European Bank
for Reconstruction and Development

The EBRD Community Special Fund

Annual Financial Report
31 December 2021

The EBRD Community Special Fund

Contents

Statement of comprehensive income....1
Balance sheet....1
Statement of changes in contributors' resources....2
Statement of cash flows....2
Fund purpose....3
Accounting policies....3
Risk management....7
Notes to the financial statements....9
Independent Auditors' report to the Governors....11

The EBRD Community Special Fund

Statement of comprehensive income

For the year ended 31 December 2021	Year to 31 December 2021 € 000	Restated* Year to 31 December 2020 € 000
Interest expense	(5)	(8)
Donations	(765)	(504)
Net loss and comprehensive expense for the year	(770)	(512)
Attributable to:		
Contributors'	(770)	(512)

Balance sheet

At 31 December 2021	Note	31 December 2021 € 000	Restated* 31 December 2020 € 000
Assets			
Placements with credit institutions		493	1,340
Prepaid expenses		10	-
Total assets		503	1,340
Liabilities and contributors' resources			
Accrued expenses	4	63	130
Total liabilities		63	130
Contributions	5	3,000	3,000
Reserves and accumulated loss		(2,560)	(1,790)
Total contributors' resources		440	1,210
Total liabilities and contributors' resources		503	1,340

*Refer to the accounting policies section on page 5

The EBRD Community Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2021	Contributions	Restated* Accumulated loss	Restated* Total
	€ 000	€ 000	€ 000
At 31 December 2019	3,000	(1,278)	1,722
Net loss and total comprehensive expense for the year	-	(512)	(512)
At 31 December 2020	3,000	(1,790)	1,210
Net loss and total comprehensive expense for the year	-	(770)	(770)
At 31 December 2021	**3,000**	**(2,560)**	**440**

Statement of cash flows

For the year ended 31 December 2021		Year to 31 December 2021		Restated* Year to 31 December 2020
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	(770)		(512)	
Adjustment to reconcile net loss to net cash flows:				
Working capital adjustment				
Movement in prepaid expenses	(10)		-	
Movement in accrued expenses	(67)		(28)	
Net cash used in operating activities		(847)		(540)
Cash flows from financing activities				
Contributions received	-		-	
Net cash from financing activities		-		-
Net decrease in cash and cash equivalents		(847)		(540)
Cash and cash equivalents at the beginning of the year		1,340		1,880
Cash and cash equivalents at 31 December		493		1,340

* Refer to the accounting policies section on page 5

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

Date: 6 April 2022

The EBRD Community Special Fund

Fund purpose

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

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

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

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

Financial liabilities

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

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

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

Contributors' resources

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

Statement of cash flows

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

Functional and reporting currencies

The Fund's functional currency and 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.

Donations

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

Taxation

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

Interest

Interest is recorded on an accruals basis. Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest expense is recognised in the statement of comprehensive income.

Gifted assets and Gift income

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

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above, the Fund has deemed the following accounting policy critical as it involves a judgement which could have a material impact on the financial statements:

- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

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

Restatement

The Fund records donations in the period when the staff fundraising activities become eligible for support from the Fund, and accounts for contracted activities on a straight-line basis over the life of the contract. In 2020 the presentation of these amounts was misstated as a result of an error. The impact of this restatement is further analysed in note 3.

C. Critical accounting estimates

The Fund does not have any critical accounting estimates for the years presented.

The EBRD Community Special Fund

Risk management

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

Risk governance

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

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

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

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

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

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

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

A. Credit risk

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

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

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

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2021 and 31 December 2020.

---

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

B. Market risk

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

Market risk management and measurement

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

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

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

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

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

	Euro 2021 € 000	British pound 2021 € 000	Total 2021 € 000
Total assets	493	10	503
Total liabilities	(55)	(8)	(63)
Net currency position as at 31 December 2021	438	2	440

	Restated[2] Euro 2020 € 000	Restated[2] British pound 2020 € 000	Restated[2] Total 2020 € 000
Total assets	1,340	-	1,340
Total liabilities	(103)	(27)	(130)
Net currency position as at 31 December 2020	1,237	(27)	1,210

The overall potential impact on the Fund’s net profit based on the average five year absolute rolling average movement in the British pound is nil (2020: €2,000) from a 6 per cent strengthening or weakening in the United States dollar to Euro exchange rate (2020: 7 per cent)

C. Liquidity risk

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

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

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

[2] The foreign exchange sensitivity has been restated in order to correct for errors in the 2020 disclosure to recognise EUR equivalent of 27,000 as a GBP liability exposure. This was previously presented as nil.

The EBRD Community Special Fund

Notes to the financial statements

1. Creation of the Special Fund

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

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

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

The Rules allows the Board of Directors to terminate the Fund at any time, or upon full utilisation of the Fund's resources.

2. Statement of Bank's responsibilities

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

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

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

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

3. Restatement

In the restated 2020 Statement of comprehensive income, 'Donations' reflect an additional expense of €82,000 with a corresponding increase in 'other financial liabilities' and resulting decrease to reserves and accumulated loss on the balance sheet. The resulting impacts are also reflected in the statement of changes in contributors' resources and the statement of cash flows.

	Previous 2020 € 000	Adjustment 2020 € 000	Restated 2020 € 000
Donations	(422)	(82)	(504)
Other financial liabilities	48	82	130

4. Accrued expenses

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

5. Contributions

There were no contributions received from the Bank in 2021 (2020: nil).

6. Fair value of financial assets and liabilities

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

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

All assets and liabilities presented on the balance sheet are classified as current for 2021.

8. 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

9. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. As there were no contributions in 2021, there was no management fee paid by the Fund to the Bank (2020: nil). There were no accrued management fees payable by the Fund to the Bank at 31 December 2021 (2020: nil).

External auditors' remuneration of €18,200 is payable by the Bank from the management fee (2020: €8,600). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

Use of this report

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

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

EBRD-EU Special Fund

Annual Financial Report
31 December 2021

EBRD-EU Special Fund

Contents

Statement of comprehensive income........1
Balance sheet........1
Statement of changes in contributors' resources........2
Statement of cash flows........2
Fund purpose........3
Accounting policies........3
Risk management........11
Notes to the financial statements........17
Independent Auditors' report to the Governors........22

EBRD-EU Special Fund

Statement of comprehensive income

For the year ended 31 December 2021	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest income			
From loans		2	-
From credit institutions		8	43
Total Interest		10	43
Technical cooperation expenses	3	(156)	(390)
Net gains/(losses) from share investments	4	1,252	(1,057)
Foreign exchange movements		773	(1,020)
Other operating expenses	5	(394)	(354)
Impairment release/(charge) on loan commitments	6	16	(46)
Concessional loan discounts	7	(898)	(2,041)
Net gain/(loss) and comprehensive income/(expense) for the year		603	(4,865)
Attributable to:			
Contributors		603	(4,865)

Balance sheet

At 31 December 2021	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			37,318		40,112
Share investments	8		5,053		2,203
Deferred management fees			291		-
Loan investments					-
Loans		776		-	
Less: Provisions for impairment	6	(30)		(46)	
			746		(46)
Contributions receivable	9		100,000		-
Total assets			143,408		42,269
Liabilities					
Other liabilities	10		495		603
Concessional loan discounts	7		2,685		2,041
Contributors' resources			140,228		39,625
Total liabilities			143,408		42,269
Memorandum items					
Undrawn commitments	11		22,867		19,384

EBRD-EU Special Fund

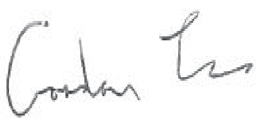
Statement of changes in contributors' resources

For the year ended 31 December 2021	Contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2019	45,260	(770)	44,490
Total comprehensive expense for the year	-	(4,865)	(4,865)
At 31 December 2020	45,260	(5,635)	39,625
Contributions receivable	100,000	-	100,000
Total comprehensive income for the year	-	603	603
At 31 December 2021	**145,260**	**(5,032)**	**140,228**

Statement of cash flows

For the year ended 31 December 2021	Year to 31 December 2021 € 000	€000	Year to 31 December 2020 € 000	€ 000
Cash flows used in operating activities				
Net loss for the year	603		(4,865)	
Adjustment to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Net (gains)/losses from share investments	(1,252)		1,057	
Effective interest rate adjustment on loans	(10)		-	
Unwind of concessional loan discount	8			
Foreign exchange movement	773		(1,020)	
Provisions and concessional loan discount	882		2,087	
	1,004		(2,741)	
Cash flows from the sale and purchase of operating assets				
Proceeds from return of capital on share investments	70		-	
Funds advanced for share investments	(1,668)		(1,788)	
Funds advanced for loans	(1,027)		-	
Working capital adjustment				
Deferred management fee	(291)		-	
Accrued expenses	(108)		387	
Net cash used in operating activities		(2,020)		(4,142)
Cash flows from financing activities				
Contributions received	-		28,755	
Net cash from financing activities		-		28,755
Net (decrease)/increase in cash and cash equivalents		(2,020)		24,613
Cash and cash equivalents at the beginning of the year		40,112		14,479
Effect of foreign exchange rate changes		(774)		1,020
Cash and cash equivalents at 31 December		37,318		40,112

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



Date: 6 April 2022

EBRD-EU Special Fund

Fund purpose

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

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

*A fifth agreement Hellenic Republic's Deployment of financing under the Corporate Lending Facility, was signed 29 November 2021

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

Accounting policies

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

A. Basis of preparation

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

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the European Bank for Reconstruction and Development ("the Bank") 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for accounting policies.

