: this represents interest expense on all borrowed funds. The majority of the Bank's borrowings are undertaken through the issuance of bonds that are usually paired with a one-to-one swap to convert the proceeds into the currency and floating rate profile sought by the Bank. Hedge accounting is applied to such relationships and the net interest of the associated swap is included within interest expense.

- Net interest income/(expense) on derivatives: in addition to swaps where the interest is associated with specific investments or borrowings, the Bank also employs a range of derivatives to manage the risk deriving from interest rate mismatches between the asset and liability side of the balance sheet. The net interest associated with these derivatives is presented separately as it is not identifiable to individual assets or liabilities presented elsewhere within "net interest income". This lack of specific "matching" also means that hedge accounting is not applied in respect of the risks hedged by these derivatives.

Fees earned in respect of services provided over a period of time, including loan commitment fees, are recognised as income as the services are provided and the performance obligations met. Fees and commissions in respect of other services are recognised in the income statement as the right to consideration or payment accrues through performance of services. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings on an effective yield basis.

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

Staff retirement schemes

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

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

The defined benefit scheme is funded entirely by the Bank and benefits are based on years of service and a percentage of final gross base salary as defined in the scheme. The Bank's contributions to the defined benefit scheme are determined by the Retirement Plan Committee, with advice from the Bank's actuaries, and the contributions are transferred to the scheme's independent custodians.

The defined benefit cost charged to the income statement represents the service cost, the net interest income/(cost) and any foreign exchange movements on the plan's net asset or liability. Remeasurements due to actuarial assumptions, including the difference between expected and actual net interest, are recognised in "other comprehensive income". The net defined benefit or liability recognised on the balance sheet is equal to the difference between the fair value of the plan assets and the liabilities of the defined benefit plan as determined using the projected unit credit method.

Taxation

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

Funds administered by the Bank

The Bank administers a number of funds on behalf of donors; these are described in detail in note 30 on page 82 and note 31 on page 84. The Bank does not control these funds as it manages the funds as an agent, on behalf and for the benefit of the donors and does not have significant exposure to variability of returns through its administration of the funds. The funds are therefore not consolidated within the Bank's financial statements.

Critical judgements

In the process of applying its accounting policies the Bank makes various judgements. The judgements that the Bank has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Other than the judgements applied in making accounting estimates, which are described in the "Critical accounting estimates" section below, the Bank has deemed the following accounting policies to be critical as they involve a judgement which could have a material impact on the financial statements:

- Impairment of financial assets held at amortised cost – stage assessment: The determination of what constitutes a significant increase in credit risk is a critical judgement given the subjectivity involved in assessing whether an increase should be deemed "significant" and the potential impact this decision has on the measurement of the Bank's expected credit losses.
- Financial assets at fair value through profit or loss: The decision to apply IFRS 9 accounting to the Bank's associate equity investments is a critical judgement that materially affects the presentation of these investments in the Bank's balance sheet and income statement.
- Capital subscriptions: The decision to assess the present value of the puttable amount of paid in-shares by assessing the timing of the expected future cash flows has a potentially material impact on the split of these instruments between liability and equity classifications.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

Restatements

The Bank receives management fees as compensation for the fund administration services it provides on behalf of donors (see notes 30 and 31). These fees are typically paid at the inception of the fund and initially recognised on the Bank's balance sheet as deferred income. The Bank recognises income from fund management fees in proportion to the performance of its obligations as fund manager in accordance with the rules of each fund. Through performing its obligations as fund manager, the Bank also incurs expenses which are directly attributable to these activities. These costs are recognised in the income statement in the period in which the services were performed.

Prior to 2021, this income and expense was presented on a net basis within "Fee and Commission Income". As the Bank's fund management activities have expanded, the amounts of income and expense relating to fund administration have grown to be more significant and this presentation has now been amended. "Donor-related income" and "Donor-related expense" are now presented separately in the income statement, with the 2020 balance restated in line with revised presentation. In the restated 2020 income statement €10 million of "Donor-related income" and €10 million of "Donor-related expense" have now been presented separately. As these equate to €nil on a net basis, no other 2020 balances have changed.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Bank 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 Bank invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The Bank's critical accounting estimates are outlined below.

Fair value of derivative financial instruments

The fair values of the Bank's derivative financial instruments are determined by using discounted cash flow models. These cash flow models are based on underlying market prices for currencies, interest rates and option volatilities. Where market data are not available for all elements of a derivative's valuation, extrapolation and interpolation of existing data has been used. Where significant unobservable inputs have been used, a sensitivity analysis has been included under "Fair value hierarchy" within the "Risk management" section of the report on page 58.

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

The fair values of the Bank's loans at fair value through profit or loss are determined by using a combination of third-party valuations, whole firm valuations based on multiples, discounted cash flow models and options pricing models. These models incorporate relevant market data pertaining to interest rates, a borrower's credit spreads, underlying equity prices and dividend cash flows. Where relevant market data are not available extrapolation and interpolation of existing data has been used. Where significant unobservable inputs have been used, a sensitivity analysis has been included under "Fair value hierarchy" within the "Risk management" section of the report on page 60.

Fair value of share investments

The Bank's method for determining the fair value of share investments is described under "Financial assets" in the "Accounting policies" section of the report and an analysis of the share investment portfolio is provided in note 18 on page 71. In relation to the Bank's share investments where the valuations are based on significant unobservable market inputs, additional sensitivity information has been included under "Fair value hierarchy" in the "Risk management" section of the report on page 60.

Staff retirement defined benefit obligation

Independent actuaries calculate the defined benefit obligation at least every three years by using the projected unit credit method. For intermediate years, the defined benefit obligation is estimated using approximate actuarial roll-forward techniques that allow for additional benefit accrual, actual cash flows and changes in the underlying actuarial assumptions. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (relating to service accrued to the balance sheet date) using the yields available on high-quality corporate bonds. The determination of this rate is a critical accounting estimate. The Bank utilises an industry-standard third-party classification system to determine the population of bonds used make this estimate. The valuation of the pension obligation is a critical accounting estimate, the sensitivities in respect of this estimate are described in note 29 on page 80.

Provisions for the impairment of loan investments

The Bank's method for determining the level of impairment of loan investments is described within the "Accounting policies" section of the report (page 23) and further explained under "Credit risk" within the "Risk management" section of the report (page 33).

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default (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 further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €68 million in that year. The purpose of this adjustment was to capture the expected impact of the Covid-19 pandemic on credit losses, where the data input to the ECL model had yet to fully reflect the changes in economic circumstances. Specifically, this adjustment was based on two factors. Firstly, assumptions around delayed PD rating downgrades, as the weaker financial situation of some of the borrowers was anticipated to be confirmed or revealed through audited financial statements; and secondly the weakening of the creditworthiness of financial institution clients once extraordinary government support measures were withdrawn, and the magnitude of problem loans on their balance sheets became more apparent. As the data input to the ECL model has now reflected the impact of the pandemic, the post-model adjustment has been reversed in 2021.

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.

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 internal default experience (blended with external data in 2020) 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.

In 2021, following a review of the provisioning methodology, refinements were made which introduced sector-specific TTC PD rates, adding further granularity and accuracy to expected loss calculation within the portfolio. In addition, from 2021 TTC PD rates have been based solely on the Bank's internal default experience. Previously in 2020 the TTC PD rates for sub-investment grades were generated by assigning 75 per cent weight to the Bank's internal experience, and 25 per cent to emerging markets data published by Standard & Poor's.

The cumulative TTC PD rates used in 2021 and 2020 are set out by internal rating grade below:

Financial Institutions

2021 PD rating[29]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	0.09%	0.16%	0.23%
2.0	AA	0.02%	0.04%	0.11%	0.17%	0.26%
3.0	A	0.04%	0.10%	0.17%	0.26%	0.35%
4.0	BBB	0.11%	0.29%	0.47%	0.77%	1.06%
5.0	BB	0.28%	0.75%	1.34%	2.06%	2.79%
6.0	B	0.42%	0.96%	1.68%	2.51%	3.35%
7.0	CCC	4.73%	7.93%	11.01%	13.97%	16.97%

Industry, Commerce and Agribusiness

2021 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%	0.04%	0.14%	0.25%	0.37%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.42%
3.0	A	0.06%	0.16%	0.27%	0.41%	0.56%
4.0	BBB	0.17%	0.46%	0.75%	1.23%	1.70%
5.0	BB	0.45%	1.21%	2.16%	3.32%	4.49%
6.0	B	0.67%	1.54%	2.70%	4.04%	5.39%
7.0	CCC	7.62%	12.75%	17.71%	22.47%	27.31%

[29] The Bank's internal PD rating scale is explained in detail on page 33 of the "Risk management" section.

Sustainable Infrastructure

2021 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%	0.35%
3.0	A	0.05%	0.13%	0.22%	0.34%	0.46%
4.0	BBB	0.14%	0.38%	0.62%	1.02%	1.41%
5.0	BB	0.37%	1.00%	1.79%	2.75%	3.72%
6.0	B	0.56%	1.28%	2.24%	3.35%	4.47%
7.0	CCC	6.31%	10.57%	14.68%	18.62%	22.63%

All Sectors

2020 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%	0.13%	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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the 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 84 per cent at the end of 2021 (2020: 85 per cent).[30] Given the regions in which the Bank operates, there is a relative scarcity of applicable historical macro-financial data. Of these, no other variable besides GDP growth has been assessed as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. 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. Through a review of these macro identifiers in 2021, the Bank's ECL modelling was updated to use a three-year GDP horizon, which was found to offer improved accuracy when compared with the one-year horizon previously applied in 2020.

Loss given default rates

A loss given default (LGD) rate is assigned to individual facilities indicating how much the Bank expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the Foundation-IRB[31] 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 non-sovereign portfolio is consistent with the Bank's long-term recovery experience.

In the case of a sovereign default, the Bank believes that its payment would be more likely to remain uninterrupted, benefitting from its preferred creditor status. These features are reflected in the LGD rate assigned to a sovereign exposure. Different categories of LGD rates are established based on the ability of the state to extend preferred credit status primarily through reviewing the proportion of preferred creditor debt to overall public debt and the overall institutional and governance effectiveness. Sub-sovereign recovery rates are adjusted in line with the recovery rates associated with the respective sovereigns.

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 adequately reflect all forward-looking information available at the reporting date.

[30] This metric is sensitive to changes in projected GDP, for which quantitative sensitivity disclosures are made on page 30.
[31] Internal ratings based.

Guarantors

Where the Bank's loans are fully and unconditionally guaranteed at origination, the guarantee is accounted for as an integral part of the loan. In this circumstance, where 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.[32]

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 Bank's EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

Sensitivity analysis[33]

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

Adjusted risk parameter	Recalculated provision 2021 € million	Change in provision 2021 € million	Change in provision 2021 %	Recalculated provision 2020 € million	Change in provision 2020 € million	Change in provision 2020 %
Portfolio provision (Stages 1 and 2)	230	-	-	335	-	-
Staging[34]						
All loans in Stage 1	134	(97)	(42)%	262	(73)	(22)%
All loans in Stage 2	639	409	177%	669	334	100%
PD Ratings[35]						
All loans upgraded 1 notch	127	(103)	(45)%	231	(104)	(31)%
All loans downgraded 1 notch	430	200	87%	492	157	47%
All loans upgraded 3 notches	63	(168)	(73)%	136	(199)	(59)%
All loans downgraded 3 notches	1,268	1,038	451%	1,156	821	245%
Projected GDP[36]						
Projected GDP increased by 1%	220	(10)	(4)%	322	(13)	(4)%
Projected GDP decreased by 1%	243	12	5%	352	17	5%
Projected GDP increased by 5%	198	(32)	(14)%	296	(39)	(12)%
Projected GDP decreased by 5%	311	81	35%	462	127	38%
LGD						
All loans decreased by 10%	167	(63)	(27)%	265	(70)	(21)%
All loans increased by 10%	293	63	27%	405	70	21%
EAD						
All undrawn commitments cancelled	212	(18)	(8)%	311	(24)	(7)%
All undrawn commitments disbursed within one month	253	23	10%	370	35	10%

With respect to Stage 3 provisions, an increase or decrease of 10 percentage points on the current overall provision cover level would have an impact of ±€141 million (2020: €160 million).

32 For further information on the assignment of PD ratings see the Risk Management section on page 33.
33 For the purposes of this disclosure the €68 million post-model adjustment applied in 2020 has been deemed to be a constant, with the sensitivities applied at the level of the ECL model. There was no post-model adjustment in the 2021 provision.
34 The provision is sensitive to an adverse move in stage allocation. This sensitivity is driven by relatively long maturity of the underlying assets, as well as the fact that 79 per cent of the portfolio is currently in Stage 1.
35 Adjusting the PD ratings has a dual impact in that a changed PD rating results in a change in the PD rate applied in the ECL calculation, but can also lead to a change in the staging of a loan, given that a three-notch downgrade since inception is one of the Bank's triggers for including an asset in Stage 2. Both of these effects are captured here.
36 The relatively low sensitivity to changes in GDP is due to high historical volatilities of GDP growth in the economies where the Bank invests, resulting in substantial uncertainty around GDP forecasts. This analysis of sensitivity excludes any stage transition effects that might occur in parallel to such changes in GDP forecasts.

Risk management

Financial risks

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

Risk governance

The Bank's overall framework for identification and management of risks is underpinned by independent "second line of defence"[37] 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 and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

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

The 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 and Treasury operations and promotes risk awareness across the Bank.

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied
- 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.

Unaudited sections

Certain sections of the remainder of the "Risk management" section of this report are unaudited, forming part of the "Other information" which is not covered by the opinion of the independent auditor. These unaudited elements are presented in italics.

War on Ukraine

The war on Ukraine, and its geopolitical consequences, will materially affect the Bank across several critical dimensions. Notwithstanding these, the Bank expects to maintain adequate operational capacity and retain its strong capital and liquidity positions.

- *As a triple-A rated institution, the Bank is extremely well capitalised. The capital base of €20.3 billion at December 2021 is comprised solely of fully loss absorbing paid-in capital and reserves (common equity tier 1). In terms of capital strength the Bank operates well in excess of triple-A requirements as determined by ratings agencies and expects to remain strongly capitalised.*
- *At December 2021, the Bank held €34.0 billion of liquid assets with an average rating of AA- within its treasury portfolio. While the Bank has comfortable access to funding markets, and is expected to continue to do so, this liquidity cushion ensures continued business operations in the foreseeable future.*

Nevertheless, the Bank has exposure to adverse effects as the war on Ukraine will critically affect the local economy, and the wider impact of resulting international tensions will affect other economies based in the region and international markets. In particular:

- *The war on Ukraine will severely impact the local economy, placing significant pressure on the cash flows of borrowers. It is likely that there will be a significant number of defaults from Ukrainian-based clients. This will cause an increase in NPL and ECL, driven by a material credit deterioration of a number of debt exposures.*

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

- *A sharp downturn in equity prices in Ukraine, Russia and Belarus, and to a lesser extent other neighbouring countries, is anticipated in the first quarter of 2022. This will likely reduce the fair value of the Bank's equity investments significantly. While this would not lead to a significant deterioration of the Bank's capital ratios, it would significantly lower short-term profitability.*
- *Disruption to economic linkages and trade within the region, including increase in prices of food and agricultural products, further exacerbating economic slowdown and increasing inflationary pressures.*
- *Growing risk aversion combined with the impact of economic sanctions, and the consequent outflow of capital from the region, will likely lead to the devaluation of several currencies, putting further pressure on the Bank's clients, especially those with hard currency liabilities.*
- *Increased energy costs as a consequence of disruption to global energy markets will put additional cost pressures on energy intensive sectors, increasing the likelihood of debt restructurings and corporate defaults among less resilient clients.*

Other risks in 2022

There are several additional risks that, if they were to crystallise, would have the potential to negatively affect the Bank's ability to carry out its mandate and/or cause a material deterioration in its portfolio. These risks are key to understanding changes in the Bank's risk profile and exposures and therefore are closely monitored by management.

- Further geopolitical tensions in the region in which the Bank operates with spillover effects on the region and other economies in which the Bank invests.
- Deterioration in the relationships between key economies where the Bank operates and their main international partners. Such deterioration could lead to progressive fragmentation of the regional economy and reduced levels of trade, hence increasing the challenge of delivering on transition and the Bank's mission overall.
- Manifestation of country-specific economic problems, in the context of the recovery from the global Covid-19 pandemic, and/or material reform slowdown in one or more of the Bank's key markets, reducing the scope for the Bank's engagement in pursuing its mandate.

All of the above risks are factored into the estimation of the Bank's impairment through their impact on projected GDP levels which are used in the calculation of point in time (PiT) PDs.[38]

Climate risk

The Bank has an overarching ambition to manage its exposure to clients with businesses that emit material harmful emissions and to expand its financing activities in areas that encourage transition to greener business models, in particular supporting the pathways and commitments made by the governments of the economies where the Bank operates and individual clients to achieve net zero emissions. The Bank also intends to expand lending activities in areas that strengthen the resilience of its clients to the effects of climate change.

In pursuing this ambition the Bank has committed to align its activities with the goals of the Paris Agreement by 2023 and to raise the share of total annual investments that meet its "Green Economy Transition" criteria, from 40% to 50% by 2025.

The Bank is a supporter of the Task Force on Climate-Related Financial Disclosures initiative (TCFD) and continues to recognise the relevance of the TCFD recommendations and its mission. The Bank monitors the impact of climate-related risks on its operations and publishes a TCFD report examining these. In 2021 the Bank published its second unaudited TCFD report[39] presenting its preliminary portfolio position as of 31 December 2020.

The Bank considers climate risk to be a cross-cutting risk that impacts credit risk in particular, as well as other risk categories, including market risk and operational risk. The impact of climate risk is therefore materially captured through the Bank's existing risk management framework. For example, in relation to credit risk and the calculation of expected credit losses, the Bank considers the climate risk of its clients whenever specific counterparty credit analysis is conducted. In consequence, material impact on future performance is reflected within the assigned PD rating. With respect to the Bank's fair valuations, any material climate risk will be reflected in a range of observable inputs to the Bank's valuation processes, which themselves take into account climate related risks.

[38] For further information see Point-in-Time PD Rates on page 28.
[39] The most recently published report is available at: https://www.ebrd.com/news/2021/ebrds-second-tcfd-report-discloses-new-work-on-climate-risk-assessment-.html

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Bank is also exposed to concentration risk, which arises from too high a proportion of the portfolio being exposed to a single obligor and/or exposure that has the potential to simultaneously deteriorate due to correlation to an event. Exposure to obligors in the same country or sector are examples but such concentrations could also include clusters or subsets of country or sector portfolios.

The Bank is exposed to credit risk in both its Banking and Treasury activities, as Banking and Treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could become credit-impaired. The Bank'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 27 on page 78).

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

Credit risk in the Banking portfolio: Management

Individual projects

The Board of Directors approves 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.[40] 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 and loans held at fair value.

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 internal risk ratings to all counterparties, including borrowers, investee companies, guarantors, put counterparties and sovereigns in the Banking and Treasury portfolios. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external 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.

[40] For further information on the concepts of transition impact and additionality, visit: www.ebrd.com/our-values.html

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.[41]

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

The Bank assigns loss given default percentages on a scale of 5 to 100 determined by the seniority of the instrument in which the Bank invested. The minimum level of LGD was increased from 3 per cent to 5 per cent following the Bank's comprehensive review of its ECL modelling in 2021. For more details on LGD rates see the "Critical accounting estimates" section on page 29.

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.[42]

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 and the sector of the exposure, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

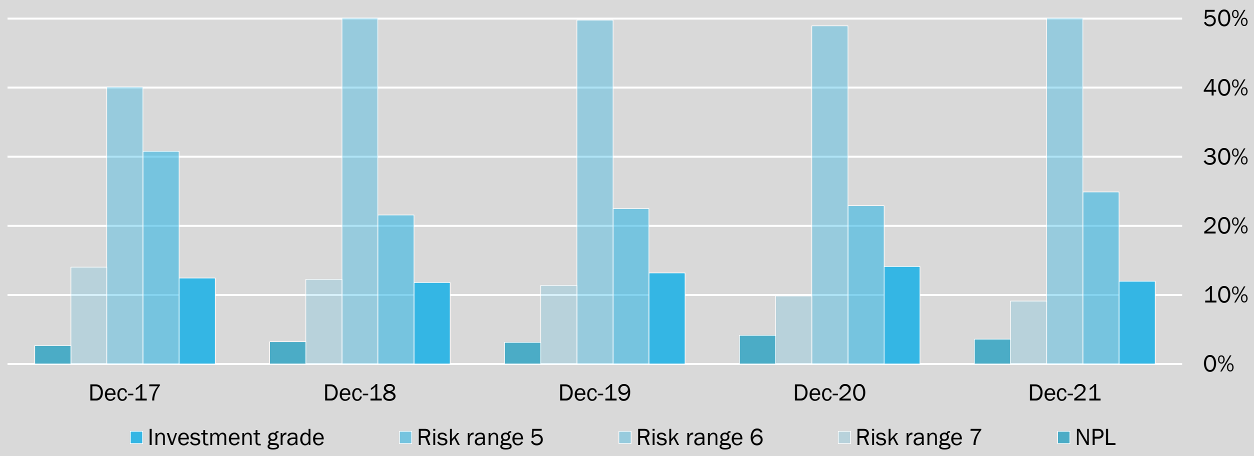
[41] The TTC probabilities of default associated with these risk ratings are summarised in the "Critical accounting estimates" section on page 28.
[42] For further details see the "Accounting policies" section on page 23.

Credit risk in the Banking portfolio: 2021

Total Banking loan exposure (operating assets including fair value adjustments but before provisions) increased during the year from €28.6 billion at 31 December 2020 to €29.7 billion at 31 December 2021. The total signed Banking loan portfolio and guarantees increased from €42.3 billion at 31 December 2020 to €44.1 billion at 31 December 2021.

The average credit profile of the debt portfolio remained relatively flat in 2021 as the weighted average probability of default (WAPD) rating increased to 5.68 (2020: 5.67). This result reflected competing factors during a challenging year with a trend of stronger-than-portfolio-average signings offsetting deterioration in some markets. Concentration of Risk range 7 loans (those risk rated 6.7 to 7.3) decreased from 9.9 to 9.1 per cent and the absolute level now stands at €4.0 billion (2020: €4.2 billion). This decrease in Risk range 7 loans was due to a larger volume of repayments compared to new signings that were in this range.

Credit risk in the Banking portfolio (Loan operating assets and undrawn loan commitments)



NPLs[43] decreased in 2021, amounting to €1.5 billion or 4.9 per cent of operating assets at year-end 2021 (2020: €1.6 billion or 5.5 per cent). Net write-offs amounted to €26 million in 2021 (2020: €194 million). Stage 3 provision cover fell from 52 per cent in 2020 to 51 per cent in 2021.[44]

Distressed restructured loans (DRLs)[45] decreased to €0.9 billion or 3.1 per cent of operating assets at year-end 2021 (2020: €1.0 billion or 3.5 per cent). €0.2 billion new DRLs were modified in 2021 (2020: €0.8 billion), with no gains or losses recorded as a result of the modifications (2020: €nil). €0.2 billion of DRLs transitioned from Stage 2 back to Stage 1 in 2021 (2020: €0.1 billion).

Movement in NPL[46]	2021 € million	2020 € million
Opening balance	1,597	1,209
Repayments	(233)	(194)
Write-offs	(26)	(194)
New credit-impaired assets	80	864
Assets no longer credit-impaired	(43)	(59)
Other movements	92	(29)
Closing balance	1,467	1,597

[43] NPL include credit-impaired loans at amortised cost of €1.4 billion (2020: €1.6 billion), loans at fair value through profit or loss with an original cost of €30 million (2020: €33 million) and no loans at fair value through other comprehensive income (2020: nil).
[44] Stage 3 provision cover is the ratio of Stage 3 provisions to amortised cost loan operating assets. A reconciliation of the movement in Stage 3 provisions during the year is available in note 10 on page 66.
[45] 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 have been likely to become credit-impaired.
[46] Includes loans measured at fair value that have no associated specific provisions.

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.[47]

- **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.

At 31 December 2021	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € million	Stage 2 € million	Credit-impaired Stage 3 € million	Total € million	Total %	Stage 1 € million	Stage 2 € million	Credit-impaired Stage 3 € million	Total net of impairment € million	Impairment provisions coverage %
3: Strong	432	70	-	502	1.8	-	-	-	502	-
4: Good	2,390	377	-	2,767	10.2	(1)	(3)	-	2,763	0.1
5: Fair	5,521	978	-	6,499	23.9	(7)	(5)	-	6,487	0.2
6: Weak	11,491	1,849	-	13,340	49.0	(42)	(60)	-	13,238	0.8
7: Special attention	1,422	1,241	-	2,663	9.8	(37)	(75)	-	2,551	4.2
8: Non-performing[48]	-	-	1,437	1,437	5.3	-	-	(733)	704	51.0
	21,256	4,515	1,437	27,208	100.0	(87)	(143)	(733)	26,245	

At 31 December 2020	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € million	Stage 2 € million	Credit-impaired Stage 3 € million	Total € million	Total %	Stage 1 € million	Stage 2 € million	Credit-impaired Stage 3 € million	Total net of impairment € million	Impairment provisions coverage %
3: Strong	564	68	-	632	2.4	-	-	-	632	-
4: Good	2,650	468	-	3,118	12.0	(2)	(4)	-	3,112	0.2
5: Fair	5,273	587	-	5,860	22.5	(9)	(6)	-	5,845	0.3
6: Weak	10,612	1,518	-	12,130	46.7	(96)	(59)	-	11,975	1.3
7: Special attention	1,577	1,135	-	2,712	10.4	(66)	(93)	-	2,553	5.9
8: Non-performing	-	-	1,564	1,564	6.0	-	-	(806)	758	51.5
	20,676	3,776	1,564	26,016	100.0	(173)	(162)	(806)	24,875	

At the end of 2021, €29 million of loans were past due but not credit-impaired (2020: €10 million). Loans amounting to €8 million were past due for 30 days or less (2020: €3 million) and €21 million were past due for more than 30 days but fewer than 90 days (2020: €7 million).

At 31 December 2021 the Bank had security arrangements in place for €8.2 billion of its loan operating assets (2020: €8.4 billion). Although this security is generally illiquid and its value is closely correlated to the performance of the relevant loan operating assets, it does provide the Bank with rights and negotiating leverage that help mitigate the overall credit risk. Collateral of €128 million was held in relation to the Bank's loan operating assets (2020: €105 million). The Bank also benefitted from guarantees and risk-sharing facilities extended by Special Funds and Cooperation Funds (see note 30 "Related parties" on page 82) which provided credit enhancement of approximately €110 million at the year-end (2020: €101 million).

[47] For further information about stage assessment see the "Significant accounting policies and judgements" section on page 23.
[48] This ratio of amortised cost credit-impaired loans is based on the balance sheet carrying value rather than operating assets. Total NPL including fair value loans were 4.9 per cent of operating assets (2020: 5.5 per cent).

Loans at fair value through other comprehensive income

Set out below is an analysis of the Bank's loans held at fair value through other comprehensive income for each of the Bank's relevant internal risk rating categories. There were no loans held at fair value through other comprehensive income in stage 3 (2020: nil).

	Fair value 2021			Fair value 2020		
Risk rating category	Stage 1 € million	Stage 2 € million	Total € million	Stage 1 € million	Stage 2 € million	Total € million
3: Strong	396	-	396	209	-	209
4: Good	272	-	272	597	-	597
5: Fair	706	4	710	690	5	695
6: Weak	297	22	319	478	81	559
7: Special attention	204	6	210	214	6	220
At 31 December	1,875	32	1,907	2,188	92	2,280

Loans at fair value through profit or loss

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

Risk rating category	Fair value 2021 € million	Fair value 2020 € million
4: Good	53	-
5: Fair	70	66
6: Weak	312	131
7: Special attention	128	111
8: Non-performing	12	11
At 31 December	575	319

Undrawn loan commitments and guarantees

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

Risk rating category	Undrawn loan commitments 2021 € million	Guarantees 2021 € million	Undrawn loan commitments 2020 € million	Guarantees 2020 € million
2: Very Strong	-	-	15	-
3: Strong	118	-	82	-
4: Good	1,036	18	1,316	18
5: Fair	3,611	140	3,015	135
6: Weak	7,015	1,281	6,599	1,244
7: Special attention	831	216	959	164
8: Non-performing	111	6	137	20
At 31 December	12,722	1,661	12,123	1,581

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

Credit risk in the Banking portfolio: Concentration

Concentration by country

The following table breaks down the main Banking credit risk exposures in their carrying amounts by country. The Bank is generally well diversified by country. The largest concentrations are in Turkey, Egypt and Ukraine which account for 15.6, 8.0 and 7.2 per cent of loans drawn down respectively (as shown below) and 13.8, 9.7 and 9.1 per cent of the Bank's total loans and guarantees, including undrawn, respectively. However, by the nature of the regional focus of the Bank's business model, some groups of countries in which the Bank operates are highly correlated.

Country	Loans 2021 € million	Undrawn loan commitments and guarantees 2021 € million	Total 2021 € million	Loans 2020 € million	Undrawn loan commitments and guarantees 2020 € million	Total 2020 € million
Albania	520	440	960	522	314	836
Armenia	228	137	365	229	98	327
Azerbaijan	682	92	774	979	133	1,112
Belarus	515	319	834	556	428	984
Bosnia and Herzegovina	692	533	1,225	654	620	1,274
Bulgaria	716	92	808	714	94	808
Croatia	652	90	742	580	138	718
Cyprus	12	76	88	7	137	144
Czech Republic	3	-	3	-	-	-
Egypt	2,374	1,923	4,297	2,195	1,864	4,059
Estonia	85	10	95	130	63	193
Georgia	1,020	365	1,385	682	649	1,331
Greece	1,757	235	1,992	1,498	353	1,851
Hungary	436	-	436	461	-	461
Jordan	821	229	1,050	699	214	913
Kazakhstan	1,590	1,190	2,780	1,589	838	2,427
Kosovo	160	212	372	143	234	377
Kyrgyz Republic	80	79	159	95	62	157
Latvia	104	10	114	129	2	131
Lebanon	145	6	151	162	31	193
Lithuania	191	70	261	239	-	239
Moldova	255	351	606	209	361	570
Mongolia	609	147	756	581	161	742
Montenegro	243	112	355	254	174	428
Morocco	1,153	344	1,497	1,056	499	1,555
North Macedonia	405	484	889	365	463	828
Poland	2,320	575	2,895	2,269	373	2,642
Romania	1,553	281	1,834	1,331	240	1,571
Russian Federation	194	-	194	187	17	204
Serbia	1,861	562	2,423	1,925	512	2,437
Slovak Republic	601	12	613	531	28	559
Slovenia	187	-	187	208	25	233
Tajikistan	213	286	499	173	275	448
Tunisia	171	626	797	223	543	766
Turkey	4,617	1,448	6,065	4,682	1,189	5,871
Turkmenistan	38	3	41	42	11	53
Ukraine	2,127	1,871	3,998	2,049	1,721	3,770
Uzbekistan	360	1,173	1,533	267	840	1,107
At 31 December	29,690	14,383	44,073	28,615	13,704	42,319

Concentration by industry sector

The following table breaks down the main Banking credit exposures in their carrying amounts by the industry sector of the project. The portfolio is generally well diversified with only depository credit (banks), power and energy, as well as transport constituting notable sector concentrations.

	Loans 2021 € million	Undrawn loan commitments and guarantees 2021 € million	Total 2021 € million	Loans 2020 € million	Undrawn loan commitments and guarantees 2020 € million	Total 2020 € million
Agribusiness	1,963	580	2,543	2,138	421	2,559
Depository credit (banks)	6,757	1,843	8,600	6,633	1,801	8,434
Telecommunications, media and technology	786	112	898	539	131	670
Insurance, pension, mutual funds	27	-	27	33	11	44
Leasing finance	611	71	682	611	64	675
Manufacturing and services	2,971	534	3,505	2,800	489	3,289
Municipal and environmental infrastructure	2,812	4,039	6,851	2,671	3,396	6,067
Natural resources	1,302	496	1,798	1,511	581	2,092
Non-depository credit (non-bank)	674	219	893	616	152	768
Power and energy	6,489	2,593	9,082	6,183	2,893	9,076
Property and tourism	819	64	883	714	108	822
Transport	4,479	3,832	8,311	4,166	3,657	7,823
Non-sovereign	24,107	5,694	29,801	23,482	5,461	28,943
Sovereign	5,583	8,689	14,272	5,133	8,243	13,376
At 31 December	29,690	14,383	44,073	28,615	13,704	42,319

Concentration by counterparty

The Bank has maximum nominal as well as risk-based non-sovereign Banking counterparty exposure limits. Maximum exposure (after risk transfers) to a single non-sovereign economic group was €641 million at end-2021 (2020: €517 million). Maximum exposure (after risk transfers) to a sovereign entity was €964 million at end-2021 (2020: €914 million).

Credit risk in Treasury: Management

Key risk parameters for funding, cash management, asset and liability management and liquidity risk appetite are approved by the Board of Directors and articulated in the Treasury Authority and Liquidity Policy (TALP). The TALP is the document by which the Board of Directors delegates authority to the Vice President, Chief Financial Officer to manage and the Vice President Risk and Compliance, CRO to identify, measure, monitor and mitigate the Bank's Treasury exposures. The TALP covers all aspects of Treasury activities where financial risks arise and also Risk Management's identification, measurement, management and mitigation of those risks. In addition, Treasury Authority and Liquidity Procedures are approved by the Vice President Risk and Compliance, CRO to regulate operational aspects of Treasury risk-taking and the related risk management processes and procedures.

Eligible Treasury counterparties and investments are normally internally rated between 1.0 and 4.0 (approximately equivalent to S&P AAA to BBB ratings), with the exception of counterparties approved for local currency activities in the economies where the Bank invests. These activities support the Bank's initiatives to provide local currency financing to Banking clients and to develop local capital markets. In cases where the creditworthiness of an issuer or counterparty deteriorates to levels below the eligibility standard for existing exposures, Risk Management and Treasury recommend actions for the approval of the Vice President Risk and Compliance, CRO and the Vice President, Chief Financial Officer.

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

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

Further, the overall credit risk incurred by the Bank in its Treasury transactions is subject to a Default Value-at-risk (DVaR)[49] limit of 10 per cent of the Bank's available capital.[50]

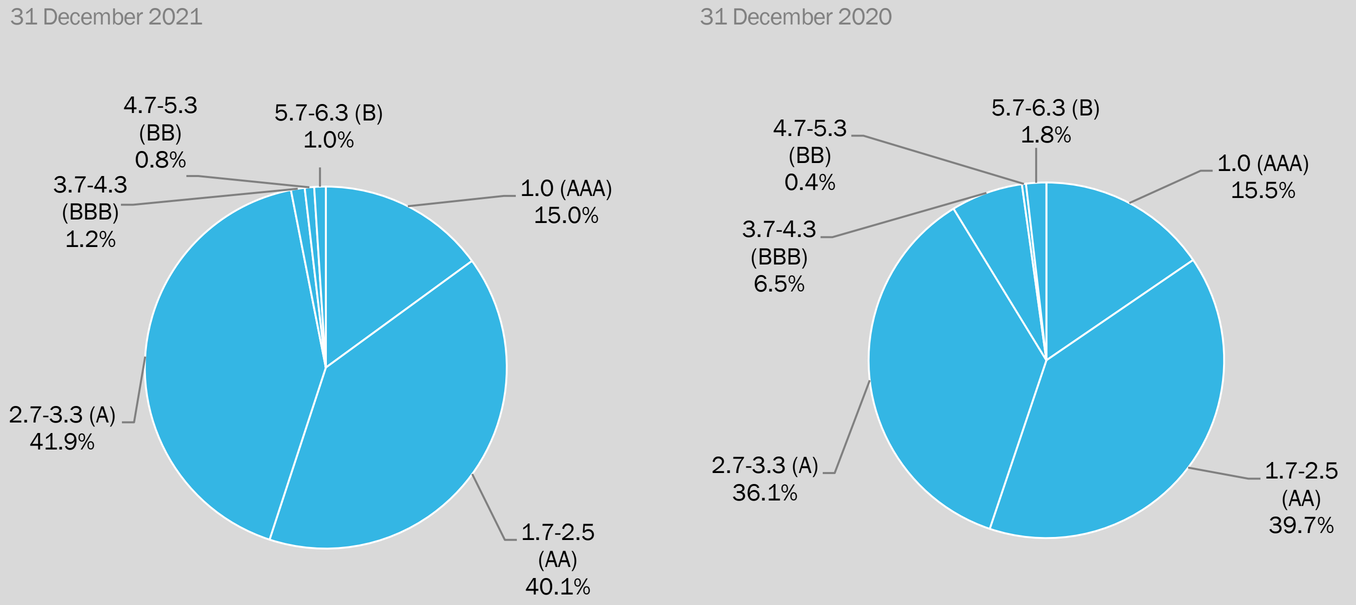
Risk mitigation techniques (such as collateral) and risk transfer instruments reduce calculated credit exposure. For example, ISDA Credit Support Annexes (CSAs) to underpin over-the-counter (OTC) derivatives activity reduce PFE/DVaR in line with collateral posting expectations.

Credit risk in Treasury: Treasury liquid assets

The carrying value of Treasury's liquid assets stood at €34.0 billion at 31 December 2021 (2020: €31.7 billion).[51]

The internal ratings of Treasury's counterparties and sovereign exposures are reviewed at least annually and adjusted as appropriate. Overall the WAPD rating, weighted by the carrying value of Treasury's liquid assets, remained largely stable at 2.40 as at 31 December 2021 (2020: 2.45).

Credit quality of Treasury's liquid assets



Placements with and advances to credit institutions

Set out below is an analysis of the Bank's placements with and advances to credit institutions for each of the Bank's relevant internal risk rating categories.

Risk rating category	2021 € million	2020 € million
1: Excellent	392	323
2: Very strong	8,439	7,662
3: Strong	13,586	9,282
4: Good	150	1,098
5: Fair	10	74
6: Weak	42	251
At 31 December	22,619	18,690

At 31 December 2021 there were no placements with and advances to credit institutions that were past due or credit-impaired (2020: €nil).