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

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

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

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

Derecognition of financial assets

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

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

Financial liabilities

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

Interest rate benchmark reforms

A number of interest rate benchmarks currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

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

Impairment of financial assets

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

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

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

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

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

Stage assessment

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

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

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

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

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

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

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

---

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

[2] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Contributors' resources

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

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

Contributions are recognised as receivable on the balance sheet on the date the conditions precedent to disbursement in the Operational Agreement has been met by the Fund. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date and the impact from discounting is expected to be minimal.

Statement of cash flows

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

Foreign currencies

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

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

Interest

Interest is recorded using the effective interest rate method. Interest income is recognised within 'interest income' in the income statement. Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

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

Technical cooperation expenses

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

Management fees

The European Bank for Reconstruction and Development ("The Bank") is entitled to charge the Fund a management fee in accordance with the Rules and Regulations for the costs and expense for administering and managing the Fund. The fees incurred during the year are disclosed in the income statement within other operating expenses. Under the EU Fund agreements the management fees have been paid in advance to the Bank and are released over the life of those agreements. The remaining unreleased balance in respect of these agreements is included as a deferred management fee asset. The EISF agreement states that its fee is owed to the Bank on the basis of contributions received and percentage of contributions committed. The amount owed in respect of this agreement is included as a payable within other liabilities.

Taxation

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

---

[3] Each Contribution Agreement will result in creating a dedicated "window" (or windows) within the Special Fund, such that the provided resources remain fully separate from each other. The Rules of the Special Fund will apply to all "windows" of the Special Fund, while supplementary provisions stemming from contributions will only apply to "windows" created in respect of such Agreements.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve judgements 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 Fund’s expected credit losses.
- Classification of contributors’ resources: The classification of contributors’ resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules of the Fund.

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

C. Critical accounting estimates

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

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

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

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

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

In 2020, in addition to the modelled ECL thus calculated, the Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €8,000 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 becoming 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 are set out by internal rating grade below:

Financial Institutions

2021 PD rating[4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 significantly correlating with

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

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

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

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

Exposure at default

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

Sensitivity analysis

The sensitivity of portfolio provisions at 31 December 2021 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %
2021 portfolio provision (Stages 1 and 2)	30			46		
Staging						
All loans in Stage 1	30	-	0%	46	-	0%
All loans in Stage 2	386	357	1,195%	347	301	654%
PD Ratings						
All loans upgraded 1 notch	17	(12)	(42)%	24	(22)	(48)%
All loans downgraded 1 notch	61	31	105%	63	17	37%
All loans upgraded 3 notches	13	(17)	(56)%	7	(39)	(85)%
All loans downgraded 3 notches	2,212	2,182	7,313%	512	466	1,013%
Projected GDP						
Projected GDP increased by 1%	29	(1)	(4)%	44	(2)	(4)%
Projected GDP decreased by 1%	31	2	5%	49	3	7%
Projected GDP increased by 5%	26	(4)	(14)%	37	(9)	(20)%
Projected GDP decreased by 5%	39	9	31%	64	18	39%
LGD						
All loans decreased by 10%	23	(7)	(22)%	36	(10)	(22)%
All loans increased by 10%	36	7	22%	56	10	22%
EAD						
All undrawn commitments cancelled	-	(30)	(100)%	-	(46)	(100)%
All undrawn commitments disbursed within one month	116	86	288%	137	91	198%

Risk management

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

Risk governance

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

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

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

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

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which 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 Fund is exposed to credit risk as counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

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

---

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

Credit risk management and measurement

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

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

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

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

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

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

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

EBRD internal ratings

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

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

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
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 3 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 10.

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

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

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

Credit risk exposures

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

Risk rating category	2021 € 000	2020 € 000
2: Very strong	9,059	10,054
3: Strong	28,259	30,057
At 31 December	37,318	40,111

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

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

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

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

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

	Amortised cost carrying value	Impairment	Total net of impairment	
Risk rating category	Stage 1 and total € 000	Stage 1 € 000	Total net of impairment € 000	Impairment provisions %
5: Fair	405	(2)	403	0.5%
6: Weak	371	(28)	343	7.5%
At 31 December 2021	776	(30)	746	

	Amortised cost carrying value	Impairment	Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 1 € 000	Total net of impairment € 000	Impairment provisions %
6: Weak	-	(17)	(17)	0.0%
7: Special attention	-	(29)	(29)	0.0%
At 31 December 2020	-	(46)	(46)	

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

Undrawn commitments

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

Risk category	**Undrawn loan commitments 2021 € 000**	Undrawn loan commitments 2020 € 000
5: Fair	**2,324**	-
6: Weak	**11,499**	6,550
7: Special attention	-	2,700
At 31 December	**13,823**	9,250

Concentration of credit risk exposure

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

B. Market risk

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

Market risk management and measurement

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

Interest rate risk

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

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

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

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

	Armenian dram 2021 € 000	Egyptian Pound 2021 € 000	Euro 2021 € 000	Polish Zloty 2021 € 000	United States Dollar 2021 € 000	Total 2021 € 000
Total assets	139	4,914	128,462	834	9,059	143,408
Total liabilities	-	-	(143,024)	(384)	-	(143,408)
Net currency position at 31 December 2021	139	4,914	(14,562)	450	9,059	-

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

The overall potential impact on the Fund’s net loss is €1,677,000 (2020: €1,197,000) based on the average five year absolute rolling average movement in the below currencies:

- 8 per cent (2020: 7 per cent) strengthening or weakening in the Armenian dram to euro exchange rate;
- 27 per cent (2020: 31 per cent) strengthening or weakening in the Egyptian pound to euro exchange rate;
- 3 per cent (2020: 3 per cent) strengthening or weakening in the Polish zloty to euro exchange rate;
- 8 per cent (2020: 7 per cent) strengthening or weakening in the United States dollar to euro exchange rate.

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

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

	2021 € 000	2020 € 000
Armenia	**139**	90
Egypt	**4,914**	2,112
At 31 December	**5,053**	2,202

The overall potential impact on the Fund’s fair value of share investments is €732,000 (2020: €608,000) based on the average five year absolute rolling average movement in equity prices in the following indexes:

- 15 per cent (2020: 28 per cent) movement in Egyptian Stock Market EGX 30 Equity index
- 17 per cent (2020: 17 per cent) movement in benchmark indices of regional countries[6].

C. Liquidity risk

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

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

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

D. Fair value of financial assets and liabilities

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

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

At 31 December 2021, the Fund's balance sheet approximates to the fair value of all financial assets and liabilities.

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2021 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2021	
	Carrying amount	Favourable change	Unfavourable change
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments	**5,053**	**606**	**(589)**
At 31 December 2021			

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

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 16 July 2018 and is administered, inter alia, in accordance with the AEB and under the terms of the Rules of the Fund. The Fund was established to receive, administer and manage Funds under certain EU and EU member states Contribution Agreements. As at 31 December 2021 there were four Agreements in place.

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

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

The Rules of the Fund allows the Fund to be terminated either by:
- decision by the Board after consultation between the Bank and the contributors; or
- upon closure of the last window; or
- if the funds in the Windows are fully withdrawn.

2. Statement of Bank's responsibilities

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

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

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

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

3. Technical cooperation expenses

	Commitments approved € 000	Technical cooperation expenses[8] € 000	Undrawn commitments € 000
Total projects			
As at 31 December 2020	896	(532)	364
Movement in the year	(34)	(156)	(190)
As at 31 December 2021	**862**	**(688)**	**174**

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

4. Net gains/(losses) from share investments

	2021 € 000	2020 € 000
Net unrealised gains/(losses) from share investments	1,252	(1,057)
Net gains/(losses) from share investments	**1,252**	(1,057)

[7] Total technical cooperation expenses includes amounts accrued on the balance sheet

5. Other operating expenses

	2021 € 000	2020 € 000
Management fees	181	177
Negative interest expense on placements	213	177
At 31 December	**394**	**354**

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

6. Provisions for impairment of loan commitments

Release/(charge) for the year	2021 € 000	2020 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	16	(46)
Provisions for impairment of loan commitments	**16**	(46)

Movement in provisions		
At 1 January	(46)	-
Release/(charge) for the year to the income statement	16	(46)
At 31 December	**(30)**	(46)

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

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

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

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

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

As at 31 December 2021, all loan commitments are in Stage 1.