[49] Calculated at 99.99 per cent confidence level and over a one-year horizon.
[50] Available capital is total members' equity less amounts allocated to the SEMED cooperation funds. See note 26 on page 76 for further information.
[51] Treasury liquid assets consist of placements with and advances to credit institutions and debt securities.

Debt securities at fair value through profit or loss

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

Risk rating category	2021 € million	2020 € million
1. Excellent	75	112
2. Very strong	99	105
3. Strong	28	168
4. Good	268	978
5. Fair	276	44
6. Weak	304	334
At 31 December	1,050	1,741

There were no debt securities at fair value past due in 2021 (2020: €nil).

Debt securities at amortised cost

Set out below is an analysis of the Bank's debt securities at amortised cost for each of the Bank's relevant internal risk rating categories.

Risk rating category	2021 € million	2020 € million
1: Excellent	4,624	4,456
2: Very strong	4,682	4,510
3: Strong	998	2,277
At 31 December	10,304	11,243

There were no debt securities at amortised cost past due in 2021 (2020: €nil).

Treasury credit risk exposure

In addition to Treasury's liquid assets there are other products such as OTC swaps and forward contracts that are included within Treasury's overall portfolio. PFE calculations show the future exposure throughout the life of a transaction. This is particularly important for Treasury's Securities Financing Transactions (SFT) and OTC hedging derivatives. Calculation of PFE takes into account reduction in counterparty exposures through standard risk mitigations such as collateral, which enables Risk Management to see a comprehensive exposure profile for all Treasury products (including liquid assets) against a specific counterparty limit on a daily basis. *Whereas PFE measures the exposure at default, DVaR calculations are based on a simulation of counterparty defaults. DVaR measures the maximum aggregated loss, to a high degree of confidence (99.99 per cent), that Treasury could incur over a one-year horizon due to defaults.*

Treasury PFE stood at €31.1 billion at 31 December 2021 (2020: €29.9 billion), whereas the DVaR was €1.3 billion at 31 December 2021 (2020: €1.3 billion).

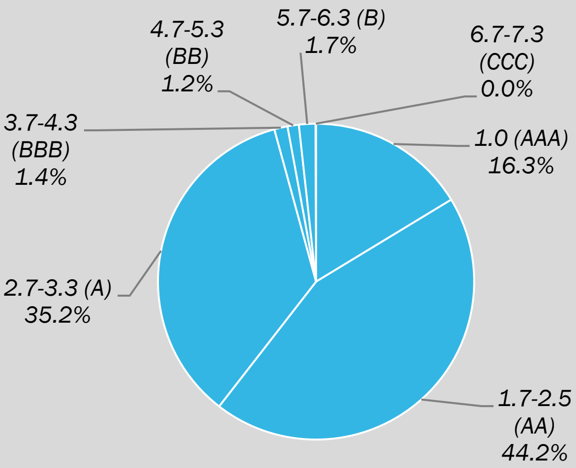
Treasury maintained a high-quality average credit risk profile during 2021 by investing liquidity in AAA sovereign and other highly rated assets. This was reflected in a high and stable WAPD rating of the portfolio, as measured by PFE, which was 2.36 at 31 December 2021 (2020: 2.39).

A very low proportion of Treasury exposures was below investment grade quality,[52] amounting to around 2.9 per cent at 31 December 2021 (2020: 2.6 per cent). This comprised a small pool of local currency assets held with counterparties from the economies in which the Bank invests.

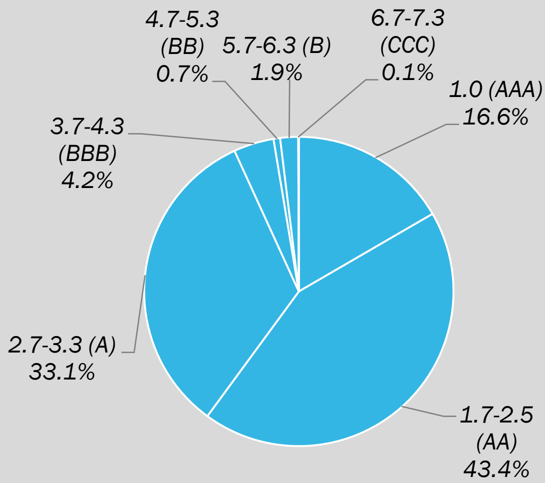
[52] BB+/Ba1/BB+ level or worse.

Credit quality of Treasury PFE

31 December 2021



31 December 2020



Before provisioning, the value of credit-impaired assets in the Treasury portfolio was €nil at 31 December 2021 (2020: €nil).

Derivatives

The Bank makes use of derivatives for different purposes within both its Banking portfolio and its Treasury activities. Within the Banking equity portfolio, option contracts are privately negotiated with third parties to provide potential exit routes for the Bank on many of its unlisted share investments. Banking also has a portfolio of interest rate and cross-currency swaps with clients to hedge its market risks. Furthermore, Banking enters into a small number of currency swaps with loan clients to assist them in the management of their market risks, that are fully hedged. Within Treasury, the use of exchange-traded and OTC derivatives is primarily focused on hedging interest rate and foreign exchange risks arising from Bank-wide activities. Market views expressed through derivatives are also undertaken as part of Treasury's activities (within the tight market risk limits described on page 49), while the transactions through which the Bank funds itself in the capital markets are typically swapped into floating-rate debt with derivatives.

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

The table below shows the fair value of the Bank's derivative financial assets and liabilities at 31 December 2021 and 31 December 2020.

	Assets 2021 € million	Liabilities 2021 € million	Total 2021 € million	Assets 2020 € million	Liabilities 2020 € million	Total 2020 € million
Portfolio derivatives not designated as hedges						
OTC foreign currency products						
Currency swaps	814	(151)	663	372	(163)	209
Spot and forward currency transactions	244	(41)	203	33	(500)	(467)
	1,058	(192)	866	405	(663)	(258)
OTC interest rate products						
Interest rate swaps	261	(376)	(115)	232	(462)	(230)
Caps/floors	-	(8)	(8)	-	-	-
Banking derivatives						
Fair value of equity derivatives held in relation to the Banking portfolio	216	(149)	67	200	(102)	98
Total portfolio derivatives not designated as hedges and Banking derivatives	1,535	(725)	810	837	(1,227)	(390)
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	1,054	(487)	567	1,305	(296)	1,009
Cross currency interest rate swaps	1,072	(1,876)	(804)	1,557	(1,164)	393
Embedded derivatives[53]	1,299	(45)	1,254	1,331	(45)	1,286
	3,425	(2,408)	1,017	4,193	(1,505)	2,688
Derivatives designated as cash flow hedges						
Forward currency transactions	-	-	-	-	(1)	(1)
Total derivatives held for hedging	3,425	(2,408)	1,017	4,193	(1,506)	2,687
Total derivatives at 31 December	4,960	(3,133)	1,827	5,030	(2,733)	2,297

Set out below is an analysis of the Bank's derivative financial assets for each of the Bank's internal risk rating categories.

Risk rating category	2021 € million	2020 € million
1: Excellent	1,299	1,332
2: Very strong	1,716	1,650
3: Strong	1,639	1,641
4: Good	4	83
5: Fair	177	188
6: Weak	99	117
7: Special attention	25	17
8: Non-performing	1	2
At 31 December	4,960	5,030

There were no derivative financial assets past due in 2021 (2020: €nil).

Included in the fair value of derivatives is a net valuation increase of €7 million attributable to the counterparty portfolio level adjustments for credit and funding cost factors that could reasonably influence the price of the derivatives in an arms-length market transaction (2020: €17 million decrease).

Also included in the valuation of derivatives is an overall negative value to the Bank of €10 million attributable to "cheapest-to-deliver" (CTD) adjustments (2020: €17 million) reflecting the value of terms and conditions relating to the posting of collateral in the Bank's CSA agreements.

In order to manage credit risk in OTC derivative transactions,[54] the Bank's policy is to approve, in advance, each counterparty individually and to review its creditworthiness and eligibility regularly. Derivative limits are included in overall counterparty credit limits. OTC derivative transactions are normally carried out only with the most creditworthy counterparties, rated at the internal equivalent of BBB and above. Furthermore, the Bank pays attention to mitigating the credit risk of OTC derivatives through the negotiation of appropriate legal documentation with counterparties. OTC derivative transactions are documented under an ISDA Master Agreement within an accompanying CSA. These provide for the posting of collateral by the counterparty once the Bank's exposure exceeds a given threshold, which is usually a function of the counterparty's risk rating.

[53] Where a financial liability held at amortised cost contains an embedded derivative which is of a different economic character to the host instrument, that embedded derivative is bifurcated and measured at fair value through the income statement. All such derivatives bifurcated by the Bank are embedded in "Debts evidenced by certificates".
[54] This does not include negotiated options associated with share investments.

The Bank has also expanded the scope for applying risk mitigation techniques by documenting the widest possible range of instruments transacted with a given counterparty under a single Master Agreement and CSA, notably foreign exchange transactions. Similarly, the Bank emphasises risk mitigation for repurchase and reverse repurchase agreements and related transaction types through Master Agreement documentation.

Collateral[55]

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

Counterparty exposure, for the purposes of collateralising credit risk, is only concerned with counterparties with whom the Bank has an overall net positive exposure. At 31 December 2021 this exposure stood at €1.2 billion (2020: €1.3 billion). Against this, the Bank held collateral of €1.2 billion (2020: €1.3 billion), reducing its net credit exposure to €nil (2020: €nil).

Where the Bank borrows or purchases securities subject to a commitment to resell them (a reverse repurchase agreement) but does not acquire the risk and rewards of ownership, the transactions are treated as collateralised loans. The securities are not included in the balance sheet and are held as collateral. In some cases over time the fair value of these securities may exceed the agreed resale price. In these cases the Bank may be required to pledge cash back to the counterparty to offset this mismatch.

The table below illustrates the fair value of collateral held that is permitted to be sold or repledged in the absence of default. Sold or repledged collateral includes collateral on-lent through bond lending activities. In all cases the Bank has an obligation to return equivalent securities.

Collateral held as security	Held collateral 2021 € million	Sold or repledged 2021 € million	Pledged collateral 2021 € million	Held collateral 2020 € million	Sold or repledged 2020 € million	Pledged collateral 2020 € million
Derivative financial instruments						
High grade government securities	668	-	-	570	-	-
Cash	539	539	-	716	716	-
	1,207	539	-	1,286	716	-
Reverse sale and repurchase transactions						
Securities	4,081	18	-	3,197	19	-
Cash	-	-	(6)	-	-	(7)
	4,081	18	(6)	3,197	19	(7)
At 31 December	5,288	557	(6)	4,483	735	(7)

The Bank's derivative exposures are not typically subject to Master Agreement netting arrangements, and the Bank presents all derivative exposures on a gross basis on the balance sheet, including immaterial exposures subject to such arrangements. At 31 December 2021 the Bank had €1 million assets and €8 million liabilities that were subject to master netting arrangements, against which no collateral was held (2020: €nil assets, €8 million liabilities, €nil collateral).

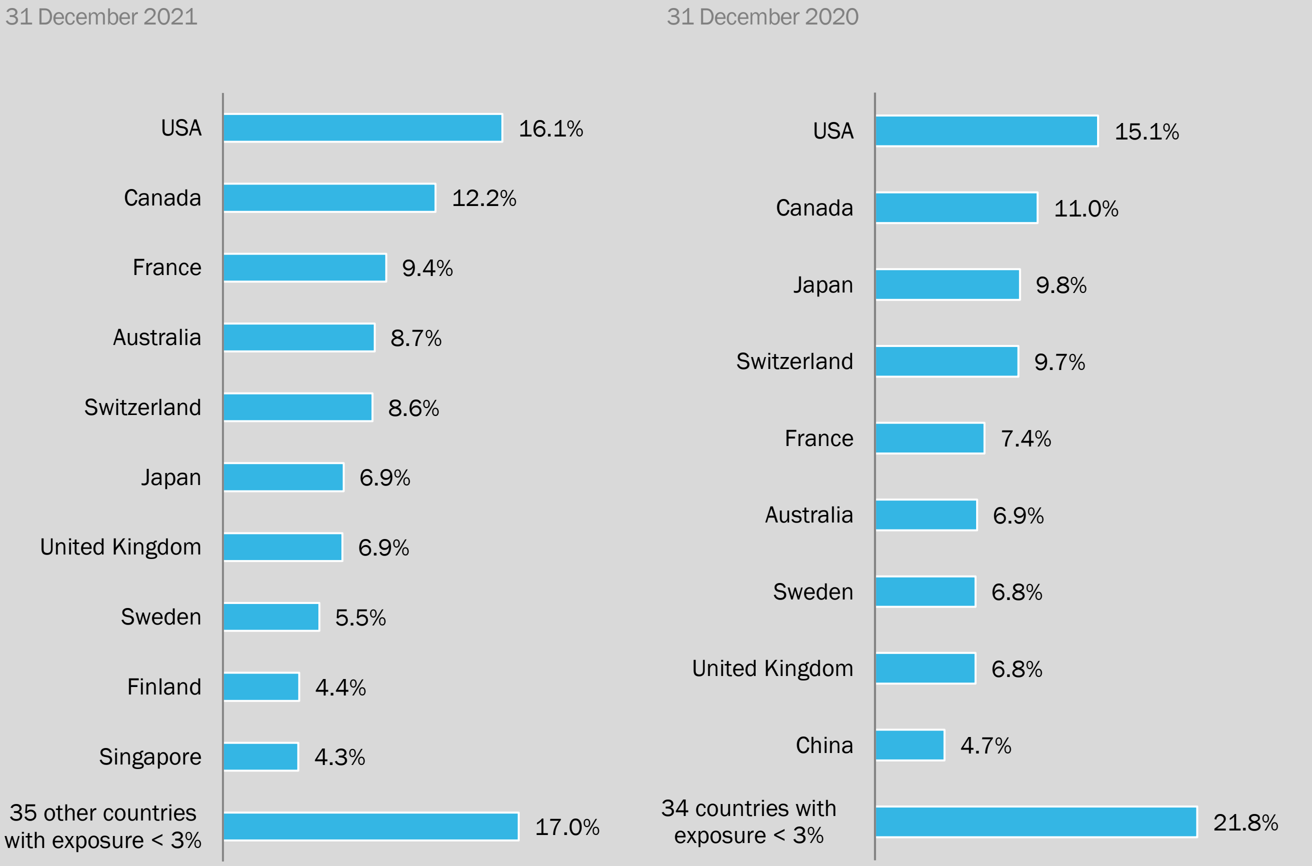
[55] For details of collateral held against Banking loan exposures, please see the "Loan investments at amortised cost" section on page 36.

Credit risk in Treasury: Concentration

Concentration by country

At the end of 2021 and 2020, Treasury credit risk exposure was spread across the following countries:

Concentration of Treasury peak exposure by country/region

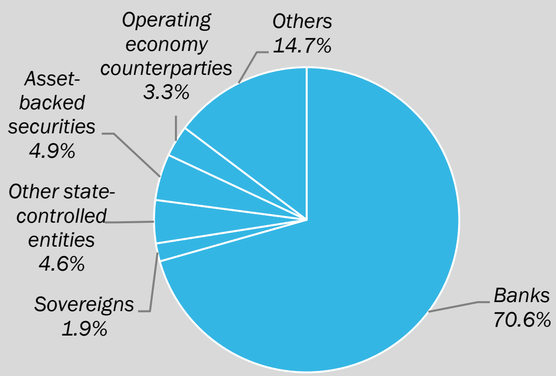


Concentration by counterparty type

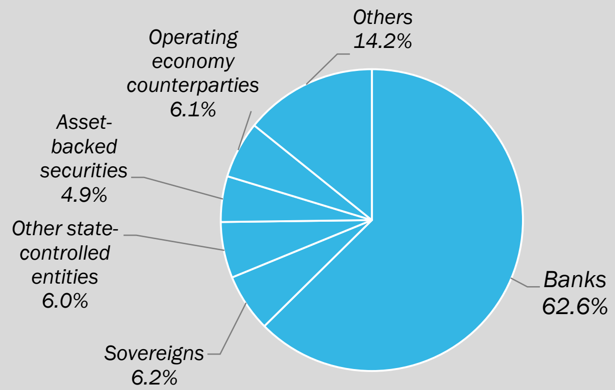
The Bank continues to be largely exposed to banks in the Treasury portfolio which accounted for 70.6 per cent of the portfolio peak exposure (2020: 62.6 per cent). Direct sovereign exposure[56] decreased to 1.9 per cent (2020: 6.2 per cent), while exposure to counterparties in the economies in which the Bank invests decreased to 3.3 per cent (2020: 6.1 per cent) on a PFE basis.

Concentration of peak exposure by counterparty type

31 December 2021



31 December 2020



B. Market risk

Market risk is the potential loss that could result from adverse market movements. The primary drivers of market risk are: (i) interest rate risk; (ii) foreign exchange risk; (iii) equity risk; and (iv) commodity price risk.

Market risk in the Banking portfolio

The Bank's policy is that the Banking loan portfolio is match-funded by Treasury in terms of currency, so for loan facilities extended in currencies other than the euro the foreign exchange risk is hedged by Treasury. Likewise, interest rate risk to which the Banking loan portfolio would normally be exposed is managed through the Treasury portfolio. As such it is intended that there is minimal residual foreign exchange or interest rate risk present in the Banking loan portfolio.

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

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

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

Foreign exchange risk

The Bank is subject to foreign exchange risks as it invests in equities with foreign exchange exposures to currencies other than the euro. Accordingly, the value of the equity investments may be affected favourably or unfavourably by fluctuations in currency rates. The table below indicates the currencies to which the Bank had significant exposure through its equity investments at 31 December 2021.[57] The sensitivity analysis summarises the total effect of a reasonably possible movement of the currency rate[58] against the euro on equity fair value and on profit or loss with all other variables held constant.

Share investments at fair value through profit or loss

	5-year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Russian rouble	14.7	1,196	176
Euro	-	1,121	-
Polish zloty	3.5	846	29
Turkish lira	33.6	659	222
Romanian leu	1.7	488	8
Ukrainian hryvnia	16.3	312	51
Egyptian pound	8.5	211	18
Hungarian forint	3.7	159	6
Other non-euro	13.2	1,018	134
At 31 December 2021		6,010	644

	5-year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Russian rouble	16.8	993	167
Euro	-	732	-
Polish zloty	3.9	716	28
Turkish lira	23.9	653	156
Romanian leu	1.5	510	8
Egyptian pound	31.9	239	76
Ukrainian hryvnia	16.1	229	37
Hungarian forint	3.8	119	4
Other non-euro	13.6	681	94
At 31 December 2020		4,872	570

The average movement in exchange rate for the “other non-euro” consists of the weighted average movement in the exchange rates listed in the same table.

[57] The table reflects the currency of the country of risk associated with each investment. Depending on their business models, the underlying investments may be exposed to other foreign exchange risks which could affect their value, but those risks are outside the scope of this disclosure.
[58] Based on a five-year rolling average movement in the exchange rate.

Equity price risk

Equity price risk is the risk of unfavourable changes in the fair values of equities as the result of changes in the levels of equity indices and the value of individual shares. In terms of equity price risk, the Bank expects the effect on net profit will, on average, have a positive correlation with the movement in equity indices, for both listed and unlisted equity investments. The table below summarises the potential impact on the Bank's net profit from reasonably possible changes in equity indices.[59]

Share investments at fair value through profit or loss

		5-year rolling average movement in benchmark index %	Fair value € million	Impact on net profit € million
Russian Federation	IMOEX Index	13.9	1,197	166
Poland	WIG Index	11.2	847	95
Turkey	BIST 100 Index	29.7	660	196
Romania	BET Index	16.9	488	82
Slovenia	SBTIOP Index	14.0	318	45
Ukraine	PFTS Index	22.4	312	70
Greece	ASE Index	24.0	251	60
Egypt	EGX 30 Index	14.9	211	31
Regional and other	Weighted average	17.4	1,726	300
At 31 December 2021			6,010	1,045

		5-year rolling average movement in benchmark index %	Fair value € million	Impact on net profit € million
Russian Federation	IMOEX Index	16.2	993	161
Poland	WIG Index	9.1	716	65
Turkey	BIST100 Index	26.4	653	172
Romania	BET Index	10.4	510	53
Egypt	EGX 30 Index	28.1	239	67
Ukraine	PFTS Index	23.5	229	54
Slovenia	SBTIOP Index	6.7	205	14
Hungary	BUX Index	16.8	119	20
Regional and other	Weighted average	16.6	1,208	201
At 31 December 2020			4,872	807

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

Commodity risk in the Banking portfolio

The Bank is exposed to commodity risk through some of its investments and due to the significant importance of commodities in a number of the economies in which it invests. *As part of its climate risk strategy, the Bank will make no new investments in upstream oil and gas exploration and extraction, which matches the earlier decision to desist from financing coal extraction activities as described in the Bank's Risk Appetite Statement and the TCFD report*. The aggregate direct exposure to oil and gas extraction, metal ore mining and coal mining (and related support activities) fell slightly to 2.4 per cent (2020: 2.5 per cent) of the overall banking portfolio. This decrease in exposure was primarily driven by the completion of projects with gas utilities in Egypt, Kazakhstan and Russia.

Although the share of this portfolio is a small percentage of the total, the potential overall risk can be more substantial as a result of indirect impacts on other investments, which are themselves exposed to commodity risks. Several economies in which the Bank invests are heavily reliant on commodity exports to support their economic growth, domestic demand and budgetary revenues. A prolonged and material decline in, for example, oil and gas prices, would have an adverse effect on hydrocarbon producers and processors, as well as on the relevant sovereigns and corporate clients that are reliant on domestic demand.

In contrast, a material increase in oil and gas prices (as at the end of 2021) is detrimental to net energy importing economies which are negatively impacted by the associated profitability squeeze in economic sectors with high energy demand. *The Bank monitors this risk carefully and incorporates adverse oil price scenarios into its stress-testing exercises.*

[59] Based on a five-year rolling average movement in the relevant equity market indices. The table reflects the currency of the country of risk associated with each investment.

Market risk in the Treasury portfolio

Interest rate and foreign exchange risk

The Bank's market risk exposure arises from the fact that the movement of interest rates and foreign exchange rates may have an impact on positions taken by the Bank. These risks are centralised and hedged by the Asset and Liability Management desk in Treasury, which aims to ensure that the residual market risk remains within the Bank's agreed risk appetite. The Bank's sensitivity to these risks is therefore limited.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the interest is fixed on a financial instrument indicates the extent to which it is exposed to interest rate risk. Interest rate risks are managed by hedging the interest rate profiles of assets and liabilities through the use of exchange-traded and OTC derivatives.

The Bank measures its exposure to market risk and monitors limit compliance daily. The main market risk limits in the Bank are based on ES computed at a 95 per cent confidence level over a one-day trading horizon. ES is defined as the average potential loss above a certain threshold (for example 95 per cent) that could be incurred due to adverse fluctuations in interest rates and/or foreign exchange rates. The Bank's overall ES limit, laid down in the Board-approved TALP, at a 95 per cent confidence level over a one-day trading horizon is €60.0 million (less than 0.5 per cent of available capital).

For enhanced comparability across institutions, the numbers disclosed in this financial report show ES-based measures scaled up to a 10-trading-day horizon. The market risk methodology considers the three-month swap curve as the main interest rate risk factor and the other factors as basis spread risk factors.[60] *The total ES (95 per cent confidence level over a 10-day trading horizon) of the Bank's Treasury portfolio, including basis spread risks, stood at €24.4 million at 31 December 2021 (2020: €42.2 million) with an average ES over the year of €35.3 million (2020: €25.5 million). The cross-currency basis risk arising in Treasury's synthetic funding of the Bank's local currency loan investments represents the major market driver. Interest rate option exposure remained modest throughout the year with option ES at €0.2 million at year-end (2020: €0.5 million), having peaked at €1.8 million during the year (2020: €1.3 million). The specific contribution from foreign exchange risk to the overall ES stood at €2.0 million at year-end (2020: €2.4 million). As in previous years, this contribution was small throughout 2021 and never exceeded €3.5 million (2020: €2.5 million).*

Interest rate benchmark reforms

In March 2021, the Intercontinental Exchange (ICE) Benchmark Administration in conjunction with the UK's Financial Conduct Authority (FCA) announced that it would stop publishing the following LIBOR settings after 31 December 2021: all GBP, EUR, CHF and JPY LIBOR setting, and one-week and two-month USD LIBOR settings. All remaining USD LIBOR settings (that is the overnight, one-month, three-month, six-month and 12-month settings) will no longer be published after 30 June 2023.

In order to manage the risks created by interest rate benchmark reforms, the Bank 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 fall-back language in all new LIBOR loan signings 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 that took effect on 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. IT system changes required to accurately capture the new replacement reference rates have been completed during 2021. The transactions will be progressively migrated and rebooked in the systems during 2022.

Local currency inflation risk

The Bank is additionally exposed to local currency market risk in the Kazakh Consumer Price Index (CPI) that exposes the Bank to model risk, given that there is no market in Kazakh inflation. Treasury have raised Kazakh tenge through issuances linked to inflation, given that the Kazakh tenge market had no transparent domestic reference rate for borrowing and lending. This risk is mitigated by the fact that the liabilities are partially matched by on-lending linked to Kazakh CPI. At 31 December 2021 surplus Kazakh tenge CPI-linked funding stood at €454 million (2020: €746 million); these funds were invested predominantly in short-term Kazakhstan Government bonds.

[60] Spread risk arises from cross-currency basis spreads, tenor spreads (for example, between 6-month and 3-month LIBOR), Overnight Index Swap (OIS) vs. 3-month LIBOR spread and government bond spreads.

Equity price risk

The Bank had direct exposure to equity risk of €131 million at 31 December 2021 through two Treasury share investments[61] (2020: €105 million). In addition, indirect exposures to equity risk occur in the form of equity-linked structured products that are hedged on a back-to-back basis and therefore result in no outright exposure.

C. Liquidity risk

Liquidity risk management process

The Bank's liquidity policies are designed to ensure that the Bank maintains a prudent level of liquidity, given the risk environment in which it operates, and to support its triple-A credit rating.

The Bank's medium-term liquidity requirements are based on satisfying each of the following three minimum constraints:

- Net Treasury liquid assets must be at least 75 per cent of the next two years' projected net cash requirements, without recourse to accessing funding markets.
- The Bank's liquidity must be considered a strong positive factor when rating agency methodologies are applied. These methodologies include applying haircuts to the Bank's liquid assets, assessing the level of debt due within one year and considering undrawn commitments. This provides an external view of liquidity coverage under stressed circumstances.
- The Bank must be able to meet its obligations for at least 12 months under an extreme stress scenario. This internally generated scenario considers a combination of events that could detrimentally impact the Bank's liquidity position.

For the purposes of the net cash requirements coverage ratio above, all assets managed within the Treasury portfolio are considered to be liquid assets while "net" Treasury liquid assets represent gross treasury assets net of short-term debt.[62]

The Bank holds liquidity above its minimum policy levels to allow flexibility in the execution of its borrowing programme. At 31 December 2021, the Bank's key medium-term liquidity metrics were as follows:

- *Net Treasury liquid assets represented 148 per cent (2020: 152 per cent) of the next two years' net cash requirements against a minimum 75 per cent coverage.*
- *Treasury liquid assets (after the application of haircuts to simulate a stressed scenario) represented 156 per cent (2020: 125 per cent) of one-year debt service plus 50 per cent of undrawn commitments, against a minimum 100 per cent coverage.*

The average weighted maturity of assets managed by Treasury at 31 December 2021 was 1.1 years (2020: 1.2 years).

The Bank's short-term liquidity policy is based on the principles of the Liquidity Coverage Ratio within the Basel III reform package. This approach requires that the ratio of maturing liquid assets and scheduled cash inflows to cash outflows over both a 30-day and 90-day horizon must be a minimum of 100 per cent. The minimum ratios under the Bank's policy have been exceeded at 31 December 2021 and consistently throughout the year.

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

The Bank has a proven record of access to funding in the capital markets via its global medium-term note programme and commercial paper facilities. In 2021 the Bank raised €9.6 billion of medium to long-term debt with an average tenor of 4.2 years (2020: €13.1 billion and 4.0 years). During 2021, the Bank's triple-A credit rating with a stable outlook was affirmed by all three major rating agencies. In 2021 Fitch returned the Bank's outlook to stable from negative acknowledging the resilience of the Bank's loan investments during the Covid-19 pandemic and the now reduced downside risks to the Bank's solvency (capitalisation and asset quality).

[61] See note 19 to the financial statements on page 71.
[62] For this ratio, short-term debt is debt with a fixed or optional maturity of one year or less at the point of acquisition – that is, it is not debt where the remaining maturity was one year or less at 31 December 2021.

The table below is a maturity analysis of the undiscounted cash flows deriving from the Bank's financial liabilities. Cash flows are presented in the earliest maturity band in which they could contractually fall due.

As the figures represent undiscounted cash flows, they do not match those reported in the balance sheet.

Financial liabilities at 31 December 2021	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	(822)	(58)	(120)	-	-	(1,000)
Debts evidenced by certificates	(816)	(2,950)	(6,748)	(17,993)	(24,550)	(53,057)
Other financial liabilities	(39)	(162)	(35)	(16)	(579)	(831)
At 31 December 2021	(1,677)	(3,170)	(6,903)	(18,009)	(25,129)	(54,888)
Trading derivative cash flows						
Net settling interest rate derivatives	(11)	(17)	(82)	(145)	(170)	(425)
Gross settling interest rate derivatives – outflow	(11)	(631)	(1,021)	(1,453)	(1,209)	(4,325)
Gross settling interest rate derivatives – inflow	4	830	946	1,342	1,110	4,232
Foreign exchange derivatives – outflow	(1,708)	(2,109)	(437)	(57)	(59)	(4,370)
Foreign exchange derivatives – inflow	1,700	2,096	405	50	50	4,301
At 31 December 2021	(26)	169	(189)	(263)	(278)	(587)
Hedging derivative cash flows						
Net settling interest rate derivatives	(2)	(13)	(22)	(185)	(78)	(300)
Gross settling interest rate derivatives – outflow	(226)	(281)	(2,446)	(3,531)	(3,438)	(9,922)
Gross settling interest rate derivatives – inflow	250	322	2,256	2,767	3,133	8,728
At 31 December 2021	22	28	(212)	(949)	(383)	(1,494)
Total financial liabilities at 31 December 2021	(1,681)	(2,973)	(7,304)	(19,221)	(25,790)	(56,969)
Other financial instruments						
Undrawn commitments						
Financial institutions	(3,360)	-	-	-	-	(3,360)
Non-financial institutions	(12,507)	-	-	-	-	(12,507)
At 31 December 2021	(15,867)	-	-	-	-	(15,867)

Financial liabilities at 31 December 2020	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	(1,188)	(26)	(121)	(18)	-	(1,353)
Debts evidenced by certificates	(1,279)	(3,607)	(7,990)	(15,245)	(20,859)	(48,980)
Other financial liabilities	(37)	(211)	(42)	(89)	(177)	(556)
At 31 December 2020	(2,504)	(3,844)	(8,153)	(15,352)	(21,036)	(50,889)
Trading derivative cash flows						
Net settling interest rate derivatives	(9)	(18)	(75)	(143)	(232)	(477)
Gross settling interest rate derivatives – outflow	(421)	(273)	(1,485)	(1,706)	(2,216)	(6,101)
Gross settling interest rate derivatives – inflow	335	201	1,469	1,683	2,301	5,989
Foreign exchange derivatives – outflow	(3,605)	(4,766)	(5,967)	(94)	(57)	(14,489)
Foreign exchange derivatives – inflow	3,493	4,631	5,743	67	50	13,984
At 31 December 2020	(207)	(225)	(315)	(193)	(154)	(1,094)
Hedging derivative cash flows						
Net settling interest rate derivatives	(9)	(20)	(38)	(115)	(79)	(261)
Gross settling interest rate derivatives – outflow	(310)	(184)	(996)	(2,742)	(2,879)	(7,111)
Gross settling interest rate derivatives – inflow	278	204	965	2,331	2,771	6,549
At 31 December 2020	(41)	-	(69)	(526)	(187)	(823)
Total financial liabilities at 31 December 2020	(2,752)	(4,069)	(8,537)	(16,071)	(21,377)	(52,806)
Other financial instruments						
Undrawn commitments						
Financial institutions	(3,169)	-	-	-	-	(3,169)
Non-financial institutions	(11,912)	-	-	-	-	(11,912)
At 31 December 2020	(15,081)	-	-	-	-	(15,081)

D. Operational risk

The Bank defines operational risk as the risk of loss (financial and/or reputational) resulting from inadequate or failed internal processes, people and systems or external events. It arises from day-to-day operations or external events, and is relevant to every aspect of the Bank's business.

Sources of operational risk

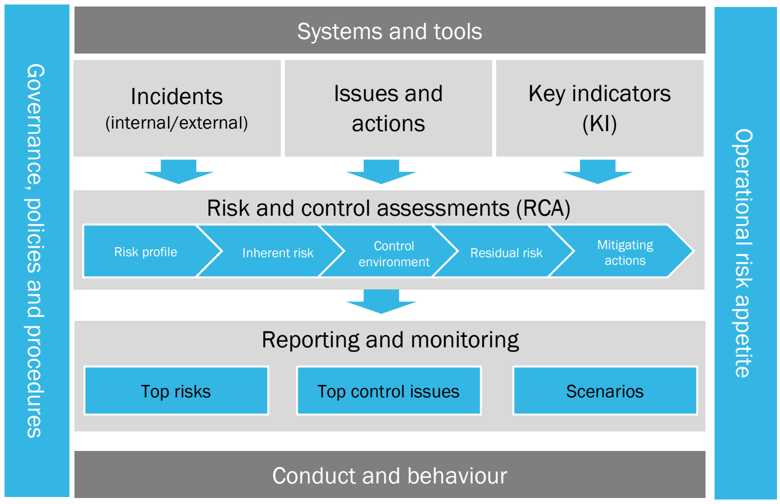
Operational risk can manifest itself in various ways, including human errors, inappropriate behaviour of employees (including fraud), failure to comply with applicable rules and policies or failure of vendors to perform in accordance with their contractual arrangements. These events could result in financial losses, as well as reputational damage to the Bank.

Operational Risk Framework

The Bank's Operational Risk Framework (ORF) is a network of processes, procedures, reports and responsibilities that are used to identify, manage and monitor the operational risks of the Bank. These include governance committees, day-to-day management practices such as the collection and analysis of key risks, as well as issues and incidents that could adversely impact the Bank.

The ORF provides a structured approach to managing operational risk. It seeks to apply consistent standards and techniques for evaluating risks across the Bank within which individual businesses have sufficient flexibility to tailor specific components to their own needs.

The main components of the Operational Risk Framework are described below:



Governance, policies and procedures

The Bank utilises a comprehensive set of policies and procedures that set out how operational risks should be managed throughout the Bank.

Operational risk appetite

This determines the Bank's approach to risk taking and articulates the motivations for taking, accepting or avoiding certain types of risks or exposures.

Incidents

The Bank systematically collects, analyses and reports data on operational risk incidents to ensure it understands the reasons they occurred and how controls can be improved to reduce the risk of future incidents. It also collects and utilises available data on incidents at relevant peer firms through the Global Operational Risk Loss Database to identify potential risks that may be relevant in the future, even if they have not currently impacted the Bank.

Issues and actions

The Bank also systematically collates information on "Issues" the business faces with the effective control of operational risks. "Actions" are established to address these issues and are completed to ensure these issues do not present operational risks

Key indicators

These are metrics that are used to monitor particular operational risks and controls over time, as well as to ensure that action is taken where needed.

Risk and control assessments

"Risk and control assessments" are comprehensive assessments of the Bank's key operational risks. They comprise a self-assessment, performed by each business unit, which defines a risk profile based on Bank-wide operational risk taxonomy that classifies risks under a standardised taxonomy. The approach includes an assessment of the inherent risks of each business and control function, as well as an evaluation of the effectiveness of the controls in place to mitigate these risks. This helps determine the residual risk ratings and decisions to either accept or remediate the residual risks.

Reporting and monitoring

The Bank produces a wide range of regular management information reports covering the key inputs and outputs of the ORF. These reports are used by senior management to monitor outcomes against agreed targets and tolerance levels.

Systems and tools

The Bank uses a Governance Risk Control system for recording, managing and reporting Operational Risk, controls and both incidents and Internal Audit findings.

Conduct and behaviour

Several ORF components include assessments of behaviour as effective operational risk management relies on employees conducting themselves appropriately. For example, investigations of incidents typically consider whether employees escalated issues at an appropriately early stage. Risks that have implications for conduct risk can be identified and assessed via the operational risk register and the risk and control assessment process.

Key risks and mitigations

The Bank continually assesses and strengthens its risk and control processes and technological support tools to increase their effectiveness.

The following table summarises key operational risks currently considered most relevant to its business.