	12 month ECL Stage 1 and total	
	2021	2020
Movement in provisions	€ 000	€ 000
As at 1 January	(46)	-
New loan commitments	(3)	(46)
Changes in model or risk parameters	19	-
As at 31 December	(30)	(46)

	12 month ECL Stage 1 and total	
	2021	2020
Movement in loans amortised cost	€ 000	€ 000
As at 1 January	-	-
Disbursements	1,027	-
Day one fair value adjustment	(254)	-
Movement in effective interest rate adjustment	3	-
As at 31 December	776	-

7. Concessional loan discounts

	2021	2020
	€ 000	€ 000
Day one fair value charge	(898)	(2,041)
Net loan discount movement	(898)	(2,041)

	2021	2020
	€ 000	€ 000
At 1 January	(2,041)	-
Day one fair value adjustment	(898)	(2,041)
Derecognition of liability on loan disbursement	254	-
At 31 December	(2,685)	(2,041)

8. Share investments

	2021	2020
	€ 000	€ 000
Outstanding disbursements		
At 1 January	3,639	1851
Disbursements	1,668	1,788
Return of capital	(70)	-
At 31 December	5,237	3,639
Fair value adjustment		
At 1 January	(1,436)	(379)
Movement in fair value revaluation	1,252	(1,057)
At 31 December	(184)	(1,436)
Fair value at 31 December	5,053	2,203

9. Contributions received and receivable

Window	Contributor	Contributions received € 000	Contributions receivable € 000	Total contributions € 000
EU - SME Finance and Advice Facility Window	EU	11,220	-	11,220
EU - Egypt and Jordan Trade and Competitiveness Window	EU	3,800	-	3,800
Poland's Technical Assistance Window	Poland	1,485	-	1,485
Bulgaria ESIF Water Framework - Guarantee Window	Bulgaria FMFIB	10,000	-	10,000
Bulgaria ESIF Water Framework - Debt Window	Bulgaria FMFIB	18,755	-	18,755
Hellenic Republic Deployment of Financing Under the Corporate Lending Facility	Hellenic Republic	-	100,000	100,000
Total contributions 31 December 2021		45,260	100,000	145,260

Window	Contributor	Contributions received € 000	Contributions receivable € 000	Total contributions € 000
EU - SME Finance and Advice Facility Window	EU	11,220	-	11,220
EU - Egypt and Jordan Trade and Competitiveness Window	EU	3,800	-	3,800
Poland's Technical Assistance Window	Poland	1,485	-	1,485
Bulgaria ESIF Water Framework - Guarantee Window	Bulgaria FMFIB	10,000	-	10,000
Bulgaria ESIF Water Framework - Debt Window	Bulgaria FMFIB	18,755	-	18,755
Total contributions 31 December 2020		45,260	-	45,260

10. Other liabilities

	2021	2020
	€ 000	€ 000
Accrued expenses	36	16
Technical cooperation expenses	384	481
Management fee payable	75	106
At 31 December	495	603

11. Undrawn commitments

	2021 € 000	2020 € 000
Undrawn share commitments	8,870	9,770
Loan commitments	13,823	9,250
Technical cooperation expenses	174	364
Undrawn commitments at 31 December	22,867	19,384

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

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

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

Assets	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000
Placements with credit institutions	37,318	-	37,318
Share investments	-	5,053	5,053
Deferred management fee	34	257	291
Loan investments	-	776	776
Provisions for impairment of loan commitments	-	(30)	(30)
Contributions receivable	100,000	-	100,000
Total assets	**137,352**	**6,056**	**143,408**
Liabilities			
Other liabilities	495	-	495
Concessional loan discounts	2,685	-	2,685
Contributors' resources	135,175	5,053	140,228
Total liabilities	**138,355**	**5,053**	**143,408**

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

13. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

14. Related parties

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

The Bank is entitled to a management in accordance with the terms of the relevant Contribution Agreement. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. The fees incurred during the year are disclosed in the income statement within other operating expenses. Under the EU Fund agreements the management fees have been paid in advance to the Bank and are released over the life of those agreements. The remaining unreleased balance in respect of these agreements is included as a deferred management fee asset. The EISF agreement states that its fee is owed to the Bank on the basis of contributions received and percentage of contributions committed. The amount owed in respect of this agreement is included as a payable within other liabilities.

External auditors' remuneration of €32,700 is payable by the Bank from the management fee (2020: €8,600). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2020, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2021-24 following the completion of Deloitte's second consecutive term in 2020.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

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

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Balkan Region Special Fund

Annual Financial Report
31 December 2021

The Balkan Region Special Fund

Contents

Statement of comprehensive income........1
Balance sheet........1
Statement of changes in contributors' resources........2
Statement of cash flows........2
Fund purpose........3
Accounting policies........3
Risk management........9
Notes to the financial statements........13
Independent Auditors' report to the Governors........16

The Balkan Region Special Fund

Statement of comprehensive income

For the year ended 31 December 2021

	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Fee income		22	26
Other operating expenses	3	(58)	(48)
Financial guarantees movement		93	(20)
Net profit/(loss) and comprehensive income/(expense) for the year		**57**	**(42)**
Attributable to:			
Contributors		**57**	**(42)**

Balance sheet

At 31 December 2021

	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			7,852		7,891
Other financial assets	4		12		17
Total assets			**7,864**		**7,908**
Liabilities					
Other financial liabilities	5		21		122
Contributors' resources					
Contributions	6	9,779		9,779	
Accumulated loss		(1,936)		(1,993)	
Total contributors' resources			**7,843**		**7,786**
Total liabilities			**7,864**		**7,908**
Memorandum items					
Guarantees*			7,661		4,370

*See section on credit risk exposures on page 13 for additional details.

The Balkan Region Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributions	Accumulated loss	Total
	€ 000	€ 000	€ 000
At 1 January 2020	9,779	(1,951)	7,828
Total comprehensive expense for the year	-	(42)	(42)
At 31 December 2020	9,779	(1,993)	7,786
Total comprehensive income for the year	-	57	57
At 31 December 2021	**9,779**	**(1,936)**	**7,843**

Statement of cash flows

For the year ended 31 December 2021

		Year to 31 December 2021		Year to 31 December 2020
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit/(loss) for the year	57		(42)	
Adjustment to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Financial guarantees movement	(93)		20	
	(36)		(22)	
Working capital adjustment				
Movement in fee income	(3)		2	
Net cash used in operating activities		(39)		(20)
Net decrease in cash and cash equivalents		(39)		(20)
Cash and cash equivalents at beginning of year		7,891		7,911
Cash and cash equivalents at 31 December		7,852		7,891

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

Date: 6 April 2022

The Balkan Region Special Fund

Fund purpose

The Balkan Region Special Fund ("the Fund") was established to assist the reconstruction of the Balkan Countries through the European Bank for Reconstruction and Development ("the Bank") Balkan Region Action Plan. To achieve this, the Fund may provide guarantees for the Bank's Trade Facilitation Programme ("TFP").

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

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

Pronouncement	Nature of change	Potential impact
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

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

Financial liabilities

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

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

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

Financial guarantees

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

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

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

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

Contributors' resources

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

Statement of cash flows

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

Foreign currencies

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

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

Contributions

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

Interest and fees

Interest is recorded on an accruals basis. Interest income is recognised within 'interest income' in the Statement of comprehensive income.

Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the Statement of comprehensive income.

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

Taxation

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

Other critical judgements

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

- Financial guarantee liability – 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 Fund’s expected credit losses for financial guarantees.
- Classification of contributors’ resources: The classification of contributors’ resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund

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

C. Critical accounting estimates

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

The Fund’s critical accounting estimate is outlined below:

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

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls. 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. 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 becoming 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 calculations 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[1]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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

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

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

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

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

Exposure at default

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

Sensitivity analysis

Financial guarantee liability
A 3 notch PD upgrade or downgrade on the Bank's TFP investments would result in a decrease of €8,000 (2020: €137,000), or an increase of €66,000 (2020: €696,000) on the financial guarantee provided by the Fund.

Risk management

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

Risk governance

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

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[2] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Social Sustainability Department, Finance Department, Evaluation Department and other relevant units. An Internal Audit Department acts as third line of defence and independently assesses the effectiveness of the processes within the first and second lines of defence. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

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

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

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the commitments related to guarantees (see page 13).

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

Credit risk management and measurement

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

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

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

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

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

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

EBRD internal ratings

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

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

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	
5	4.7 5.0 5.3	BB+ BB BB-	Fair	Risk range 5

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
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 3 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 8.

Non-performing loans (NPL)

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

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

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

Credit risk exposures

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

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

Guarantees
At 31 December 2021, the Bank had outstanding guarantees under the Balkan Region TFP for which, in the event of a future default, losses incurred by the Bank will be refunded in part from the resources of the Fund. At 31 December 2021, the Fund's maximum exposure under such guarantees was €7.7 million (2020: €4.4 million).

No amounts are currently recognised as required to settle a guarantee commitment (2020: nil). The guarantee liability shown within 'other financial liabilities' on the balance sheet represents the higher of the initial fair value recognised when the guarantees were issued less cumulative amortisation or the amount of the loss allowance for expected credit losses. The Fund does not actively manage credit risk on its guarantee exposure.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The Fund does not have significant exposure to market risks.

Market risk management and measurement

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

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

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

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

The Fund does not hold any assets or liabilities of non-euro denomination as at 31 December 2021, hence it is not exposed to any foreign exchange risk.

C. Liquidity risk

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

The Fund’s Rules and regulations require guarantees are financed from the resources of the Fund, which comprises contributions received and accumulated profit or loss.

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

The Balkan Region Special Fund

Notes to the financial statements

1. Creation of the Special Fund

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

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

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

The Contribution Agreements with each contributor allows either the Bank or the contributor to terminate the Contribution Agreement by giving 60 days' notice. The Rules allow the Board of Directors to terminate the Fund after consultation between the Bank and the contributors, or if the funds in the accounts under the Contribution Agreements are fully withdrawn.