Key risk	Description	How is the risk managed
Reputational risk	Reputational risk can arise from any of the key risks outlined below. Reputational risk relates to the Bank's brand, as well as ethics, trust, relationships with clients and stakeholders, conduct and the overall culture and values of our organisation. Reputational risk may also arise from taking on inappropriate client relationships which may have adverse implications for the Bank.	Consider key reputational risks when initiating changes in strategy or operating model. Engage in proactive communications with all stakeholders and monitor media coverage to understand how our reputation is perceived. In addition, a number of controls and frameworks are in place to address other risks that could affect our reputation including conduct risk, financial crime, investment risk and client take-on and product development.
Conduct risk	The potential detriment to the Bank, its stakeholders and clients with respect to investment management, lending fraud, market integrity, money laundering, bribery and corruption.	Managed through a framework focusing on enhancements to risk identification, mitigation, management information and reporting in conjunction with line management, OCCO and Human Resources.
People risk	The risk that losing one important employee or team would cause a significant negative impact to the Bank or that failing to attract talent leads to sub-optimal performance. This relates to investment staff or teams associated with key products or other individuals with significant experience or specialist knowledge (for example, key operator or IT system specialists).	Key mitigations include identifying and developing resources to support front-to-back processes, talent management programme and succession planning. Develop comprehensive procedure documentation of all key processes and where possible include as part of disaster recovery tests.
Process risk	Risk arising from the failure of significant business processes undertaken by the EBRD, including for example critical transaction and payments processing, client suitability checks and asset pricing.	Risk and control assessments are used to identify and assess key operational risks. Associated controls are assessed with regard to their design and performance. Where required, processes and controls are enhanced to improve the control environment with the aim of preventing risk events from recurring.
Change management risk/project risk	Risk of negative impact from change/projects/initiatives. Project risk is the risk that ineffective project implementation could lead to sub-optimal solutions being delivered on our key projects.	Dedicated change management team overseeing all major projects, ensuring that consistent, Bank-wide rigour is brought to the initiation, approval and monitoring of projects. The Bank does not implement new processes and systems before they have been fully tested.
Cyber crime	Risk of loss or detriment to the Bank's business and customers as a result of actions committed or facilitated through the use of networked information systems.	The Bank's IT and information security procedures and processes ensure that all servers and computers have up to date antivirus software. Backups are made regularly and regular access control checks, system penetration and vulnerability tests along with disaster recovery tests are performed. The Bank's anti-cyber attack controls are checked and aligned with external best practice.
Business resilience risk	Business resilience risk is the risk that, for a number of reasons, the Bank is unable to continue to operate.	Resilience planning is in place across the business with clear identification of key staff and their involvement in business resumption plans. This includes annual disaster recovery testing at the Bank's back-up site. Bank-wide insurance held against a loss resulting from interruption to the business as a consequence of loss of or damage to the Bank's property. The Bank works closely with its third-party suppliers to maintain the quality and continuity of service.
Technology risk	The risks that the Bank's technology systems and support are inadequate or fail to adapt to changing requirements.	The Bank's technology risk management operating model enables the organisation to identify, measure, and manage technology risks against its business objectives, critical processes, and information risks. Ensure consideration for key areas such as incident, change, and capacity management. Regularly review the progress of major information technology projects and new systems are subject to rigorous testing before approval.
Third-party service provider risk	Inadequate selection and ongoing management of external suppliers. Third-party service provider risk relates to the risk that suppliers may not be able to meet their agreed service level terms.	Before entering into third-party arrangements, the Bank undertakes due diligence on third-party suppliers and maintain a programme of regular assessment against agreed service levels. Exit plans are considered prior to appointment and provide a framework for transitioning business from one service provider to another should the quality fall below the agreed service level.

Outlook

The overall operational risk outlook remains heightened and unchanged from the previous year.

Covid-19 remains a concern due the continued threat to the wellbeing and availability of the Bank's staff, as well as those of critical third parties. Contingency plans are in place to ensure continuation of business-critical activities and the Bank continues to monitor these risks carefully.

The Bank continues to focus on strengthening its information, cyber security and business resilience capabilities and practices. The recent Log4j vulnerabilities incident that affected organisations globally further stresses the need to adopt and improve cyber security practices.

The Bank is closely monitoring the latest developments in political unrest across a number of economies in which it invests, with the Crisis Management Team remaining vigilant to the potential risks to its staff and operations, and has been taking precautionary measures.

The Bank is aware of its exposure to climate change-related risks including potential pressure on business operations due to extreme weather events and natural disasters, and is seeking tools, strategies and expertise to manage and mitigate against these.

E. Capital management

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

In May 2010 the Board of Governors approved a further two-step increase in the authorised capital stock of the Bank: an immediate €1.0 billion increase in authorised paid-in shares (Resolution No. 126), and a €9.0 billion increase in authorised callable capital shares (Resolution No. 128). This amounts to an aggregate increase in the authorised capital stock of the Bank of €10.0 billion (collectively referred to as the second capital increase). The increase in callable capital became effective on 20 April 2011 when subscriptions were received for at least 50 per cent of the newly authorised callable capital. The callable shares were issued subject to redemption in accordance with the terms of Resolution No. 128. At 31 December 2021, €8.9 billion of the callable capital increase had been subscribed (2020: €8.9 billion).

The Bank does not have any other classes of capital.

At the October 2020 Annual Meeting the Board of Governors reviewed the capital stock of the Bank pursuant to Article 5.3 of the Agreement and resolved that the projected capital stock is appropriate for the 2021-25 period, in the context of the approval of the Bank's Strategic and Capital Framework 2021-25. The Board of Governors resolved that the adequacy of the Bank's capital would next be reviewed in 2025 (Resolution No. 233).

The Bank's capital usage is guided by statutory and financial policy parameters. Article 12 of the Agreement establishes a 1:1 gearing ratio which limits the total amount of outstanding loans and share investments made by the Bank in the economies in which it invests to the total amount of the Bank's unimpaired subscribed capital, reserves and surpluses. *This capital base incorporates unimpaired subscribed capital (including callable capital), the unrestricted general reserves, loan loss reserve, special reserve and adjustments for general loan impairment provisions on Banking exposures and unrealised equity losses.* The capital base for these purposes amounted to €42.5 billion[63] at 31 December 2021 after 2021 net income allocation decisions (2020: €41.4 billion).

The Bank interprets the gearing ratio on a "disbursed Banking assets" or "operating assets" basis. To ensure consistency with the statutory capital base, specific provisions are deducted from total operating assets for the purposes of the ratio. At 31 December 2021, the Bank's gearing ratio on an aggregated basis was 79 per cent (2020: 79 per cent) compared with a policy threshold for this ratio of 92 per cent. Article 12 also limits the total amount of disbursed share investments to the total amount of the Bank's unimpaired paid-in subscribed capital, surpluses and general reserve. *No capital utilisation limits were breached during the year (2020: none).*

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

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

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

At 31 December 2021 the ratio of required capital to available capital was 65 per cent (2020: 67 per cent) compared with a policy threshold for this ratio of 90 per cent. The Bank's risk-based capital requirement under this policy is managed alongside the Bank's statutory capital constraint.

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

The Bank's key financial indicators are presented on page 5. At 31 December 2021, the ratio of members' equity to total assets was 27 per cent (2020: 26 per cent) and the ratio of members' equity to Banking assets was 59 per cent (2020: 56 per cent).

Reserves and retained earnings	*2021 € million*	*2020 € million*
Special reserve	*306*	*306*
Loan loss reserve	*432*	*324*
SEMED cooperation funds	*4*	*5*
Unrealised gains	*2,968*	*1,995*
Total restricted reserves	*3,710*	*2,630*
Unrestricted general reserves	*10,418*	*9,044*
At 31 December	*14,128*	*11,674*

The Bank's reserves are used to determine, in accordance with the Agreement, what part of the Bank's net income will be allocated to surplus or other purposes and what part, if any, will be distributed to its members. For this purpose, the Bank uses unrestricted general reserves.

Article 36 of the Agreement relates to the allocation and distribution of the Bank's net income and states: "No such allocation, and no distribution, shall be made until the general reserve amounts to at least ten per cent of the authorised capital stock". This figure is currently €3.0 billion (2020: €3.0 billion).

F. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial assets at 31 December 2021	Carrying amount € million	Fair value € million
Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:		
Debt securities	1,050	1,050
Derivative financial instruments	4,960	4,960
Banking loans at fair value through other comprehensive income	1,907	1,907
Banking loans at fair value through profit or loss	575	575
Banking portfolio: Share investments at fair value through profit or loss	6,010	6,010
Treasury portfolio: Share investments at fair value through other comprehensive income	131	131
	14,633	14,633
Financial assets measured at amortised cost:[64]		
Placements with and advances to credit institutions	22,619	22,619
Debt securities	10,304	10,370
Other financial assets	470	470
Banking loan investments at amortised cost	26,245	26,784
	59,638	60,243
Total	74,271	74,876

[64] With the exception of debt securities and loan investments, the fair value for the other amortised cost assets approximates to their carrying value due to the short-dated nature of these assets.

Financial assets at 31 December 2020	Carrying amount € million	Fair value € million
Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:		
Debt securities	1,741	1,741
Derivative financial instruments	5,030	5,030
Banking loans at fair value through other comprehensive income	2,280	2,280
Banking loans at fair value through profit or loss	319	319
Banking portfolio: Share investments at fair value through profit or loss	4,872	4,872
Treasury portfolio: Share investments at fair value through other comprehensive income	105	105
	14,347	14,347
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	18,690	18,690
Debt securities	11,243	11,294
Other financial assets	444	444
Banking loan investments at amortised cost	24,875	25,302
	55,252	55,730
Total	69,599	70,077

Financial liabilities at 31 December 2021	Held for trading € million	At fair value through profit or loss € million	Derivatives held for hedging purposes € million	Financial liabilities at amortised cost € million	Carrying amount € million	Fair value € million
Amounts owed to credit institutions	-	-	-	(1,000)	(1,000)	(1,000)
Debts evidenced by certificates	-	-	-	(49,126)	(49,126)	(49,229)
Derivative financial instruments	(576)	(149)	(2,408)	-	(3,133)	(3,133)
Other financial liabilities	-	(195)	-	(974)	(1,169)	(1,169)
Total financial liabilities	(576)	(344)	(2,408)	(51,100)	(54,428)	(54,531)

Financial liabilities at 31 December 2020	Held for trading € million	At fair value through profit or loss € million	Derivatives held for hedging purposes € million	Financial liabilities at amortised cost € million	Carrying amount € million	Fair value € million
Amounts owed to credit institutions	-	-	-	(1,353)	(1,353)	(1,353)
Debts evidenced by certificates	-	-	-	(46,926)	(46,926)	(46,877)
Derivative financial instruments	(1,125)	(102)	(1,506)	-	(2,733)	(2,733)
Other financial liabilities	-	(174)	-	(695)	(869)	(869)
Total financial liabilities	(1,125)	(276)	(1,506)	(48,974)	(51,881)	(51,832)

At 31 December 2021, the Bank's balance sheet approximates to fair value in all financial asset and liability categories, with the exception of loan investments at amortised cost.

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

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

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

Debts evidenced by certificates represents the Bank's borrowings raised through the issuance of commercial paper and bonds. The fair value of the Bank's issued bonds is determined using discounted cash flow models and therefore relies on Level 3 inputs. Due to the short-tenor nature of commercial paper, amortised cost typically approximates fair value. The fair value of the Bank's issued commercial paper is determined based on the observable market valuation of similar assets and liabilities and therefore relies on Level 2 inputs.

Fair value hierarchy

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

- **Level 1** – Quoted prices in active markets for identical assets or liabilities. This level includes listed share investments on stock exchanges and listed bonds classified as loans held at fair value through other comprehensive income.
- **Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of inputs include prices available from screen-based services such as SuperDerivatives and Bloomberg, broker quotes and observable market data such as interest rates and foreign exchange rates which are used in deriving the valuations of derivative products. This level includes debt securities (valued using prices observed in markets not deemed sufficiently active to be included in Level 1), most derivative products (generally valued using a discounted cash flow model using solely observable inputs) and listed share and bond investments (valued using a quoted price but where there is no market sufficiently active to be included in Level 1).
- **Level 3** – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments and debt securities or derivative products for which not all valuation inputs are observable.

The table below provides information at 31 December 2021 about the Bank's financial assets and financial liabilities measured at fair value. Financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement.

				At 31 December 2021
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	1,004	46	-	1,050
Derivative financial instruments	-	4,744	216	4,960
Banking loans	1,918	216	348	2,482
Share investments (Banking portfolio)	1,655	66	4,289	6,010
Share investments (Treasury portfolio)	-	131	-	131
Total financial assets at fair value	4,577	5,203	4,853	14,633
Derivative financial instruments	-	(2,984)	(149)	(3,133)
Other liabilities	-	-	(195)	(195)
Total financial liabilities at fair value	-	(2,984)	(344)	(3,328)

				At 31 December 2020
	Restated[65] Level 1 € million	Restated Level 2 € million	Level 3 € million	Total € million
Debt securities	878	863	-	1,741
Derivative financial instruments	-	4,830	200	5,030
Banking loans	2,015	271	313	2,599
Share investments (Banking portfolio)	1,495	160	3,217	4,872
Share investments (Treasury portfolio)	-	105	-	105
Total financial assets at fair value	4,388	6,229	3,730	14,347
Derivative financial instruments	-	(2,631)	(102)	(2,733)
Other liabilities	-	-	(174)	(174)
Total financial liabilities at fair value	-	(2,631)	(276)	(2,907)

Transfers to Level 2 occur when the volume of trading of an investment is at a level that is insufficient for its market to be deemed active, but where the market price is still the best indicator of the investment's value. Transfers to Level 3 occur when there is no longer an observable market price indicative of arms-length transactions.

During 2021 there were no transfers from Level 1 to Level 2 (2020: €265 million), from Level 1 to Level 3 (2020: nil), or from Level 2 to Level 3 (2020: nil).

[65] In 2021 the Bank updated its methodology for assessing whether or not prices used to value debt securities held at fair value were deemed to be from an active market. The 2020 presentation of Level 1 and Level 2 debt securities has therefore been restated to be prepared on the same basis as the 2021 disclosure. As a result, €878 million of debt securities previously disclosed as Level 2 are now disclosed as Level 1.

During 2021, there were transfers of €126 million from Level 2 to Level 1 (2020: nil). €126 million of debt securities were transferred out of Level 2 based on the volume of trading of the investments being deemed active. There were no transfers out of level 3 (2020: €109 million).

The table below provides a reconciliation of the fair values of the Bank's Level 3 financial assets and financial liabilities for the year ended 31 December 2021.

	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total assets € million	Other liabilities € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2020	200	313	3,217	3,730	(174)	(102)	(276)
Net gains/(losses) recognised in:							
• Net gains from share investments at fair value through profit or loss	60	-	1,056	1,116	(10)	(80)	(90)
• Net gains from loans	-	50	-	50	-	-	-
Issuances	-	12	-	12	(36)	-	(36)
Purchases	-	-	558	558	-	-	-
Settlements	(44)	(27)	-	(71)	25	33	58
Sales	-	-	(542)	(542)	-	-	-
Balance at 31 December 2021	216	348	4,289	4,853	(195)	(149)	(344)
Net gains/(losses) for the year for Level 3 instruments held at 31 December 2021 recognised in:							
• Net gains/(losses) from share investments at fair value through profit or loss	60	-	963	1,023	(10)	(63)	(73)
• Net gains from loans	-	50	-	50	-	-	-

	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total assets € million	Other liabilities € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2019	202	409	3,485	4,096	(138)	(142)	(280)
Net gains/(losses) recognised in:							
• Net gains from share investments at fair value through profit or loss	70	-	297	367	(13)	(5)	(18)
• Net losses from loans	-	(38)	-	(38)	-	-	-
Issuances	-	38	-	38	(32)	-	(32)
Purchases	-	-	280	280	-	-	-
Settlements	(72)	(90)	-	(162)	9	45	54
Sales	-	-	(742)	(742)	-	-	-
Transfers out of Level 3	-	(6)	(103)	(109)	-	-	-
Balance at 31 December 2020	200	313	3,217	3,730	(174)	(102)	(276)
Net gains/(losses) for the year for Level 3 instruments held at 31 December 2020 recognised in:							
• Net gains/(losses) from share investments at fair value through profit or loss	35	-	54	89	(11)	1	(10)
• Net losses from loans	-	(30)	-	(30)	-	-	-

Level 3 – sensitivity analysis

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2021, the main valuation models/techniques[66] used in the valuation of these financial instruments and the estimated increases or decreases in fair value based on reasonable possible alternative assumptions:

	Main valuation models/techniques	Carrying amount € million	Favourable change € million	Unfavourable change € million
		Impact on net profit in 2021		
Banking loans	DCF, option pricing models, credit adjustment models and NAV	348	58	(13)
Banking share investments, EPF and associated derivatives[67]	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models	4,161	1,164	(784)
At 31 December		4,509	1,222	(797)

	Main valuation models/techniques	Carrying amount € million	Favourable change € million	Unfavourable change € million
		Impact on net profit in 2020		
Banking loans	DCF and option pricing models	313	40	(22)
Banking share investments, EPF and associated derivatives	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models	3,141	752	(462)
At 31 December		3,454	792	(484)

Banking loans

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

Banking share investments, Equity Participation Fund and derivatives

The Bank's unlisted equity portfolio comprises direct share investments, equity derivatives and equity funds. The main valuation models/techniques used to determine the fair value of these financial instruments are NAV multiples, EBITDA multiples and DCF models. The valuation of the Equity Participation Fund (EPF) is based on the same underlying investments and therefore also relies on the same techniques.

NAV multiples are most commonly applied to direct share investments. Recent transactions within sectors are also considered where available. Reasonable possible alternative valuations have been determined based on the NAV multiple ranges in the valuations received for direct share investments. Equity funds are valued based on NAV statements, adjusted for applicable market movements observed between the measurement date of the NAV and 31 December 2020. Reasonable possible alternative valuations have been determined based on changes in assumptions affecting the observed market movements. For investments valued using EBITDA multiples and DCF models, sensitivity analysis was performed by determining reasonable alternative valuations using sales, EBITDA, price-to-earnings multiples methods, as well as industry-specific methods like multiples based on production capacities. Further, within a given method valuation ranges were determined by using bottom and top quartile multiples. For DCF models, sensitivity analysis was performed by changing certain underlying assumptions (for example, an increase or decrease in the discount rate).

In modelling valuations of level 3 direct share investments, the Bank employs a number of internally generated unobservable inputs which are determined by expert professional judgement. The inputs employed vary depending on the valuation approach selected for the investment. The most commonly utilised unobservable inputs are:

- Adjustments to the modelled value based on the liquidity and marketability of the asset that would be considered by a potential purchaser in an arm's length transaction. (2021: weighted average discount of 12 per cent. 2020: 24 per cent)
- NAV multiples generated from observations of comparable listed companies. (2021: between 0.42 and 1.47. 2020: 0.48 to 1.04)
- EBITDA multiples generated from observations of comparable listed companies. (2021: between 3.14 and 14.62. 2020: 3.5 to 14.53).

[66] NAV = net asset value; EBITDA = earnings before interest, tax, depreciation and amortisation; DCF = discounted cash flow.
[67] Banking share investments typically have an attached put and/or call option derivative. As such, any change in the underlying value of the equity may be offset by the change in the value of the derivative. For this reason, Banking share investments and the associated derivatives have been combined for the sensitivity analysis. For details of the EPF, see note 31 on page 84.

Notes to the financial statements

1. Establishment of the Bank

I. Agreement Establishing the Bank

The European Bank for Reconstruction and Development (the Bank), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 (the Agreement). At 31 December 2021, the Bank's members comprised 71 countries, together with the European Union and the European Investment Bank.

II. Headquarters Agreement

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

2. Segment information

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

Information on the financial performance of Banking and Treasury operations is prepared regularly and provided to the President, the Bank's chief operating decision-maker. On this basis, Banking and Treasury operations have been identified as the operating segments.

Segment performance

The President assesses the performance of the operating segments based on the net profit for the year, which is measured in a manner consistent with the financial statements and consistent with the prior year. The segment information provided to the President for the operating segments for the years ended 31 December 2021 and 31 December 2020 is as follows:

	Banking 2021 € million	Treasury 2021 € million	Aggregated 2021 € million	Restated Banking 2020 € million	Restated Treasury 2020 € million	Restated[68] Aggregated 2020 € million
Interest income	1,091	173	1,264	1,045	222	1,267
Other income[69]	1,789	80	1,869	367	107	474
Total segment revenue	2,880	253	3,133	1,412	329	1,741
Interest expense and similar charges	-	(272)	(272)	-	(468)	(468)
Net interest expense on derivatives	-	(109)	(109)	-	(35)	(35)
Internal funding charge	(287)	287	-	(357)	357	-
General administrative expenses	(390)	(25)	(415)	(389)	(25)	(414)
Depreciation and amortisation	(55)	(4)	(59)	(49)	(3)	(52)
Segment result before provisions and hedges	2,148	130	2,278	617	155	772
Fair value movement on non-qualifying and ineffective hedges	-	60	60	-	(3)	(3)
Provisions for impairment of loan investments and guarantees	164	-	164	(479)	-	(479)
Net profit for the year	2,312	190	2,502	138	152	290
Transfers of net income approved by the Board of Governors			(80)			(115)
Net profit after transfers approved by the Board of Governors			2,422			175
Segment assets						
Total assets	35,749	39,024	74,773	32,998	36,774	69,772
Segment liabilities						
Total liabilities	1,037	53,391	54,428	732	51,149	51,881

68 The 2020 presentation of this table has been restated to show separately the effect of internal transfer pricing between the Banking and Treasury segments.

69 Other income comprises the following line items in the income statement: Net fee and commission income; Net donor-related income; Dividend income; Net gains from share investments at fair value through profit or loss; Net gains from loans; Net gains from Treasury investments held at amortised cost; and Net gains from Treasury activities at fair value through profit or loss and foreign exchange.

Segment revenues – geographic

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

	Segment revenue 2021 € million	Segment revenue 2020 € million
Central Asia[70]	296	227
Central Europe and Baltics[71]	519	257
Cyprus and Greece	170	26
Eastern Europe and the Caucasus[72]	554	214
Russian Federation	338	112
South-eastern Europe[73]	362	188
Southern and Eastern Mediterranean[74]	351	181
Turkey	383	297
Other OECD[75]	160	239
Total	3,133	1,741

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

3. Net interest income

	2021 € million	2020 € million
Banking loans		
• At amortised cost	1,008	957
• At fair value through other comprehensive income	80	84
• At fair value through profit or loss	3	4
Interest income from Banking loans	1,091	1,045
Debt securities at amortised cost	63	114
Reverse repurchase agreements	12	9
Cash and short-term funds	38	92
Other	60	7
Interest income from fixed income debt securities and other interest	173	222
Debts evidenced by certificates	(209)	(428)
Amounts owed to credit institutions	(58)	(38)
Other	(5)	(2)
Interest expense and similar charges	(272)	(468)
Net interest expense on derivatives	(109)	(35)
Net interest income	883	764

Interest income accrued on credit-impaired financial assets during 2021 was €45 million (2020: €41 million).[76]

[70] Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.
[71] Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.
[72] Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine
[73] Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Montenegro, North Macedonia, Romania and Serbia
[74] Egypt, Jordan, Lebanon, Morocco and Tunisia
[75] Other member countries of the Organisation for Economic Co-operation and Development that are not included within the other categories. www.oecd.org/about/membersandpartners/
[76] This interest income equates to the unwinding of the discount on expected future cash flows from credit-impaired financial assets.

4. Net fee and commission income

The main components of net fee and commission income are as follows:

	2021 € million	2020 € million
Banking loan commitment charges	61	59
Other Banking loan fee income	10	16
Banking equity fee income	4	7
Other fee income	28	27
Fee and commission income	103	109
Risk participation fees	(21)	(17)
Banking equity fee expense	(6)	(6)
Other fee expenses	(5)	(6)
Fee and commission expense	(32)	(29)
Net fee and commission income	71	80

Front-end and appraisal fees of €63 million (2020: €81 million) received in 2021, together with related direct costs of €4 million (2020: €4 million), have been deferred on the balance sheet. They are recognised in interest income over the period from disbursement to repayment of the related loan as part of the loan's effective interest, in accordance with IFRS 9.

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

	2021 € million	2020 € million
Net gains/(losses) from listed share investments	270	(55)
Net gains from unlisted share investments	1,266	215
Net (losses)/gains from equity derivatives	(18)	65
Net gains attributable to the Equity Participation Fund[77]	(8)	(13)
Net gains from share investments at fair value through profit or loss	1,510	212

6. Net gains/(losses) from loans

	2021 € million	2020 € million
Gains/(losses) from loans at fair value through profit or loss	49	(38)
Gains from loans at fair value through other comprehensive income	4	1
Gains from loans at amortised cost	1	-
Net gains/(losses) from loans	54	(37)

7. Net gains from Treasury assets held at amortised cost

	2021 € million	2020 € million
Net gains from debt securities at amortised cost	2	2
Net gains from Treasury assets held at amortised cost	2	2

During the year the Bank sold €153 million of debt securities held at amortised cost (2020: €568 million).

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

	2021 € million	2020 € million
Debt buy-backs and termination of related derivatives	3	1
Net gains from trading activities	134	110
Allocated cost of funding	(59)	(6)
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	78	105

[77] For more information on the Equity Participation Fund please see note 31 on page 84.

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

	2021 € million	2020 € million
Hedge ineffectiveness recognised in the income statement from		
Fair value hedges – interest rate risk	(76)	40
Hedge ineffectiveness	(76)	40
Fair value movement on non-qualifying hedges	136	(43)
Net losses from Treasury activities at fair value through profit or loss	60	(3)

The hedging practices and accounting treatment are disclosed under "Derivative financial instruments and hedge accounting" on page 20 in the "Accounting policies" section of this report.

The fair value movement on non-qualifying and ineffective hedges represents an accounting mismatch in respect of hedging relationships undertaken by the Bank that either do not qualify for hedge accounting or do not fully offset when measured in accordance with IFRS. This difference will reverse over time as the underlying deals approach their maturities.

Fair value hedges – one-to-one hedge relationships

The Bank applies hedge accounting where there is an identifiable, one-to-one relationship between a hedging derivative instrument and a hedged cash instrument. These relationships predominantly arise within the context of the Bank's borrowing activities in which the Bank's issued bonds are combined with swaps to achieve floating-rate debt in the currency sought by the Bank. While such hedges are matched in cash flow terms, different valuation methodologies may apply to such cash flows, depending on market conventions for pricing different types of instrument.

One example of such a difference is a pricing component of currency swaps known as the basis swap spread, which is not applied to the related hedged bond. This component is a feature of supply and demand requirements for other currencies relative to the US dollar or the euro. To reduce the level of income statement volatility due to this factor, the Bank, under IFRS 9, elects to recognise these movements in hedging swap valuations in the statement of other comprehensive income. These amounts are then released to the income statement as hedge ineffectiveness over the life of the hedging relationship. Other pricing differentials between the hedging instruments and the hedged items are recognised directly in the income statement.

Cash flow hedges

The Bank hedges on an annual basis to minimise the exchange rate risk associated with incurring administrative expenses in pound sterling. In 2021 no gain or loss was recognised as ineffectiveness in the income statement arising from cash flow hedges, as was the case in 2020. At 31 December 2021 the Bank had yet to hedge the projected sterling expenditure for 2022.

Fair value hedges – portfolio hedging

In addition to the one-to-one hedge relationships for which the Bank applies hedge accounting, the Bank also hedges interest rate risk across total assets and liabilities on a portfolio basis, for which hedge accounting is not applied. This activity results in the gains or losses arising on the hedging derivative instruments being recognised in the periods in which they occur while the offsetting impact deriving from the hedged cash instruments will accrue over a different timescale in keeping with the interest rates applicable to the specific periods for those instruments. The gains or losses on the hedging instruments is disclosed as fair value movement on non-qualifying hedges.

The following tables provide information regarding instruments in designated hedge relationships.

Hedging instruments	Notional 2021 € million	Carrying amount Assets 2021 € million	Carrying amount Liabilities 2021 € million	Changes in fair value used for calculating hedge ineffectiveness 2021 € million
Fair value hedges – interest rate risk	35,400	3,424	(2,408)	(775)
Cash flow hedges – foreign exchange risk	-	-	-	18
	35,400	3,424	(2,408)	(757)

Hedging instruments	Notional 2020 € million	Carrying amount Assets 2020 € million	Carrying amount Liabilities 2020 € million	Changes in fair value used for calculating hedge ineffectiveness 2020 € million
Fair value hedges – interest rate risk	27,035	4,193	(1,505)	317
Cash flow hedges – foreign exchange risk	356	-	(1)	(19)
	27,391	4,193	(1,506)	298

The notional amount of the hedging instruments is profiled by timing of repayment in the following table.

Notional 2021	Less than 1 month € million	1–3 months € million	3 months–1 year € million	1–5 years € million	More than 5 years € million
Fair value hedges – interest rate risk	1,304	2,781	5,229	19,901	6,115
Cash flow hedges – foreign exchange risk	-	-	-	-	-
	1,304	2,781	5,229	19,901	6,115

Notional 2020	Less than 1 month € million	1–3 months € million	3 months–1 year € million	1–5 years € million	More than 5 years € million
Fair value hedges – interest rate risk	113	1,467	5,594	15,295	4,566
Cash flow hedges – foreign exchange risk	29	67	260	-	-
	142	1,534	5,854	15,295	4,566

The carrying value of the Bank's hedging instruments is reported within derivative financial instruments on the balance sheet.

Hedged items	Carrying amount 2021 € million	Accumulated hedge adjustments 2021 € million	Changes in fair value used for calculating hedge ineffectiveness 2021 € million
Fair value hedges – interest rate risk – assets	8,182	55	(205)
Fair value hedges – interest rate risk – liabilities	(38,330)	(1,552)	904
			699
Cash flow hedges – foreign exchange risk			(18)
			681

Hedged items	Carrying amount 2020 € million	Accumulated hedge adjustments 2020 € million	Changes in fair value used for calculating hedge ineffectiveness 2020 € million
Fair value hedges – interest rate risk – assets	7,920	238	93
Fair value hedges – interest rate risk – liabilities	(34,786)	(2,847)	(370)
			(277)
Cash flow hedges – foreign exchange risk			19
			(258)

The carrying value of the Bank's hedged items is reported on the balance sheet within debt securities in the case of hedged assets, and debts evidenced by certificates in the case of hedged liabilities. There are no accumulated hedged adjustments on assets or liabilities that have ceased to be adjusted for hedging gains and losses (2020: €nil).

The table below analyses the amounts recognised in other comprehensive income attributable to cash flow hedges. There are no amounts in the revaluation reserve relating to cash flow hedges where hedge accounting is no longer applied (2020: €nil).

Cash flow hedges	2021 € million	2020 € million
Fair value movements recognised in other comprehensive income	18	(19)
Amounts reclassified to general administrative expenses offsetting hedged FX movements	(18)	18
Losses on cash flow hedges recognised in other comprehensive income	-	(1)

10. Provisions for impairment of Banking loan investments[78]

Release/(charge) for the year	2021 € million	2020 € million
Impairment of loan investments at amortised cost in stages 1 and 2	115	(64)
Impairment of loan investments at amortised cost in stage 3[79]	37	(411)
Associated hedging costs[80]	-	(1)
Provisions for impairment of Banking loan investments at amortised cost	152	(476)
Provisions for impairment of Banking loan investments at fair value through other comprehensive income	9	(2)
Provisions for impairment of Banking loan investments	161	(478)

Movement in provisions	2021 € million	2020 € million
At 1 January	(1,141)	(946)
Charge for the year to the income statement[81]	152	(476)
Accrued interest income written off on newly credit-impaired loans	1	10
Unwinding of the discount on expected future cash flows of stage 3 assets	45	41
Foreign exchange adjustments	(46)	75
Release against amounts written off	26	155
At 31 December	(963)	(1,141)
Analysed between		
Stage 1 and 2 provisions for non-sovereign loan investments at amortised cost	(213)	(315)
Stage 1 and 2 provisions for sovereign loan investments at amortised cost	(17)	(20)
Stage 3 provisions for loan investments at amortised cost	(733)	(806)
At 31 December	(963)	(1,141)

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 lifetime 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.

[78] Provisions for loans held at fair value through other comprehensive income equated to €10 million (2020: €19 million). These provisions form part of the overall balance for loans at fair value through other comprehensive income on the balance sheet.
[79] Comprised of €98 million of new provisions against €135 million of released provisions (2020: €482 million against €71 million respectively).
[80] Provisions raised in non-euro currencies create foreign exchange exposures which Treasury hedges. To the extent that these hedges are transacted at different rates to the rates applied by the Bank's accounting system to translate the provisions into the euro equivalent amounts, the difference is recognised as part of the overall provision charge in the income statement.
[81] Excludes provisions for guarantees which are recorded in other liabilities.

Set out below is an analysis of the movements in the Banking loan investments held at amortised cost and the associated impairment provisions for each of the stages of impairment.

Movement in provisions	12-month ECL (Stage 1) 2021 € million	Lifetime ECL (Stage 2) 2021 € million	Lifetime ECL (Stage 3) 2021 € million	Total 2021 € million
At 1 January	173	162	806	1,141
New loans originated	34	-	-	34
Transfer to Stage 1	8	(26)	-	(18)
Transfer to Stage 2 – significant increase in credit risk	(21)	53	(17)	15
Transfer to Stage 3 – credit-impaired	-	(5)	34	29
ECL release – repayments/settlements	(8)	(14)	(4)	(26)
ECL release – write offs	-	-	(26)	(26)
Changes in model or risk parameters	(89)	(23)	(96)	(208)
Foreign exchange and other movements	(10)	(4)	36	22
At 31 December	87	143	733	963

Movement in loans at amortised cost	Loans Stage 1 2021 € million	Loans Stage 2 2021 € million	Loans Stage 3 2021 € million	Total 2021 € million
At 1 January	20,676	3,776	1,564	26,016
Disbursements	7,804	384	34	8,222
Transfer to Stage 1	220	(220)	-	-
Transfer to Stage 2 – significant increase in credit risk	(1,234)	1,276	(42)	-
Transfer to Stage 3 – credit-impaired	(11)	(69)	80	-
Repayments/settlements	(6,528)	(708)	(247)	(7,483)
Write offs	-	-	(26)	(26)
Reclassification	(53)	-	-	(53)
Remeasurement of previously impaired loans	-	5	-	5
Foreign exchange and other movements	382	71	74	527
At 31 December	21,256	4,515	1,437	27,208

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	162	132	652	946
New loans originated	73	-	-	73
Transfer to Stage 1	29	(37)	-	(8)
Transfer to Stage 2 – significant increase in credit risk	(87)	157	(9)	61
Transfer to Stage 3 – credit-impaired	(7)	(62)	428	359
ECL release – repayments/settlements	(10)	(23)	(47)	(80)
ECL release – write offs	-	-	(155)	(155)
Changes in model or risk parameters	1	7	(12)	(4)
Foreign exchange and other movements	12	(12)	(51)	(51)
At 31 December	173	162	806	1,141

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	19,994	2,986	1,138	24,118
New banking loans originated	9,622	-	-	9,622
Transfer to Stage 1	134	(134)	-	-
Transfer to Stage 2 – significant increase in credit risk	(2,300)	2,359	(59)	-
Transfer to Stage 3 – credit-impaired	(357)	(575)	932	-
Repayments/settlements	(5,197)	(683)	(254)	(6,134)
Write offs	-	-	(155)	(155)
Remeasurement of previously impaired loans	-	2	-	2
Foreign exchange and other movements	(1,220)	(179)	(38)	(1,437)
At 31 December	20,676	3,776	1,564	26,016

11. General administrative expenses

	2021 € million	2020 € million
Personnel costs	(309)	(324)
Overhead expenses	(110)	(94)
General administrative expenses	(419)	(418)
Deferral of direct costs related to loan origination	4	4
Net general administrative expenses	(415)	(414)

The Bank's expenses are predominantly incurred in pound sterling. The pound sterling equivalent of the Bank's €415 million general administrative expenses, excluding depreciation and amortisation, totalled £383 million (2020: £349 million).

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

Audit and assurance services	2021 € 000	Restated[82] 2020 € 000
Services as auditor of the Bank	(938)	(876)
Internal controls framework assurance	(178)	(152)
Retirement plan audit	(36)	(34)
Audit and assurance services	(1,152)	(1,062)

[82] Following 14 April 2021, the signing date of the 2020 Financial Report, the Bank agreed an increase of €206,000 to the fees payable to the external auditor in respect of the 2020 audit services. The 2020 balances have been updated to reflect this increase in fees.

12. Placements with and advances to credit institutions

Analysed between	2021 € million	2020 € million
Cash and cash equivalents	5,176	3,942
Other current placements and advances	17,443	14,739
Non-current placements and advances	-	9
At 31 December	22,619	18,690

Cash and cash equivalents are those placements and advances which have an original tenor equal to, or less than, three months. "Current" is defined as those assets maturing, or liabilities due, within the next 12 months. All other assets or liabilities are "non-current".

13. Debt securities

	2021 € million	2020 € million
Debt securities at fair value through profit or loss	1,050	1,741
Debt securities at amortised cost	10,304	11,243
At 31 December	11,354	12,984
Analysed between		
Current	2,667	4,539
Non-current	8,687	8,445
At 31 December	11,354	12,984

There were no impairment losses relating to debt securities in 2021 (2020: €nil).

14. Other financial assets

	2021 € million	2020 € million
Fair value of derivatives designated as fair value hedges	3,425	4,193
Fair value of portfolio derivatives not designated as hedges	1,319	637
Fair value of derivatives held in relation to the banking portfolio	216	200
Interest receivable	252	259
Paid-in capital receivable	3	5
Other	215	180
At 31 December	5,430	5,474
Analysed between		
Current	1,051	805
Non-current	4,379	4,669
At 31 December	5,430	5,474

15. Banking loan investments at amortised cost

	Sovereign loans 2021 € million	Non-sovereign loans 2021 € million	Total loans 2021 € million	Sovereign loans 2020 € million	Non-sovereign loans 2020 € million	Total loans 2020 € million
At 1 January	5,133	20,883	26,016	4,770	19,348	24,118
Disbursements	1,160	7,062	8,222	1,131	8,491	9,622
Repayments and prepayments	(860)	(6,623)	(7,483)	(610)	(5,524)	(6,134)
Remeasurement of previously impaired loans	-	5	5	-	2	2
Foreign exchange movements	117	407	524	(126)	(1,232)	(1,358)
Movement in effective interest rate adjustment	(26)	29	3	(32)	(47)	(79)
Reclassification	-	(53)	(53)	-	-	-
Written off	-	(26)	(26)	-	(155)	(155)
At 31 December	5,524	21,684	27,208	5,133	20,883	26,016
Impairment at 31 December	(17)	(946)	(963)	(20)	(1,121)	(1,141)
Total net of impairment at 31 December	5,507	20,738	26,245	5,113	19,762	24,875
Analysed between						
Current			5,050			4,675
Non-current			21,195			20,200
Total net of impairment at 31 December	5,507	20,738	26,245	5,113	19,762	24,875

At 31 December 2021 the Bank categorised 95 loan investments at amortised cost as Stage 3 credit-impaired, with operating assets totalling €1,437 million (2020: 106 loans totalling €1,564 million). Specific provisions on these assets amounted to €733 million (2020: €806 million).