2. Statement of Bank's responsibilities

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

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

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

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

3. Other operating expenses

Other operating expenses comprised the following:

	2021 € 000	2020 € 000
Audit fees	18	8
Negative interest expense	40	40
Year to 31 December	**58**	48

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditors' remuneration of €18,200 (2020: €8,600). The Bank pays the auditors' remuneration on behalf of the Fund, who in turn reimburses the Bank in full. At 31 December 2021 no fee is payable to the Bank in relation to the 2021 external audit (2020: nil). The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors' for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

4. Other financial assets

	2021 € 000	2020 € 000
Fee income receivable from financial guarantees	8	5
Unamortised inception value of TFP financial guarantees	4	12
At 31 December	**12**	17

5. Other financial liabilities

	2021 € 000	2020 € 000
Financial guarantee liability	18	119
Negative interest expense payable	3	3
At 31 December	**21**	**122**

6. Contributions

Contributions received are set out below.

Cumulative contributions received	2021 € 000	2021 %	2020 € 000	2020 %
Austria	276	2.8	276	2.8
Canada	1,472	15.1	1,472	15.1
Denmark	750	7.7	750	7.7
Norway	1,568	16.0	1,568	16.0
Switzerland	4,218	43.1	4,218	43.1
Taipei China	1,495	15.3	1,495	15.3
At 31 December	**9,779**	**100.0**	**9,779**	**100.0**

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

Assets	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000
Placements with credit institutions	7,852	-	7,852	7,891	-	7,891
Other financial assets	11	1	12	11	6	17
Total assets	7,863	1	7,864	7,902	6	7,908
Liabilities						
Other financial liabilities	(21)	-	(21)	(122)	-	(122)
Total contributors' resources	(7,842)	(1)	(7,843)	(7,780)	(6)	(7,786)
Total liabilities	(7,863)	(1)	(7,864)	(7,902)	(6)	(7,908)

8. Fair value of financial assets and liabilities

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

9. Events after the reporting period

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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

10. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to between 2.5 and 5 per cent of contributions received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. As there were no contributions received in 2021, there were no management fees paid by the Fund to the Bank (2020: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2021 (2020: nil). Also during 2021, the Fund earned fees from the Bank in relation to TFP guarantees of €19,000 (2020: €26,000), of which €8,300 are receivable as at 31 December 2021 (2020: €5,000).

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

Contributions received from the contributors are outlined in note 6.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

Use of this report

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

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Baltic Investment Special Fund

Annual Financial Report
31 December 2021

The Baltic Investment Special Fund

Contents

Statement of comprehensive income....1
Balance sheet....1
Statement of changes in contributors' resources....2
Statement of cash flows....2
Accounting policies....3
Risk management....6
Notes to the financial statements....9
Independent Auditors' report to the Governors....12

Statement of comprehensive income

For the year ended 31 December 2021	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Net unrealised gains from share investments		(1)	51
Other operating expenses	3	(18)	(12)
Net (loss)/profit and comprehensive (expense)/income for the year		(19)	39
Attributable to:			
Contributors		(19)	39

Balance sheet

At 31 December 2021	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			22		40
Share investments	4		577		578
Total assets			599		618
Liabilities and contributors' resources					
Contributors' resources					
Contributions	5	27		27	
Reserves and retained earnings	6	572		591	
Contributors' resources			599		618
Total liabilities and contributors' resources			599		618

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributions	Special reserve	Retained earnings	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2019	2,156	173	1,198	3,527
Distribution of funds to contributors	(2,129)	-	(819)	(2,948)
Total comprehensive income for the year	-	-	39	39
At 31 December 2020	27	173	418	618
Total comprehensive expense for the year	-	-	(19)	(19)
At 31 December 2021	**27**	**173**	**399**	**599**

Statement of cash flows

For the year ended 31 December 2021

	Year to 31 December 2021		Year to 31 December 2020	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(19)		39	
Adjustment to reconcile net (loss)/profit to net cash flows:				
Non-cash items in the Statement of Comprehensive Income				
Net unrealised gains from share investments	1		(51)	
	(18)		(12)	
Decrease in operating assets:				
Movement in negative interest payable	-		(2)	
Net cash used in operating activities		(18)		(14)
Cash flows from financing activities				
Distribution of funds to contributors	-		(2,948)	
Net cash used in financing activities		-		(2,948)
Net decrease in cash and cash equivalents		(18)		(2,962)
Cash and cash equivalents at the beginning of the year		40		3,002
Cash and cash equivalents at 31 December		22		40

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

Date: 6 April 2022

Accounting policies

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

A. Basis of preparation

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

Going concern

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

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

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

New and amended IFRS mandatorily effective for the current reporting period
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 are not yet effective and have not been adopted early.

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

Pronouncement	Nature of change	Pronouncement
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets and financial liabilities

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

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

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

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

Derecognition of financial assets

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

Contributors' resources

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

Statement of cash flows

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

Foreign currencies

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

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

Interest

Interest is recorded on an accruals basis. Interest income is recognised within 'interest income' in the income statement.

Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the Statement of comprehensive income.

Taxation

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

Other critical judgements

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

C. Critical accounting estimates

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

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

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

Risk management

Risk governance

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

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

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

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

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

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

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

A. Credit risk

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

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

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

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2021 and 31 December 2020.

B. Market risk

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

Market risk management and measurement

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

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

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

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

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

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

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

	Equities 2021 € 000	Equities 2020 € 000
Estonia	98	98
Latvia	306	307
Lithuania	173	173
At 31 December	577	578

The Fund is exposed to equity price risk in respect of its share investments – i.e. that its portfolio will be impacted by general volatility in equity markets reflective of its investments. Based on a weighted average of the absolute five year average movement in the OMX Riga Index, OMX Vilnius Index and OMX Tallinn TR Index, the potential impact on the Fund's net loss from a 15 per cent movement (2020: 15 per cent) in equity prices is +/- €89,000 (2020: +/- €88,000).

C. Liquidity risk

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

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

D. Fair value of financial assets and liabilities

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

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

Share investments

The main valuation technique used in the valuation of these share investments is net asset value (NAV).

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2021 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2021	
	Carrying amount	Favourable change	Unfavourable change
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments and associated derivatives	577	121	(41)
At 31 December 2021	577	121	(41)

		Impact on net profit in 2020	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments and associated derivatives	578	110	(33)
At 31 December 2020	578	110	(33)

Notes to the financial statements

1. Creation and termination of the Fund

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

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

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

2. Statement of Bank's responsibilities

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

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

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

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

3. Other operating expenses

Other operating expenses are comprised of the following:

	2021 € 000	2020 € 000
Audit fees	18	9
Negative interest rate expense	-	3
Year to 31 December	**18**	12

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditors' remuneration of €18,200 (2020: €8,600). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2021 no fee (2020: €nil) is payable to the Bank in relation to the 2021 external audit. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

4. Share investments

	2021	2020
	€ 000	€ 000
Outstanding disbursements		
At 1 January	536	536
Disbursements	-	-
At 31 December	536	536
Fair value adjustment		
At 1 January	42	(9)
Movement in fair value revaluation	(1)	51
At 31 December	41	42
Fair value at 31 December	577	578

5. Contributions

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

	Contributions	Share of reserves	Contributions	Share of reserves
	2021	2021	2020	2020
Cumulative contributions and share of reserves	€ 000	€ 000	€ 000	€ 000
Denmark	-	121	-	125
Finland	-	117	-	121
Iceland	27	16	27	16
Norway	-	105	-	108
Sweden	-	213	-	221
At 31 December	27	572	27	591

6. Reserves and retained earnings

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

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

All assets and liabilities on the balance sheet are classified as current for both 2021 and 2020 due to the fact that the financial statements are prepared on a basis other than that of a going concern.

8. Undrawn commitments

The Fund had no undrawn share commitments at 31 December 2021 (2020: nil).

9. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

10. Related Parties

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

The Bank is entitled to charge the Fund a management fee, which from time to time shall be determined by the Board of Directors. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. During the year ended 31 December 2021 the Fund paid the Bank no management fee for operating the Fund (2020: nil) and there was no accrued management fee payable by the Fund as at 31 December 2021 (2020: nil).

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

Contributions received from the contributors are outlined in note 5.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

Use of this report

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

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Central Asia Risk Sharing Special Fund

Annual Financial Report
31 December 2021

The Central Asia Risk Sharing Special Fund

Contents

Statement of comprehensive income....1
Balance sheet....1
Statement of changes in contributors' resources....2
Statement of cash flows....2
Fund purpose....3
Accounting policies....3
Risk management....9
Notes to the financial statements....13
Independent Auditors' report to the Governors....15

The Central Asia Risk Sharing Special Fund

Statement of comprehensive income

For the year ended 31 December 2021

	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest income		-	1
Fee income		4	19
Financial guarantees movement		(8)	22
Foreign exchange movement		31	(35)
Other operating expenses	3	(52)	(43)
Net loss and comprehensive expense for the year		(25)	(36)
Attributable to:			
Contributors		(25)	(36)

Balance sheet

As at 31 December 2021

	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			7,105		7,119
Other financial assets	4		5		6
Total assets			7,110		7,125
Liabilities and contributors' resources					
Other financial liabilities	5		19		9
Contributors' resources					
Contributions	6	5,553		5,553	
Reserves and retained earnings		1,538		1,563	
Total contributors' resources			7,091		7,116
Total liabilities and contributors' resources			7,110		7,125
Memorandum items					
Guarantees*			1,476		501

*See section on credit risk exposures on page 11 for additional details.

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributions € 000	Retained earnings € 000	Total € 000
At 31 December 2019	5,553	1,599	7,152
Total comprehensive loss for the year	-	(36)	(36)
At 31 December 2020	5,553	1,563	7,116
Total comprehensive expense for the year	-	(25)	(25)
At 31 December 2021	**5,553**	**1,538**	**7,091**

Statement of cash flows

	Year to 31 December 2021 € 000	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000	Year to 31 December 2020 € 000
Cash flows from operating activities				
Net loss for the year	(25)		(36)	
Adjustment to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Financial guarantees movement	8		(22)	
Foreign exchange movement	(31)		35	
	(48)		(23)	
Working capital adjustment				
Movement in fee income	2		3	
Net cash used in operating activities		(46)		(20)
Net decrease in cash and cash equivalents		(46)		(20)
Cash and cash equivalents at the beginning of the year		7,119		7,173
Effect of foreign exchange rate changes		32		(34)
Cash and cash equivalents at 31 December		7,105		7,119

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

Date: 6 April 2022

Fund purpose

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

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

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for accounting policies.

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

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

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

Financial liabilities

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

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

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

Financial guarantees

The Fund currently provides guarantees to the Bank to cover principal losses the Bank may incur from providing its own guarantees under its TFP. The Fund’s resources are allocated into a number of sub-accounts, with a single one for TFP-related guarantees and individual ones for loan-related guarantees in each eligible country. There were no loan-related guarantees over Bank loans in 2021 or 2020. The Fund’s guarantees are provided on a first-loss basis.

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

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

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

Contributors’ resources

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

Statement of cash flows

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

Foreign currencies

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

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

Contributions

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

Interest and fees

Interest is recorded on an accruals basis. Interest income is recognised within 'interest income' in the income statement.

Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

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

Taxation

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

Other critical judgements

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

- Financial guarantee liability – 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 Fund’s expected credit losses for financial guarantees.
- Classification of contributors’ resources: The classification of contributors’ resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

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

C. Critical accounting estimates

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

The Fund’s critical accounting estimate is outlined below:

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

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls. 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. 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 becoming 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[1]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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

[1] The Bank's internal PD rating scale is explained in detail on page 10 of the Risk Management section.

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

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

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

Exposure at default

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

Sensitivity analysis

Financial guarantee liability
A 3 notch PD upgrade or downgrade on the Bank's TFP investments would result in a decrease of €12,000 (2020: €8,000), or an increase of €18,000 (2020: €22,000) on the financial guarantee provided by the Fund.

Risk management

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

Risk governance

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

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[2] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Social Sustainability Department, Finance Department, Evaluation Department and other relevant units. An Internal Audit Department acts as third line of defence and independently assesses the effectiveness of the processes within the first and second lines of defence. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

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

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

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 Fund is exposed to credit risk as counterparties could default on their contractual obligations.

The Fund's exposure to credit risk from financial instruments is approximated on the balance sheet and should be considered alongside the commitments related to guarantees (see page 11).

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

Credit risk management and measurement

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

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

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

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

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

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

EBRD internal ratings

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

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

<table>
<tr><th>EBRD risk rating category</th><th>EBRD risk rating</th><th>External rating equivalent</th><th>Category name</th><th>Broader category</th></tr>
<tr><td>1</td><td>1.0</td><td>AAA</td><td>Excellent</td><td rowspan="4">Investment grade</td></tr>
<tr><td>2</td><td>1.7
2.0
2.3/2.5</td><td>AA+
AA
AA-</td><td>Very strong</td></tr>
<tr><td>3</td><td>2.7
3.0
3.3</td><td>A+
A
A-</td><td>Strong</td></tr>
<tr><td>4</td><td>3.7
4.0
4.3</td><td>BBB+
BBB
BBB-</td><td>Good</td></tr>
<tr><td>5</td><td>4.7
5.0
5.3</td><td>BB+
BB
BB-</td><td>Fair</td><td>Risk range 5</td></tr>
</table>

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
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 3 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 6.

Non-performing loans (NPL)

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

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

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

Credit risk exposures

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

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

Guarantees
At 31 December 2021, the Bank had outstanding guarantees under the TFP for which, in the event of a future default, principal losses incurred by the Bank will be refunded in part from the resources of the TFP sub-account of the Fund. At 31 December 2021, the Fund's maximum exposure under such guarantees was €1,476,000 (2020: €501,000).

The Kyrgyzstan Micro and Small Enterprise Finance Facility (KMSEFF), Tajikistan Micro and Small Enterprise Finance Facility (TAFF) and Tajikistan Agricultural Finance Facility (TSFF) sub-accounts were terminated on 12 December 2019 as per the Termination Agreement. As such, no outstanding loans exist and there is no guarantee exposure in relation to these sub-accounts at 31 December 2021 (2020: nil).

No amounts are currently recognised as required to settle a guarantee commitment (2020: nil). The guarantee liability shown within 'other financial liabilities' on the balance sheet represents the higher of the initial fair value recognised when the guarantees were issued less cumulative amortisation or the amount of the loss allowance for expected credit losses. The Fund does not actively manage credit risk on its guarantee exposure.

B. Market risk

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

Market risk management and measurement

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

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

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

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

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

	Euro 2021 € 000	**United States dollars 2021 € 000**	**Total € 000**
Total assets	**6,707**	**403**	**7,110**
Total liabilities	**(7,110)**	**-**	**(7,110)**
Net currency position at 31 December 2021	**(403)**	**403**	**-**

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

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the funds net loss from a 8 per cent strengthening or weakening (2020: 7 per cent) is €28,000 (2020: €25,000).

C. Liquidity risk

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

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

Notes to the financial statements

1. Creation of the Special Fund

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

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

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

The Rules allows the Board of Directors to terminate the Fund after consultation between the Bank and the contributors, or if the funds in the Accounts under the Contribution Agreements are fully withdrawn.

2. Statement of Bank's responsibilities

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

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

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

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

3. Other operating expenses

Other operating expenses are comprised of the following:

	2021 € 000	2020 € 000
Audit fees	18	9
Negative interest rate expense	34	34
Year to 31 December	52	43

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditors' remuneration of €18,200 (2020: €8,600). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2021 no fee was payable in relation to the 2021 external audit (2020: nil). The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-2024 following the completion of Deloitte's second consecutive term in 2019.

4. Other financial assets

	2021 € 000	2020 € 000
Fee income receivable from financial guarantees	1	3
Unamortised fair value of TFP financial guarantees	4	3
At 31 December	5	6

5. Other financial liabilities

	2021 € 000	2020 € 000
Financial guarantee liability	16	6
Negative interest rate expense payable	3	3
At 31 December	19	9

6. Contributions

Contributions received are set out below.

Cumulative contributions received	TFP € 000	Total € 000	Total %
Germany	2,389	**2,389**	**43.0**
Switzerland	3,164	**3,164**	**57.0**
At 31 December 2021	**5,553**	**5,553**	**100.0**

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

No contributions were transferred during 2021.

7. Fair value of financial assets and financial liabilities

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

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

All assets and liabilities on the balance sheet are classified as current for both 2021 and 2020.

9. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

10. Related parties

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

The Bank is entitled to charge the Fund a management fee, as determined by the Board, each time a contribution is made to the Fund. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. As there were no contributions received in 2021 (2020: nil), no management fees were paid by the Fund to the Bank (2020: nil). There was no accrued management fee payable by the Fund to the Bank at 31 December 2021 (2020: nil). Also during 2021, the Fund earned fees from the Bank in relation to TFP guarantees of €4,000 (2020: €19,000), of which €600 are receivable as at 31 December 2021 (2020: €3,000).

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

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

Independent auditors’ report to the Governors of the European Bank for Reconstruction and Development (the “Bank”) in respect of The Central Asia Risk Sharing Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The Central Asia Risk Sharing Special Fund (the ‘Fund’) non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund’s financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors’ resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

The Bank is responsible for overseeing the Fund’s financial reporting process.