16. Banking loan investments at fair value through other comprehensive income

Non-sovereign loans	2021 € million	2020 € million
At 1 January	2,280	2,494
Movement in fair value revaluation	(46)	(23)
Movement in expected credit loss	8	-
Repayments and prepayments	(352)	(143)
Foreign exchange movements	9	(51)
Movement in effective interest rate adjustment	8	3
At 31 December	1,907	2,280
Analysed between		
Current	147	216
Non-current	1,760	2,064
Total net of impairment at 31 December	1,907	2,280

At 31 December 2021 the Bank categorised no loan investments at fair value through other comprehensive income as non-performing.

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

	Sovereign 2021 € million	Non-sovereign 2021 € million	Total 2021 € million	Sovereign 2020 € million	Non-sovereign 2020 € million	Total 2020 € million
At 1 January	-	319	319	-	409	409
Movement in fair value revaluation	(8)	35	27	-	(29)	(29)
Disbursements	65	175	240	-	38	38
Repayments and prepayments	-	(80)	(80)	-	(77)	(77)
Reclassification	-	53	53	-	-	-
Foreign exchange movements	1	15	16	-	(22)	(22)
At 31 December	58	517	575	-	319	319
Analysed between						
Current	-	16	16	-	51	51
Non-current	58	501	559	-	268	268
At 31 December	58	517	575	-	319	319

At 31 December 2021 the Bank categorised five loan investments at fair value through profit or loss as non-performing, with operating assets of €30 million (2020: four loans with operating assets of €33 million). Net fair value losses on these assets amounted to €17 million (2020: €22 million). During 2021 the Bank wrote off no loan investments at fair value through profit or loss (2020: €39 million operating assets written off).

18. Share investments at fair value through profit or loss

	Fair value Unlisted 2021 € million	Fair value Listed 2021 € million	Fair value Total 2021 € million	Fair value Unlisted 2020 € million	Fair value Listed 2020 € million	Fair value Total 2020 € million
Outstanding disbursements						
At 1 January	3,154	1,552	4,706	3,274	1,544	4,818
Transfer between unlisted and listed	-	-	-	(31)	31	-
Disbursements	502	113	615	277	124	401
Disposals	(525)	(217)	(742)	(364)	(147)	(511)
Written off	-	-	-	(2)	-	(2)
At 31 December	3,131	1,448	4,579	3,154	1,552	4,706
Fair value adjustment						
At 1 January	71	95	166	9	243	252
Transfer between unlisted and listed	-	-	-	(12)	12	-
Movement in fair value revaluation	949	316	1,265	74	(160)	(86)
At 31 December	1,020	411	1,431	71	95	166
Fair value at 31 December	4,151	1,859	6,010	3,225	1,647	4,872

Summarised financial information on share investments where the Bank owned greater than, or equal to, 20 per cent of the investee share capital at 31 December 2021 (venture capital associates), is detailed in note 30 "Related parties" on page 82.

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

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

Share investment designated at fair value through other comprehensive income	2021 € million	2020 € million
The Currency Exchange Fund N.V.	131	105
SWIFT	-	-
At 31 December	131	105

No dividend income was received on these share investments during 2021 (2020: €nil).

20. Intangible assets

	Computer software development costs 2021 € million	Computer software development costs 2020 € million
Cost		
At 1 January	191	169
Additions	48	27
Disposals	-	(5)
At 31 December	239	191
Amortisation		
At 1 January	(114)	(100)
Charge	(15)	(17)
Disposals	-	3
At 31 December	(129)	(114)
Net book value at 31 December	110	77

21. Property and equipment

	Property 2021 € million	Property under construction 2021 € million	Office equipment 2021 € million	Right-of-use assets 2021 € million	Other 2021 € million	Total 2021 € million
Cost						
At 1 January	84	5	21	91	33	234
Additions	2	34	1	303	-	340
Disposals	(3)	-	(2)	(1)	-	(6)
At 31 December	**83**	**39**	**20**	**393**	**33**	**568**
Depreciation						
At 1 January	(67)	-	(18)	(45)	(8)	(138)
Charge	(8)	-	(1)	(32)	(3)	(44)
Disposals	3	-	2	1	-	6
At 31 December	**(72)**	**-**	**(17)**	**(76)**	**(11)**	**(176)**
Net book value at 31 December 2021	**11**	**39**	**3**	**317**	**22**	**392**

	Property 2020 € million	Property under construction 2020 € million	Office equipment 2020 € million	Right-of-use assets 2020 € million	Other 2020 € million	Total 2020 € million
Cost						
At 1 January	84	1	20	89	33	227
Additions	-	4	1	4	-	9
Disposals	-	-	-	(2)	-	(2)
At 31 December	**84**	**5**	**21**	**91**	**33**	234
Depreciation						
At 1 January	(59)	-	(16)	(23)	(7)	(105)
Charge	(8)	-	(2)	(24)	(1)	(35)
Disposals	-	-	-	2	-	2
At 31 December	**(67)**	**-**	**(18)**	**(45)**	**(8)**	(138)
Net book value at 31 December 2020	**17**	**5**	**3**	**46**	**25**	96

22. Borrowings

	2021 € million	2020 € million
Amounts owed to credit institutions and other third parties		
Amounts owed to credit institutions	(91)	(181)
Amounts held as collateral	(552)	(724)
Amounts held and managed on behalf of third parties[83]	(357)	(448)
At 31 December	(1,000)	(1,353)
Of which current:	(1,000)	(1,353)

23. Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates are summarised below by currency. A significant proportion of the Bank's debts evidenced by certificates are hedged in a one-to-one hedging relationship with a cross-currency swap. On these bond issuances, as the bond's cash flows are offset by equivalent cash flows on the swap, the Bank's funding costs are effectively incurred in the currency of the funding leg of the swap. The table below therefore also presents the outstanding debts evidenced by certificates by currency after factoring in these currency hedges.

	Bond denominations 2021 € million	Currency after swap 2021 € million	Bond denominations 2020 € million	Currency after swap 2020 € million
Australian dollar	(1,271)	(38)	(977)	(126)
Brazilian real	(330)	-	(284)	-
Chinese yuan	(909)	-	(584)	-
Euro	(8,196)	(8,526)	(6,044)	(6,365)
Indonesian rupiah	(1,225)	-	(1,072)	-
Indian rupee	(599)	-	(246)	-
Kazakh tenge	(1,206)	(1,196)	(1,527)	(1,527)
Mexican peso	(543)	-	(469)	-
New Turkish lira	(807)	-	(1,720)	-
Pound sterling	(7,169)	(1,994)	(6,129)	(1,602)
Russian rouble	(573)	-	(369)	-
Swedish krona	(648)	-	(596)	-
South African rand	(858)	-	(1,398)	-
United States dollar	(22,438)	(36,351)	(23,509)	(36,546)
Other currencies	(2,354)	(1,021)	(2,002)	(760)
At 31 December	**(49,126)**	**(49,126)**	**(46,926)**	**(46,926)**

Where the swap counterparty exercises a right to terminate the hedging swap prior to legal maturity, the Bank is committed to exercise the same right with its issued bond.

Analysed between	2021 € million	2020 € million
Current	(14,690)	(14,165)
Non-current	(34,436)	(32,761)
Debts evidenced by certificates at 31 December	(49,126)	(46,926)

During the year the Bank redeemed €307 million of bonds and medium-term notes prior to maturity (2020: €213 million), generating a net gain of €3 million (2020: €1 million).

[83] See note 31 on page 84 for details of third parties.

The table below provides a reconciliation of the movements in debts evidenced by certificates for the year ended 31 December 2021, including both changes arising from cash flows and non-cash changes.[84]

For the year ended 31 December 2021	Opening balance 2021 € million	Net cash flows € million	Fair value hedging adjustment € million	Foreign exchange movements € million	Deals pending settlement € million	2021 € million
Debts evidenced by certificates	46,926	1,321	(1,160)	2,039	-	49,126

	Opening balance 2020 € million	Net cash flows € million	Fair value hedging adjustment € million	Foreign exchange movements € million	Deals pending settlement € million	2020 € million
Debts evidenced by certificates	45,821	4,342	930	(4,164)	(3)	46,926

24. Other financial liabilities

	2021 € million	2020 € million
Fair value of derivatives designated as fair value hedges	(2,408)	(1,505)
Fair value of derivatives designated as cash flow hedges	-	(1)
Fair value of portfolio derivatives not designated as hedges	(576)	(1,125)
Fair value of other derivatives held in relation to the banking portfolio	(149)	(102)
Interest payable	(257)	(231)
Amounts payable to the Equity Participation Fund	(195)	(174)
Lease liability	(335)	(49)
Other	(382)	(415)
At 31 December	(4,302)	(3,602)
Analysed between		
Current	(1,051)	(1,385)
Non-current	(3,251)	(2,217)
At 31 December	(4,302)	(3,602)

25. Subscribed capital

	Number of shares 2021	Total 2021 € million	Number of shares 2020	Total 2020 € million
Authorised shared capital	3,000,000	30,000	3,000,000	30,000
of which				
Subscribed capital	2,975,874	29,759	2,975,468	29,755
Unsubscribed capital	24,126	241	24,532	245
At 31 December	3,000,000	30,000	3,000,000	30,000

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of €10,000. The Bank's most recent increase in capital became effective in April 2011, when the Bank's authorised capital stock was increased by 100,000 paid-in shares and by 900,000 callable shares, each share having a par value of €10,000.

Article 42.1 of the Agreement states that in the event of the termination of the Bank's operations, the liability of all members for all uncalled subscriptions to the capital stock will continue until all claims of creditors, including all contingent claims, have been discharged. The Agreement allows for a member to withdraw from the Bank, in which case the Bank is required to repurchase the former member's shares. No member has ever withdrawn its membership.

[84] The Bank's financing liabilities comprise debts evidenced by certificates and lease liabilities. A similar reconciliation of the movements in lease liabilities can be found in Note 28 on page 78.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the number of votes, is set out in the following table. Under Article 29 of the Agreement, the voting rights of members that have not paid any part of the amounts due in respect of their capital subscription are proportionately reduced until payment is made.

Statement of capital subscriptions

At 31 December 2021 Members	Total shares (number)	Resulting votes[85] (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Albania	3,001	3,001	30.01	23.75	6.26
Algeria	203	203	2.03	1.66	0.37
Armenia	1,499	1,499	14.99	11.86	3.13
Australia	30,014	30,014	300.14	237.54	62.60
Austria	68,432	68,432	684.32	541.59	142.73
Azerbaijan	3,001	3,001	30.01	23.75	6.26
Belarus	6,002	6,002	60.02	47.50	12.52
Belgium	68,432	68,432	684.32	541.59	142.73
Bosnia and Herzegovina	5,071	5,071	50.71	40.14	10.57
Bulgaria	23,711	23,711	237.11	187.65	49.46
Canada	102,049	102,049	1,020.49	807.64	212.85
China	2,900	2,900	29.00	23.75	5.25
Croatia	10,942	10,942	109.42	86.60	22.82
Cyprus	3,001	3,001	30.01	23.75	6.26
Czech Republic	25,611	25,611	256.11	202.69	53.42
Denmark	36,017	36,017	360.17	285.05	75.12
Egypt	3,087	3,087	30.87	22.82	8.05
Estonia	3,001	3,001	30.01	23.75	6.26
European Investment Bank	90,044	90,044	900.44	712.63	187.81
European Union	90,044	90,044	900.44	712.63	187.81
Finland	37,518	37,518	375.18	296.92	78.26
France	255,651	255,651	2,556.51	2,023.28	533.23
Georgia	3,001	3,001	30.01	23.75	6.26
Germany	255,651	255,651	2,556.51	2,023.28	533.23
Greece	19,508	19,508	195.08	154.39	40.69
Hungary	23,711	23,711	237.11	187.65	49.46
Iceland	3,001	3,001	30.01	23.75	6.26
India	986	986	9.86	8.07	1.79
Ireland	9,004	9,004	90.04	71.26	18.78
Israel	19,508	19,508	195.08	154.39	40.69
Italy	255,651	255,651	2,556.51	2,023.28	533.23
Japan	255,651	255,651	2,556.51	2,023.28	533.23
Jordan	986	986	9.86	8.07	1.79
Kazakhstan	6,902	6,902	69.02	54.62	14.40
Republic of Korea	30,014	30,014	300.14	237.54	62.60
Kosovo	580	580	5.80	4.75	1.05
Kyrgyz Republic	2,101	1,079	21.01	14.75	6.26
Latvia	3,001	3,001	30.01	23.75	6.26
Lebanon	986	986	9.86	8.07	1.79
Libya	986	986	9.86	8.07	1.79
Liechtenstein	599	599	5.99	4.74	1.25
Lithuania	3,001	3,001	30.01	23.75	6.26
Luxembourg	6,002	6,002	60.02	47.50	12.52
Malta	210	210	2.10	1.47	0.63
Mexico	4,501	4,501	45.01	34.50	10.51
Moldova	3,001	3,001	30.01	23.75	6.26
Mongolia	299	299	2.99	2.36	0.63
Montenegro	599	599	5.99	4.74	1.25
Morocco	2,464	2,464	24.64	19.35	5.29
Netherlands	74,435	74,435	744.35	589.10	155.25

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

At 31 December 2021 Members	Total shares (number)	Resulting votes[85] (number)	Total capital € million	Callable capital € million	Paid-in capital € million
New Zealand	1,050	1,050	10.50	7.00	3.50
North Macedonia	1,762	1,762	17.62	13.31	4.31
Norway	37,518	37,518	375.18	296.92	78.26
Poland	38,418	38,418	384.18	304.05	80.13
Portugal	12,605	12,605	126.05	99.76	26.29
Romania	14,407	14,407	144.07	114.02	30.05
Russian Federation	120,058	120,058	1,200.58	950.17	250.41
San Marino	203	203	2.03	1.66	0.37
Serbia	14,031	14,031	140.31	111.05	29.26
Slovak Republic	12,807	12,807	128.07	101.36	26.71
Slovenia	6,295	6,295	62.95	49.82	13.13
Spain	102,049	102,049	1,020.49	807.64	212.85
Sweden	68,432	68,432	684.32	541.59	142.73
Switzerland	68,432	68,432	684.32	541.59	142.73
Tajikistan	2,101	2,101	21.01	14.75	6.26
Tunisia	986	986	9.86	8.07	1.79
Turkey	34,515	34,515	345.15	273.16	71.99
Turkmenistan	210	210	2.10	1.47	0.63
Ukraine	24,011	24,011	240.11	190.03	50.08
United Arab Emirates	203	203	2.03	1.66	0.37
United Kingdom	255,651	255,651	2,556.51	2,023.28	533.23
United States of America	300,148	300,148	3,001.48	2,375.44	626.04
Uzbekistan	4,412	4,412	44.12	30.97	13.15
Capital subscribed by members	**2,975,874**	**2,974,852**	**29,758.74**	**23,541.29**	**6,217.45**

26. Reserves and retained earnings[86]

For the year ended 31 December 2021	Special reserve € million	Loan loss reserve € million	SEMED co-operation funds € million	Revaluation reserves € million	General reserves and retained earnings € million	Total € million
At 1 January	**306**	**324**	**5**	**82**	**10,957**	**11,674**
Net profit for the year	-	-	-	-	2,502	2,502
Transfers of net income approved by the Board of Governors	-	-	-	-	(80)	(80)
Movement in loan loss reserve	-	108	-	-	(108)	-
SEMED cooperation funds disbursements	-	-	(1)	-	1	-
Revaluation of share investments at fair value through other comprehensive income	-	-	-	26	-	26
Revaluation of loan investments at fair value through other comprehensive income	-	-	-	(39)	-	(39)
Changes in value of hedging instruments recognised in other comprehensive income – fair value hedges	-	-	-	(26)	-	(26)
Changes in value of hedging instruments recognised in other comprehensive income – cash flow hedges	-	-	-	-	-	-
Actuarial movements on defined benefit scheme	-	-	-	-	71	71
At 31 December	**306**	**432**	**4**	**43**	**13,343**	**14,128**

[86] The information presented in this table provides an alternative view to the statement of changes in equity (SOCIE) on page 15. The "Revaluation reserve" and "Hedging reserve" presented in the SOCIE equate to the "Revaluation reserves" presented in this table. The other reserves presented in this table equate to the "Actuarial remeasurement" and "Retained earnings" visible in the SOCIE.

For the year ended 31 December 2020	Special reserve € million	Loan loss reserve € million	SEMED co-operation funds € million	Revaluation reserves € million	General reserves and retained earnings € million	Total € million
At 1 January	306	462	8	186	10,651	11,613
Net profit for the year	-	-	-	-	290	290
Transfers of net income approved by the Board of Governors	-	-	-	-	(115)	(115)
Movement in loan loss reserve	-	(138)	-	-	138	-
SEMED cooperation funds disbursements	-	-	(3)	-	3	-
Revaluation of share investments at fair value through other comprehensive income	-	-	-	(7)	-	(7)
Revaluation of loan investments at fair value through other comprehensive income	-	-	-	(27)	-	(27)
Changes in value of hedging instruments recognised in other comprehensive income – fair value hedges	-	-	-	(69)	-	(69)
Changes in value of hedging instruments recognised in other comprehensive income – cash flow hedges	-	-	-	(1)	-	(1)
Actuarial movements on defined benefit scheme	-	-	-	-	(10)	(10)
At 31 December	306	324	5	82	10,957	11,674

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

In 2005, the Bank created a **loan loss reserve** (LLR) within members' equity, to set aside an amount of retained earnings equal to the difference between the impairment losses expected over the life of the loan portfolio and the amount recognised on the Bank's balance sheet in accordance with IFRS impairment rules.

The **SEMED cooperation funds** was established in 2011 for the purpose of providing technical assistance to member countries in the SEMED region.

The **revaluation reserves** contain fair value movements recognised on the Bank's assets and liabilities that are recorded as other comprehensive income.

- Fair value movements on financial assets classified at fair value through other comprehensive income. At 31 December 2021 there was an accumulated valuation gain of €97 million on these assets (2020: €111 million gain).
- Valuation adjustments on designated hedging instruments held by the Bank as fair value hedges that are attributable to movements in foreign currency basis spreads. These deferred gains or losses will be released from reserves over the remaining life of the hedging relationship. At 31 December 2021 there was a deferred loss of €54 million on these hedging instruments (2020: €28 million loss).
- Valuation adjustments on designated hedging instruments held by the Bank as cash flow hedges. These deferred gains or losses are released from reserves when the hedged cash flows occur. At 31 December 2021 there were no designated cash flow hedges and therefore no deferred gains or losses held in reserves (2020: €1 million deferred loss).

General reserves and retained earnings represents all reserves except those amounts otherwise allocated to separate reserves, and it primarily comprises retained earnings.

During 2021, the Board of Governors approved the transfer of €80 million of net income to be allocated to other purposes. This amount was reflected in the 2021 statement of changes in equity. Under Resolution No. 241*:* 2020 Net Income Allocation*,* €65 million was allocated to the EBRD Shareholder Special Fund and €15 million was allocated as a contribution to the EBRD Trust Fund for the West Bank and Gaza.