Auditors’ responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

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

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The EBRD CIF Special Fund

Annual Financial Report
31 December 2021

Contents

Income statement 1
Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributors' resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 10
Notes to the financial statements 16
Independent Auditors' report to the Governors 20

The EBRD CIF Special Fund

Income statement
For the year ended 31 December 2021

	Note	Year to 31 December 2021 € million	Year to 31 December 2020 € million
Interest income			
From loans		6	7
Disbursements for incentive fees		(1)	(2)
Impairment release/(charge) on loan investments	5	3	(5)
Change in concessional loan discount	6	3	3
Foreign exchange movement		(4)	5
General administration expenses		(1)	(1)
Net gain for the year		6	7
Attributable to:			
Contributors		6	7

Statement of comprehensive income
For the year ended 31 December 2021

	Year to 31 December 2021 € million	Year to 31 December 2020 € million
Net gain for the year	6	7
Other comprehensive income/(expense)		
Foreign exchange movement between functional and presentational currencies	13	(19)
Total comprehensive income/(expense)	19	(12)
Attributable to:		
Contributors	19	(12)

Balance sheet
At 31 December 2021

	Note	€ million	31 December 2021 € million	€ million	31 December 2020 € million
Assets					
Placements with credit institutions			72		72
Contributions receivable	3		32		36
Loan investments					
Loans	4	136		135	
Less: Provisions for impairment	5	(12)		(15)	
			124		120
Total assets			228		228
Liabilities					
Concessional loan discount	6		12		16
Contributors' resources			216		212
Total Liabilities			228		228
Memorandum items					
Undrawn commitments	8		33		40

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributed Resources € million	General reserve € million	Total € million
At 31 December 2019	222	27	249
Net gain for the year	7	-	7
Other comprehensive expense in the period	-	(19)	(19)
Contributors' resource transactions			
Contributions receivable	36	-	36
Distribution of funds to contributors	(61)	-	(61)
At 31 December 2020	204	8	212
Net gain for the year	6	-	6
Other comprehensive income in the period	-	13	13
Contributors' resource transactions			
Contributions receivable	4	-	4
Distribution of funds to contributors	(19)	-	(19)
At 31 December 2021	**195**	**21**	**216**

Statement of cash flows

For the year ended 31 December 2021

		Year to 31 December 2021		Year to 31 December 2020
	€ million	€ million	€ million	€ million
Cash flows from in operating activities				
Net gain for the year	6		7	
Adjustments to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Unwind of concessional loan discount[1]	(4)		(4)	
Change in concessional loan discount	(3)		(3)	
Foreign exchange movement	4		(5)	
Impairment (charge)/release on loan investments	(3)		5	
	-		-	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	15		9	
Funds advanced for loans	(6)		(10)	
Net cash generated from/(used) in operating activities		9		(1)
Cash flows from financing activities				
Contributions received	8		-	
Distribution of funds to contributors	(19)		(61)	
Net cash used in financing activities		(11)		(61)
Net decrease in cash and cash equivalents		(2)		(62)
Cash and cash equivalents at the beginning of the period		72		140
Effect of foreign exchange rate changes		2		(6)
Cash and cash equivalents at 31 December		72		72

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

Date: 6 April 2022

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

The EBRD CIF Special Fund

Fund purpose

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

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

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

Pronouncement	Nature of change	Potential impact
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets – Classification and measurement

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

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

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

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

Financial liabilities

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

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Fund is exposed have undergone reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, non-US dollar LIBORs (i.e. all GBP, EUR, CHF and JPY LIBOR settings) and the one-week and two-month USD LIBORs have ceased to be published. The remaining USD LIBOR settings (the overnight, one-month, three-months, six-months, and 12 months USD LIBOR) will cease to 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. However, market participants are encouraged to amend or close out existing IBOR contracts before then, rather than waiting to use the fallback mechanism.

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

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.

The Fund’s exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €2.1 million (USD LIBOR). These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required

Impairment of financial assets

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

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

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

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

Stage assessment

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

[2] A project is assigned to the “watch list” when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

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

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

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

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

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

Contributors' resources

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

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

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

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

Contributions are recognised as a receivable and a liability on the balance sheet on the date of project approval by the Board of Directors ("the Board") of the European Bank for Reconstruction and Development ("the Bank") following receipt of a letter of commitment from the Contributor. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date and the impact from discounting is expected to be minimal.

General reserve

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

Statement of cash flows

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

Foreign currencies

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

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

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

Interest

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

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows.

Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

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

Technical cooperation expenses and investment grants

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

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

Incentive fees

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

Taxation

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

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve judgements 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 Fund's expected credit losses.
- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules of the Fund.

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

C. Critical accounting estimates

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

The Fund's critical accounting estimates are outlined below:

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

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

In 2020, in addition to the modelled ECL thus calculated, the Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €1 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 becoming 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 are set out by internal rating grade below:

Financial Institutions

2021 PD rating[3]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

[3] The Bank's internal PD rating scale is explained in detail on page 12 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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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 LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long-term recovery experience.

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

Guarantors

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

Exposure at default

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

Sensitivity analysis

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

Adjusted risk parameter	Recalculated provision 2021 € million	Change in provision 2021 € million	Change in provision 2021 %	Recalculated provision 2020 € million	Change in provision 2020 € million	Change in provision 2020 %
2021 portfolio provision (Stages 1 and 2)	4	-	-	5	-	-
Staging						
All loans in Stage 1	2	(2)	(50)%	4	(1)	(20)%
All loans in Stage 2	8	4	100%	10	5	100%
PD Ratings						
All loans upgraded 1 notch	2	(2)	(50)%	4	(1)	(20)%
All loans downgraded 1 notch	7	3	75%	7	2	40%
All loans upgraded 3 notches	1	(3)	(75)%	2	(3)	(60)%
All loans downgraded 3 notches	13	9	225%	14	9	180%
Projected GDP						
Projected GDP increased by 1%	3	(1)	(25)%	5	-	-
Projected GDP decreased by 1%	4	-	-	5	-	-
Projected GDP increased by 5%	3	(1)	(25)%	4	(1)	(20)%
Projected GDP decreased by 5%	5	1	25%	6	1	20%
LGD						
All loans decreased by 10%	3	(1)	(25)%	4	(1)	(20)%
All loans increased by 10%	5	1	25%	6	1	20%
EAD						
All undrawn commitments cancelled	3	(1)	(25)%	4	(1)	(20)%
All undrawn commitments disbursed within one month	4	-	-	6	1	20%

With respect to Stage 3 provisions, a decrease of 10 percentage points on the current provision cover level would have an impact of €0.8 million (2020: €1.0 million).

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

Risk management

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

Risk governance

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

The Bank’s overall framework for identification and management of risks is underpinned by independent second line of defence[4] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance, and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

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

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

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

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

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

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

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations.

It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

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

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to the Audit Committee of the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with 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 portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external rating agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

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

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

Loss given default
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested. 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 9.

Non-performing loans (NPL)

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

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

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

Credit risk exposures

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

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

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

Risk rating category	2021 € million	2020 € million
2: Very strong	71	71
7: Special attention	1	1
At 31 December	**72**	**72**

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

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

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

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

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

	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € 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 %
5: Fair	-	12	-	12	8.8%	-	-	-	12	-
6: Weak	38	34	-	72	52.9%	-	(1)	-	71	1.4%
7: Special Attention	16	21	-	37	27.2%	(1)	(2)	-	34	8.1%
8: Non-performing	-	-	15	15	11.0%	-	-	(8)	7	53.3%
At 31 December 2021	**54**	**67**	**15**	**136**	**100.0%**	**(1)**	**(3)**	**(8)**	**124**	

	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 %
5: Fair	12	-	-	12	8.9%	-	-	-	11	-
6: Weak	63	5	-	68	50.4%	(1)	-	-	67	1.5%
7: Special Attention	17	15	-	32	23.7%	(1)	(3)	-	29	12.1%
8: Non-performing	-	-	23	23	17.0%	-	-	(10)	13	43.5%
At 31 December 2020	92	20	23	135	100.0%	(2)	(3)	(10)	120	

At 31 December 2021 the Fund had security arrangements in place for €70.1 million of its disbursed loan investments (2020: €68.5 million). 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 Fund with rights and negotiating leverage that help mitigate the overall credit risk.

Credit risk in the loan portfolio
As at 31 December 2021 there were distressed restructured loans[5] with a disbursed value of €20.0 million (2020: €15.9 million).

Undrawn commitments

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

Risk category	Undrawn loan commitments 2021 € million	Undrawn loan commitments 2020 € million
6: Weak	1	3
7: Special attention	29	36
At 31 December	**30**	**39**

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

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

Concentration of credit risk exposure

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

	Undrawn loan commitments 2021 € million	**Loans 2021 € million**	Undrawn loan commitments 2020 € million	Loans 2020 € million
Kazakhstan	1	32	4	29
Morocco	-	6	-	6
Tajikistan	9	-	8	-
Turkey	-	61	4	61
Ukraine	20	37	23	39
At 31 December	30	136	39	135

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

	Undrawn loan commitments 2021 € million	**Loans 2021 € million**	Undrawn loan commitments 2020 € million	Loans 2020 € million
Agribusiness	-	11	-	10
Depository credit (banks)	-	43	-	52
Manufacturing and Services	-	19	-	5
Municipal and environmental infrastructure	13	13	22	8
Power and energy	16	39	16	53
Transport	1	11	1	7
At 31 December	30	136	39	135

B. Market risk

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

Market risk management and measurement

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

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

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

At 31 December 2021, the Fund has fixed rate loan investments of €119.3 million (2020: €112.6 million). As all loans are held at amortised cost, a change in the underlying interest rates would not have an impact on net gains unless the loans were sold prior to their maturity date. As this is not part of the Fund's business model no impact on other comprehensive income is expected and therefore the exposure to interest rate risk on these instruments is considered to be minimal.

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

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

	Euro 2021 € million	United States dollars 2021 € million	Total € million
Total assets	**64**	**164**	**228**
Total liabilities	**(120)**	**(108)**	**(228)**
Net currency position at 31 December	**(56)**	**56**	**-**

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

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentation currency movement, from a 8 per cent strengthening or weakening (2020: 7 per cent) is €4.0 million (2020: €3.0 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 (i.e. the overnight, one-month, three-month, six-month and 12-month settings) will cease to 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 in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. 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.

C. Liquidity risk

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

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

The EBRD CIF Special Fund

Notes to the financial statements

1. Creation of the Special Fund

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

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

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

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

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

The FPA allows either the Bank or IBRD to terminate the Fund by giving 60 days' notice. The Rules of the Fund allows the Fund to be terminated either by:
- decision by the Board of Directors after consultation between the Bank and IBRD; or
- if the funds in SCF and CTF are fully withdrawn.

The Fund will terminate automatically upon termination of the CIF.

2. Statement of Bank's responsibilities

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

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

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

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

3. Contributions

	2021 € million	2021 $ million	2020 € million	2020 $ million
Cumulative contributions received				
Clean Technology Fund	309	436	288	429
Strategic Climate Fund	33	37	28	34
Contributions received at 31 December	342	473	316	463
Contributions receivable				
Clean Technology Fund	32	40	36	44
Strategic Climate Fund	-	-	-	-
Contributions receivable at 31 December	32	40	36	44
Total contributions				
Clean Technology Fund	341	476	324	473
Strategic Climate Fund	33	37	28	34
Total contributions at 31 December	374	513	352	507

As at 31 December 2021 the total contributions receivable is €32 million (2020: €36 million).

During 2021, €19 million was distributed to contributors (2020: €61 million).

4. Loan investments

	2021 € million	2020 € million
At 1 January	135	140
Disbursements	6	10
Day one fair value adjustment	(2)	(3)
Movement in effective interest rate adjustment	4	(4)
Repayments	(15)	(9)
Foreign exchange movements	8	1
At 31 December	136	135
Impairment at 31 December	(12)	(15)
Total loan investments net of impairment at 31 December	124	120

5. Provision for impairment of loan investments

Release/(charge) for the year	2021 € million	2020 € million
Impairment of loan investments at amortised cost in stages 1 and 2	1	(1)
Impairment of loan investments at amortised cost in stage 3	2	(4)
Provisions for impairment of loan investments	3	(5)
Movement in provisions		
At 1 January	(15)	(10)
Release/(charge) for the year to the income statement	3	(5)
Foreign exchange movements	-	-
At 31 December	(12)	(15)
Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	(4)	(5)
Stage 3 provisions for loan investments at amortised cost	(8)	(10)
At 31 December	(12)	(15)

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

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

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

Movement in provisions	12-month ECL (Stage 1) 2021 € million	Lifetime ECL (Stage 2) 2021 € million	Lifetime ECL (Stage 3) 2021 € million	Total 2021 € million
At 1 January	(2)	(3)	(10)	(15)
Transfer to stage 2 - significant increase in credit risk	-	(1)	-	(1)
Transfer to stage 3 - significant increase in credit risk	-	1	(1)	-
Changes in models/risk parameters	1	-	3	4
Foreign exchange movements	-	-	-	-
At 31 December	(1)	(3)	(8)	(12)

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

Movement in 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	92	20	23	**135**
Transfer to Stage 2 - significant increase in credit risk	(41)	41	-	**-**
Transfer to Stage 2 - significant decrease in credit risk	-	3	(3)	**-**
New loans originated	5	1	-	**6**
Loan repayments	(7)	(3)	(5)	**(15)**
Day one fair value adjustment	(1)	(1)	-	**(2)**
Movement in effective interest rate adjustment	2	2	-	**4**
Foreign exchange and other risks	4	4	-	**8**
At 31 December	**54**	**67**	**15**	**136**

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

6. Concessional loan discount

Set out below is a breakdown of the change in concessional loan discount for the year:

	2021 € million	2020 € million
Day one fair value	(1)	(1)
Release of discount on loan cancellation	4	4
Change in concessional loan discount	3	3

Set out below is an analysis of the movements in the Fund’s concessional loan discount liability:

	2021 € million	2020 € million
At 1 January	16	23
Day one fair value adjustment	(3)	(3)
Derecognition of liability on loan disbursement	(2)	(3)
Foreign exchange movements	1	(1)
At 31 December	12	16

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

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

Assets	Current 2021 € million	Non-current 2021 € million	Total 2021 € million	Current 2020 € million	Non-current 2020 € million	Total 2020 € million
Placements with credit institutions	72	-	72	72	-	72
Contributions receivable	32	-	32	36	-	36
Loans	4	132	136	6	129	135
Provisions for impairment	(1)	(11)	(12)	(1)	(14)	(15)
Total assets	107	121	228	113	115	228
Liabilities						
Concessional loan discount	(12)	-	(12)	(16)	-	(16)
Contributors' resources	(95)	(121)	(216)	(97)	(115)	(212)
Total liabilities	(107)	(121)	(228)	(113)	(115)	(228)

8. Undrawn commitments

	2021 € million	2020 € million
Loan investments	30	39
Incentive fees	2	-
Technical cooperation expenses	1	1
Undrawn commitments at 31 December	33	40

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2021.

9. Fair value of financial assets and liabilities

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

10. Events after the reporting period

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 crisis will result in substantial a sizeable increase in the Fund's 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 Fund carried on its balance sheet the following loan exposures:

- Ukraine: loans of €58.7 million.

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.

11. Related parties

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

Fees are paid to the Bank based on budgeted expenditure as approved by the Trustee for the CIF. During 2021 the Bank incurred €0.8 million of reimbursable expenses on behalf of the Fund (2020: €0.8 million), of which €0.3 million remain payable at year end (2020: €0.3 million). Included in this amount are audit fees of €23,700 (2020: €15,300). No audit fees remain payable to the Bank at year end. The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

[6] Total technical cooperation expenses includes amounts accrued on the balance sheet.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the income statement, statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank for Reconstruction and Development

The EBRD GEF Investment Special Fund

Annual Financial Report 31 December 2021

The EBRD GEF Investment Special Fund

Contents

Income statement	1
Statement of comprehensive income	1
Balance sheet	2
Statement of changes in contributor's resources	2
Statement of cash flows	3
Fund purpose	4
Accounting policies	4
Risk management	12
Notes to the financial statements	17
Independent Auditors' report to the Governors	21

The EBRD GEF Investment Special Fund

Income statement

For the year ended 31 December 2021

	Note	**Year to 31 December 2021 € 000**	Year to 31 December 2020 € 000
Interest and other similar income			
From loans		**33**	118
From credit institutions		**20**	82
Commitment fees		**1**	-
Negative interest expense		**(17)**	(5)
Technical cooperation and investment grant expenses	3	**(1,900)**	(2,334)
Foreign exchange movements		**(199)**	257
Management fee expense	10	**-**	(587)
Impairment (charge)/release on loan investments	4	**(3)**	3,157
Change in concessional loan discount	5	**3**	833
Net (loss)/profit for the year		**(2,062)**	1,521
Attributable to:			
Contributor		**(2,062)**	1,521

Statement of comprehensive income

	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Net (loss)/profit for the year	**(2,062)**	1,521
Other comprehensive income/(expense)		
Foreign exchange movement between functional and presentational currencies	**2,270**	(2,437)
Total comprehensive income/(loss)	**208**	(916)
Attributable to:		
Contributor	**208**	(916)

These items will not subsequently be reclassified to profit or loss.

The EBRD GEF Investment Special Fund

Balance sheet

	Note	€ 000	31 December 2021 € 000	€ 000	31 December 2020 € 000
Assets					
Placements with credit institutions			**27,755**		29,874
Other financial assets			**2**		-
Loan investments					
Loans	6	**533**		-	
Less: Provisions for impairment	4	**(14)**		-	
			519		-
Total assets			**28,276**		29,874
Liabilities					
Technical cooperation expenses payable			**237**		151
Provisions for impairment	4		**-**		7
Interest payable			**1**		2
Management fees payable			**-**		587
Other payables			**-**		62
Concessional loan discount	5		**-**		67
Contributor's resources			**28,038**		28,998
Total liabilities			**28,276**		29,874
Memorandum items					
Undrawn commitments	11		**384**		1,932

Statement of changes in contributor's resources

	Contributed resources € 000	General reserve € 000	Total € 000
Balance as at 31 December 2019	26,651	(467)	26,184
Net profit for the year	1,521	-	1,521
Other comprehensive expense for the year	-	(2,437)	(2,437)
Contributions received	8,086	-	8,086
Distribution of funds to contributor	(4,356)	-	(4,356)
At 31 December 2020	31,902	(2,904)	28,998
Net loss for the year	(2,062)	-	(2,062)
Other comprehensive income for the year	-	2,270	2,270
Distribution of funds to contributor	(1,168)	-	(1,168)
At 31 December 2021	**28,672**	**(634)**	**28,038**

The EBRD GEF Investment Special Fund

Statement of cash flows

For the year ended 31 December 2021	€ 000	Year to 31 December 2021 € 000	€ 000	Year to 31 December 2020 € 000
Cash flows (used in)/from operating activities				
Net (loss)/profit for the year	**(2,062)**		1,521	
Adjustments to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	**(10)**		4	
Unwinding of concessional discount[1]	**(14)**		(60)	
Foreign exchange movement	**199**		(257)	
Provisions and change in oncessional loan discount	**-**		(3,990)	
	(1,887)		(2,782)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan	**241**		4,787	
Funds advanced for loans	**(796)**		-	
Working capital adjustment				
Movement in interest receivable	**(2)**		6	
Movement in fee income	**-**		-	
Movement in accrued expenses	**(564)**		702	
Net cash (used in)/from operating activities		**(3,008)**		2,713
Cash flows from financing activities				
Contributions received	**-**		8,086	
Distribution of funds to contributor	**(1,241)**		(4,299)	
Net cash from financing activities		**(1,241)**		3,787
Net (decrease)/increase in cash and cash equivalents		**(4,249)**		6,500
Cash and cash equivalents at the beginning of the year		**29,874**		25,508
Effect of foreign exchange rate changes		**2,130**		(2,134)
Cash and cash equivalents at 31 December		**27,755**		29,874

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

Date: 6 April 2022

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding of concessional discount all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement.