27. Undrawn commitments and guarantees

Analysis by instrument	2021 € million	2020 € million
Undrawn commitments		
Loans	12,722	12,123
Share investments	1,484	1,377
At 31 December	**14,206**	**13,500**
Guarantees		
Trade finance guarantees	1,285	1,239
Other guarantees	376	342
At 31 December	**1,661**	**1,581**
Undrawn commitments and guarantees at 31 December	**15,867**	**15,081**

28. Leases

The Bank leases its Headquarters building in London and all of its Resident Office buildings in the economies in which it invests. These are standard commercial operating leases and can include renewal options, periodic rent reviews and are mostly non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant leases are those for the Bank's present and future Headquarters buildings.

The lease for the present Headquarters building is due to expire in 2022. Rent payable under the terms of this lease is reviewed every five years and changes in rent are based on market rates. The most recent review was completed in 2016 from which there was no increase in rent.

On the 1st of May 2019, the Bank entered into an "agreement for lease" for a 20-year lease, commencing in 2022, on a new Headquarters building located in London. While the Bank has yet to move Headquarters, its right to use the new Headquarters (for the purpose of fitting out the premises) commenced in 2021 and as such the associated right-of-use asset and lease liability are now reflected on the balance sheet and in the tables below. The net annual future payment by the EBRD in respect of this "agreement to lease" will be £17 million (€19 million). The Bank has the option to terminate this lease after 15 years.

Right-of-use assets	HQ lease 2021 € million	RO leases 2021 € million	Total 2021 € million
At 1 January	67	24	91
Additions	298	5	303
Disposals	-	(1)	(1)
At 31 December	**365**	**28**	**393**
Depreciation			
At 1 January	**(34)**	**(11)**	**(45)**
Charge	(27)	(5)	(32)
Disposals	-	1	1
At 31 December	**(61)**	**(15)**	**(76)**
Net book value at 31 December	**304**	**13**	**317**

Right-of-use assets	HQ lease 2020 € million	RO leases 2020 € million	Total 2020 € million
At 1 January	67	22	89
Additions	-	4	4
Disposals	-	(2)	(2)
At 31 December	67	24	91
Depreciation			
At 1 January	(17)	(6)	(23)
Charge	(17)	(7)	(24)
Disposals	-	2	2
At 31 December	(34)	(11)	(45)
Net book value at 31 December	33	13	46

Lease liabilities[87]	HQ lease 2021 € million	RO leases 2021 € million	Total 2021 € million
At 1 January	**(37)**	**(12)**	**(49)**
Interest expense	(3)	-	(3)
Lease payments	22	7	29
Additions	(296)	(4)	(300)
Change in lease terms	-	(3)	(3)
FX movements	(8)	-	(8)
At 31 December	**(322)**	**(12)**	**(334)**

Lease liabilities	HQ lease 2020 € million	RO leases 2020 € million	Total 2020 € million
At 1 January	**(61)**	**(16)**	**(77)**
Interest expense	(1)	-	(1)
Lease payments	21	7	28
Additions	-	(3)	(3)
FX movements	4	-	4
At 31 December	**(37)**	**(12)**	**(49)**

The table below outlines the undiscounted lease payments arising from the lease liabilities.

Future lease payments	Less than 1 year 2022 € million	1-5 years 2022 € million	5-10 years 2022 € million	Over 10 years 2022 € million	Total 2022 € million
Undiscounted future lease outflows	(20)	(29)	(114)	(238)	(401)
Undiscounted future lease incentive payments	20	-	-	-	20
Implicit interest charge	4	15	15	13	47
Present value of lease liabilities	**4**	**(14)**	**(99)**	**(225)**	**(334)**

87 The Bank's financing liabilities comprise debts evidenced by certificates and lease liabilities. A similar reconciliation of the movements in debts evidenced by certificates can be found in Note 23 on page 73.

29. Staff retirement schemes

There are two retirement plans in operation. The FSP is a defined benefit scheme, to which only the Bank contributes. The MPP is a defined contribution scheme to which both the Bank and staff contribute, with Plan members making individual investment decisions. Both plans provide a lump sum benefit on leaving the Bank or at retirement age, meaning that retirement plan obligations to staff once they have left the Bank or retired are minimal (being limited to inflation adjustments on undrawn or deferred benefits under each plan), and the value of the plan obligations is not materially sensitive to mortality projections.

Defined benefit scheme

A qualified actuary performs a full actuarial valuation of the FSP at least every three years using the projected unit method, with a more high-level interim valuation performed annually. The most recent full valuation was carried out on 30 June 2020 which, for the purposes of IAS 19: Employee Benefits, was rolled forward to 31 December 2021. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

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

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

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

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

Amounts recognised in the balance sheet are as follows:

	2021 € million	2020 € million
Fair value of plan assets	749	604
Present value of the defined benefit obligation	(727)	(630)
Net defined benefit liability at 31 December	**22**	**(26)**
Movement in the net defined benefit asset/(liability) (included in "Other assets/(liabilities)"):		
At 1 January	(26)	(13)
Contributions paid[88]	38	45
Total expense as below	(61)	(48)
Remeasurement effects recognised in other comprehensive income	71	(10)
At 31 December	**22**	**(26)**

The amounts recognised in the income statement are as follows:

	2021 € million	2020 € million
Current service cost	(59)	(49)
Effect of exchange rate movement	(2)	1
Total included in staff costs	**(61)**	**(48)**

[88] Contributions for 2022 are expected to be €39 million.

Principal actuarial assumptions used:

	2021	2020
Discount rate	1.80%	1.15%
Expected return on plan assets	1.80%	1.15%
Price inflation	3.95%	3.30%
Future salary increases	3.95%	3.30%
Weighted average duration of the defined benefit obligation	11 years	11 years

Sensitivity analysis on the key actuarial assumptions:

	Assumption	Sensitivity	(Decrease)/increase in DBO € million
Discount rate	1.80%	+0.5% pa	(37)
Discount rate	1.80%	-0.5% pa	40
Price inflation	3.95%	+0.25% pa	19
Price inflation	3.95%	-0.25% pa	(18)

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

Plan asset allocation	Listed 2021 € million	Unlisted 2021 € million	Total 2021 € million	Listed 2020 € million	Unlisted 2020 € million	Total 2020 € million
Equities	356	65	421	279	61	340
Index-linked bonds	266	-	266	213	-	213
Cash and net current assets	7	-	7	2	-	2
Hedge fund assets	-	55	55	-	49	49
Fair value of plan assets	**629**	**120**	**749**	**494**	**110**	**604**

Changes in the present value of the defined benefit obligation are as follows:	2021 € million	2020 € million
Present value of defined benefit obligation at 1 January	(630)	(576)
Service cost	(59)	(49)
Interest cost	(8)	(10)
Effect of exchange rate movement	(45)	31
Actuarial loss arising due to changes in assumptions[89]	(1)	(42)
Benefits paid	16	16
Present value of defined benefit obligation at 31 December	(727)	(630)

Changes in the fair value of plan assets are as follows:	2021 € million	2020 € million
Present value of plan assets at 1 January	604	563
Interest income on plan assets	8	10
Return on assets greater than discount rate	72	32
Effect of exchange rate movement	43	(30)
Contributions paid	38	45
Benefits paid	(16)	(16)
Present value of plan assets at 31 December	749	604

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

Experience gains and losses	2021 € million	2020 € million
Defined benefit obligation	(727)	(630)
Plan assets	749	604
Surplus/(deficit)	22	(26)
Experience losses on plan liabilities:		
Amount	(4)	-
Percentage of the present value of the plan liabilities	(0.5%)	(0.0%)
Actual return less expected return on plan assets:		
Amount	72	32
Percentage of the present value of the plan assets	9.6%	5.3%

Defined contribution scheme

The charge recognised in the income statement under the MPP was €21 million (2020: €20 million) and is included in "General administrative expenses".

Other long-term employee benefits

The Bank maintains a medical retirement benefit plan to provide staff retiring from the Bank, aged 50 or over and with at least seven years' service, with a lump sum benefit to help purchase medical insurance cover. The total charge for the year was €6 million (2020: €6 million).

30. Related parties

The Bank has the following related parties:

Key management personnel

Key management personnel comprise: the President and other members of the Bank's Executive Committee, Managing Directors and the Director of the President's Office.

Salaries and other benefits payable to key management personnel in 2021 amounted to €18 million (2020: €17 million). This comprises salary and employee benefits of €15 million (2020: €14 million) and post-employment benefits of €3 million (2020: €3 million).

In pound sterling terms, the salaries and other benefits payable to key management personnel in 2021 amounted to £16 million (2020: £15 million), comprising salary and employee benefits of £13 million (2020: £12 million) and post-employment benefits of £3 million (2020: £3 million).

Venture capital associates

The Bank, as a venture capital organisation, has invested in a number of associates that it accounts for at fair value through profit or loss. At 31 December 2021, according to the 2020[90] audited financial statements (and where these are not available, the most recent unaudited management information) from the investee companies, these venture capital associates had total assets of €32.2 billion (2020: €28.5 billion) and total liabilities of €22.8 billion (2020: €16.6 billion). For the year ended 31 December 2020, these associates had income of €5.0 billion (2020: €4.2 billion) and made €1.8 billion profit before tax (2020: €1.0 billion).

In addition, as at 31 December 2021, the Bank had outstanding €27 million (2020: €9 million) of financing to these companies on which it had earned no interest income during the year (2020: nil).

[90] The 2020 financial statements are the most recent available.

Set out below is summarised financial information for the associates deemed material[91] to the Bank. The information presented is based on the latest set of audited financial statements available at the time, which was 31 December 2020.

	Meridiam Infrastructure Eastern Europe (SCA) SICAR € million	Nova KBM € million	Raiffeisen Bank Aval Joint Stock Company € million
EBRD ownership percentage	25.0%	20.0%	30.0%
Principal place of business	Eastern Europe	Slovenia	Ukraine
Place of incorporation	Luxembourg	Jersey	Ukraine
Dividends received from the associate	-	11	19
Summarised balance sheet			
Current assets	18	4,440	1,516
Current liabilities	12	7,227	3,052
Non-current assets	577	4,737	1,961
Non-current liabilities	-	958	1
Summarised total comprehensive income statement			
Revenue	91	257	323
Profit or loss from continuing operations	86	211	133
Other comprehensive income	-	(3)	2
Total comprehensive income	86	208	135

Special Funds

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered under the terms of the rules and regulations for each such Special Fund. At 31 December 2021 the Bank administered 17 Special Funds (2020: 17 Funds) with aggregate pledged contributions and associated fees amounting to €3.4 billion (2020: €2.9 billion).

The Bank acts as manager and administrator of the Special Funds for which it receives management fees and recovers certain costs. In 2021 these fees amounted to €7.2 million (2020: €5.7 million) of which €5.9 million was receivable at 31 December 2021 (2020: €5.2 million).

The Bank obtains guarantees from certain Special Funds in respect of specific exposures arising in its trade finance portfolios for which it paid €nil in 2021 (2020: €0.1 million). In addition, the Bank also benefits from fee-free guarantee arrangements with certain Special Funds for losses which it could potentially incur in its investment activities. The provision of these guarantees qualifies such Special Funds as unconsolidated structured entities within the meaning of IFRS 12. The Bank's only exposure to these Special Funds would arise in the period between recognising a guarantee receivable on its balance sheet and the settlement of that receivable. At 31 December 2021 the Bank had €1.3 million of such exposures (2020: €1.9 million).

The Board of Governors have approved transfers of net income to Special Funds. In 2021 transfers of €80 million were approved (2020: €115 million). At 31 December 2021, €115 million (2020: €148 million) of amounts previously allocated remained payable to the Special Funds and were recognised as a liability on the Bank's balance sheet.

The financial statements of each Special Fund are approved separately by the Board of Governors.

[91] Greater than 0.75 per cent of total members' equity.

Trust Funds

On 10 May 2017 the Board of Directors established the Trust Fund for the West Bank and Gaza and the Multi-Donor Trust Fund for the West Bank and Gaza in accordance with Article 20.1 (vii) of the Agreement Establishing the EBRD. The Trust Funds are governed under the terms of the rules and guidelines for each such Trust Fund.

At 31 December 2021 the total pledged contributions to the Trust Fund for the West Bank and Gaza were €100 million (2020: €85 million). The total pledged contributions to the Multi-Donor Trust Fund for the West Bank and Gaza were €2.4 million (2020: €3.7 million).

The Bank acts as the administrator of both Trust Funds and is entitled to management and cost recovery fees. During 2021 these fees totalled €0.8 million (2020: €0.8 million), of which €0.1 million was receivable at 31 December 2021 (2020: €nil).

The financial statements of the Trust Funds are approved separately by the Board of Governors.

Audit fees payable to the Bank's auditor for the 2021 audits of the Special Funds and Trust Funds totalled €0.3 million (2020: €0.2 million).

31. Other fund agreements

Cooperation Funds

In addition to the Bank's ordinary operations, the Special Funds programme and the Trust Funds, the Bank administers numerous bilateral and multilateral contribution agreements to provide technical assistance and investment support grants in the existing and potential economies in which it invests. These grants focus primarily on project preparation, project implementation (including goods and works), policy engagement, advisory services and training. The Bank also acts as a fund manager for donor-financed grants that can be accessed by other International Finance Institutions. The Bank acts as fund manager for the following funds: Eastern Europe Energy Efficiency and Environment Partnership Funds (E5P), European Western Balkans Joint Fund (EWBJF – under the Western Balkans Investment Framework) and the Northern Dimension Environmental Partnership Fund (non-nuclear portion of a nuclear fund).

The resources provided through cooperation contribution agreements are held separately from the ordinary capital resources of the Bank, and are typically subject to external audit when required by the agreements.

In 2021 new agreements and replenishments of €424 million (2020: €496 million) were signed with donors and declared effective. Contributions of €285 million (2020: €287 million) were received, and disbursements of €188 million (2020: €207 million) paid out during the year. At 31 December 2021, the total number of open Cooperation Funds was 233 (2020: 235).

Nuclear Funds

The Bank also administers several funds relating to nuclear activities. In response to a G7 initiative the Bank created the first nuclear safety donor fund, the Nuclear Safety Account (NSA) in 1993. The NSA funded nuclear safety and security improvement in the region as well as decommissioning facilities.

The Chernobyl Shelter Fund (CSF) was established in 1997 to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system. The programme, including the construction of the New Safe Confinement, was successfully completed in 2020 and the Fund is in the process of being closed by consent of donors. Residual amounts are being returned or made available to other Funds according to each donor's preference.

As part of their accession to the European Union, Bulgaria, Lithuania and the Slovak Republic gave firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 reactors. In 2000 the European Commission invited the Bank to administer three International Decommissioning Support Funds (IDSFs) to support decommissioning of these plants. The funds finance selected projects to help with the decommissioning of designated reactors. They also finance measures to facilitate the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency.

The Bank was entrusted with setting up a Northern Dimension Environmental Partnership (NDEP), as a multi-donor fund providing grant assistance to address the most pressing environmental challenges in the north-west of Russia focusing on radioactive waste, within the "nuclear window".[92] The NDEP nuclear safety programme finances radioactive waste management and decommissioning tasks to mitigate the nuclear legacy of the operation of the Soviet Northern Fleet.

In 2011, major donors to the NSA and CSF asked the Bank to create the Chernobyl Projects Monitoring Account (CPMA) to finance an independent project monitoring function on projects undertaken by the NSA and CSF. With the completion of the New Safe Confinement the project monitoring function was no longer required and CPMA operations came to an end in 2020. The Account is in the process of being closed and residual amounts are being returned or made available to other Funds according to each donor's preference.

[92] The "nuclear window" refers to nuclear projects in the north west of Russia which are fully grant funded and managed by the EBRD under the supervision of the Nuclear Operating Committee.

The Environmental Remediation Account created at the request of the European Commission became operational in 2016. It finances projects to remediate uranium mining legacies in the Kyrgyz Republic, Tajikistan and Uzbekistan.

In 2020, following a request by Ukraine, the Bank established the International Chernobyl Cooperation Account to address remaining radioactive waste management and decommissioning challenges at the Chernobyl site. The Account became operational in 2021.

The table below provides a summary of Nuclear Fund contributions.

	Contributions pledged 2021 € million	Number of contributors 2021	Contributions pledged 2020 € million	Number of contributors 2020
Nuclear Safety Account	427	17	427	17
Chernobyl Shelter Fund	1,646	28	1,646	28
Ignalina IDSF	781	15	781	15
Kozloduy IDSF	1,184	10	1,175	10
Bohunice IDSF	653	8	653	8
NDEP[93]	353	12	353	12
Chernobyl Projects Monitoring Account	5	3	5	3
Environmental Remediation Account	47	7	47	6
International Chernobyl Cooperation Account	1	14	-	-

The cash balances belonging to each of the funds in the table above are held and managed by the Bank on their behalf.[94]

Audit fees payable to the Bank's auditor for the 2021 audits of the Cooperation and Nuclear Safety funds amounted to €0.7 million (2020: €0.7 million).

Equity Participation Fund

In 2016 the Bank set up the EBRD Equity Participation Fund LP (EPF) as part of a strategy to attract long-term institutional capital into private sector investments in the economies where the Bank invests. The EPF is a fixed-term fund (12 years) that gives investors a pre-determined (20 per cent) holding in new EBRD direct equity investments which meet the EPF eligibility criteria. These eligibility criteria ensure that neither the EBRD nor the EPF are able to "cherry-pick" the investments in which the EPF participates. Throughout the life of the direct equity investment the EBRD retains legal ownership and control over the equity investments, albeit that the economic benefits of the participation do not accrue to the Bank. As the Bank retains control of the investments they continue to be recognised on the Bank's balance sheet.

In return for the purchase price the EPF receives from the EBRD an equity return swap (ERS). The ERS is classified as a financial liability held at fair value through profit or loss[95] within "Other liabilities" and as at 31 December 2021 had a total value of €195 million (2020: €174 million) across 26 eligible investments. In exchange for managing the equity investments the EBRD receives a management fee. The Bank charged a management fee of €4 million in 2021 (2020: €4 million) of which none remained payable at 31 December 2021 (2020: nil). Since the EPF's inception a total of €211 million has been invested in 29 eligible investments.

93 The NDEP includes a nuclear and non-nuclear programme.
94 See note 22 on page 73.
95 The ERS does not meet the definition of a derivative as a large net investment was required from the holders of the ERS.

32. 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 2021.

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. Since 31 December 2021 the war on Ukraine, and the consequences thereof, have severely impacted the economies of Ukraine, Russia, Belarus and other neighbouring countries. The economic impact of the war will result in substantial downward pressure on the Bank's equity valuations and a sizeable increase in loan provisioning. The losses associated with these developments will be recognised in the 2022 financial statements. At present the extent of these losses cannot be reliably estimated. At 31 December 2021 the Bank carried on its balance sheet the following loan and equity exposures:

- Ukraine: loans of €2.1 billion and equities of €0.3 billion.
- Russian Federation: loans of €0.2 billion and equities of €1.2 billion.
- Belarus: loans of €0.5 billion and equities of €0.1 billion.

At 6 April 2022 there had been no other material events after the reporting period to disclose.

On 6 April 2022 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.