The EBRD GEF Investment Special Fund

Fund purpose

The EBRD GEF Investment Special Fund ("the Fund") was established to provide financing to promote environmental and sustainable development. To achieve this, the Fund provides concessional loans alongside the European Bank for Reconstruction and Development's ("the Bank") market rate loans, as well as grants in support of technical cooperation and investment incentives.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

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

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets – Classification and measurement

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

Financial assets at amortised cost

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

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

Financial liabilities

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

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

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

Impairment of financial assets

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

Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

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

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

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

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

Stage assessment

In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2 is required, a combination of quantitative and qualitative risk metrics are employed. The determination of what constitutes a significant increase in credit risk is a critical judgement. All loans with at least a three-notch downgrade in PD on the Bank's internal ratings scale since origination, all

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

loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the "watch list" are transitioned to Stage 2.[3]

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

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

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

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

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

Contributor's resources

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

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

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

Contributions are recognised as a receivable and a liability on the balance sheet on the date of project approval by the Board of Directors ("the Board") of the Bank following receipt of a letter of commitment from the Contributor.

General reserve

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

Statement of cash flows

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

---

[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Technical cooperation and investment grant expenses

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

Investment grants are disbursed in coordination with the related Bank loan resources, generally directly to the contractor. Disbursements are made upon verification that the goods, works or services have been delivered or carried out by the contractor. The grants are non-refundable.

Foreign currencies

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

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

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

Interest and fees

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

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows. Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

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

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

Taxation

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

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve judgements 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 Fund's expected credit losses.
- Classification of contributor's resources: The classification of contributor's resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

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

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

The Fund's critical accounting estimates are outlined below:

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

In accordance with IFRS 9, ECL represents the average credit losses weighted by the PD, whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's EIR. The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.
In 2020, in addition to the modelled ECL thus calculated, he Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €1,000 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 becoming 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 EBRD GEF Investment Special Fund

The cumulative TTC PD rates used in 2020 and 2019 are set out by internal rating grade below:

Financial Institutions

2021 PD rating[4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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.

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

Loss given default rates

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

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

Exposure at default

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

Sensitivity analysis

The sensitivity of portfolio provisions at 31 December 2021 and 31 December 2020 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2021	Change in provision 2021	Change in provision 2021	Recalculated provision 2020	Change in provision 2020	Change in provision 2020
	€000	€000	%	€000	€000	%
2021 portfolio provision (Stages 1 and 2)	14	-	-	7	-	-
Staging						
All loans in Stage 1	14	-	-	7	-	-
All loans in Stage 2	25	11	79%	18	11	157%
PD Ratings						
All loans upgraded 1 notch	9	(5)	(36)%	5	(2)	(29)%
All loans downgraded 1 notch	18	4	29%	7	-	-
All loans upgraded 3 notches	3	(11)	(79)%	3	(4)	(57)%
All loans downgraded 3 notches	25	11	79%	7	-	-
Projected GDP						
Projected GDP increased by 1%	13	(1)	(7)%	7	-	-
Projected GDP decreased by 1%	14	-	-	8	1	14%
Projected GDP increased by 5%	12	(2)	(14)%	7	-	-
Projected GDP decreased by 5%	18	4	29%	15	8	114%
LGD						
All loans decreased by 10%	11	(3)	(21)%	6	(1)	(14)%
All loans increased by 10%	17	3	21%	8	1	14%
EAD						
All undrawn commitments cancelled	14	-	-	-	(7)	(100)%
All undrawn commitments disbursed within one month	14	-	-	17	10	143%

The EBRD GEF Investment Special Fund

Risk management

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

Risk governance

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

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

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

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

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

---

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

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans.

Credit risk management and measurement

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

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

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

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

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

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

EBRD internal ratings

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

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

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0	A+ A	Strong	

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
	3.3	A-		
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 3 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 10.

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

Provisioning methodology
A Stage 3 provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

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

Credit risk exposures

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

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

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

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

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

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

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	**Stage 1 € 000**	**Stage 2 € 000**	**Total € 000**	**Total %**	**Stage 1 € 000**	**Stage 2 € 000**	**Total net of impairment € 000**	**Impairment provisions coverage %**
7: Special Attention	348	185	533	100%	(3)	(11)	519	2.63%
At 31 December 2021	348	185	533	100%	(3)	(11)	519	

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Total net of impairment € 000	Impairment provisions coverage %
7: Special Attention	-	-	-	n/a	(7)		(7)	n/a
At 31 December 2020	-	-	-	n/a	(7)	-	(7)	

At 31 December 2021 the Fund had security arrangements in place for €0.3 million of its disbursed loan investments (2020: €nil). 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 Fund with rights and negotiating leverage that help mitigate the overall credit risk.

At 31 December 2021 the provisions for impairment relate to undrawn loan commitments.

Credit risk in the loan portfolio
There were no distressed restructured loans[6] at 31 December 2021 (2020: none).

Undrawn loan commitments

The Fund had no undrawn loan commitments as at 31 December 2021. As at 31 December 2020 the Fund's undrawn loan commitments were internally risk rated at 7.

Concentration of credit risk exposure

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

	Undrawn loan commitments 2021 € 000	**Loans 2021 € 000**	Undrawn loan commitments 2020 € 000	Loans 2020 € 000
Lebanon	-	**190**	-	-
Egypt	-	**343**	373	-
At 31 December	-	**533**	373	-

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

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

	Undrawn loan commitments 2021 € 000	Loans 2021 € 000	Undrawn loan commitments 2020 € 000	Loans 2020 € 000
Power and energy	-	533	373	-
At 31 December	**-**	**533**	373	-

B. Market risk

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

Market risk management and measurement

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

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

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

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

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

	Euro 2021 € 000	United States dollars 2021 € 000	Total € 000
Total assets	**2,252**	**26,024**	**28,276**
Total liabilities	**(1)**	**(28,275)**	**(28,276)**
Net currency position at 31 December 2021	**2,251**	**(2,251)**	**-**

	Euro 2020 € 000	United States dollars 2020 € 000	Total € 000
Total assets	2,837	27,037	29,874
Total liabilities	(39)	(29,835)	(29,874)
Net currency position at 31 December 2020	2,798	(2,798)	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund’s net profit due to presentation currency movement from a 8 per cent strengthening or weakening (2020: 7 per cent) is +/- €154,000 (2020: +/- €191,000).

C. Liquidity risk

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

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

The EBRD GEF Investment Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank at its meeting of 7 May 2014 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund and the Financial Procedures Agreement ("the FPA").

The FPA was signed between the EBRD and the International Bank for Reconstruction and Development as the Trustee of the Global Environment Facility ("the Trustee") on 6 November 2006. A new FPA was signed on 30 September 2009 superseding the previous version, and further amended on 9 March 2014.

The Fund became operational upon approval of the Rules on 7 May 2014.

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

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund. The objective of the Fund is to finance lending, guarantee or investment operations and provide financing for technical cooperation and investment incentives.

The FPA was amended on 20 November 2019 to allow either the Bank or the Trustee to terminate the Fund by giving 60 days' notice. The Rules allow the Board to terminate the Fund after consultation between the Bank and the Trustee.

2. Statement of Bank's responsibilities

The management of the European Bank for Reconstruction and Development (the "Bank") are responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 4.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 4. In preparing the non-statutory financial statements, the Bank is responsible for:

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

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

3. Technical cooperation and investment grant expenses[7]

	Commitments approved € 000	Technical Cooperation expenses € 000	Undrawn commitments € 000
Total projects			
At 31 December 2019	6,320	(3,181)	3,139
Movement in the year	754	(2,334)	(1,580)
At 31 December 2020	7,074	(5,515)	1,559
Movement in the year	725	(1,900)	(1,175)
At 31 December 2021	**7,799**	**(7,415)**	**384**

7 Total technical cooperation expenses includes amounts accrued on the balance sheet.

4. Provisions for impairment of loan investments

(Charge)/release for the year	2021 € 000	2020 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	(3)	66
Impairment of loan investments at amortised cost in stage 3	-	3,091
Provisions for impairment of loan investments	**(3)**	3,157
Movement in provisions		
At 1 January	(7)	(3,164)
(Charge)/release for the year to the income statement	(3)	3,157
Foreign exchange adjustments	(4)	-
At 31 December	**(14)**	(7)
Analysed between:		
Stage 1 and 2 provisions for loan investments at amortised cost	(14)	(7)
At 31 December	**(14)**	(7)

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

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

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

Movement in provisions	12 month ECL (Stage 1) 2021 € 000	Lifetime ECL (Stage 2) 2021 € 000	Total 2021 € 000
As at 1 January	(7)	-	(7)
New banking loans	-	(35)	(35)
Changes in model or risk parameters	7	25	32
Foreign exchange and other movements	(3)	(1)	(4)
As at 31 December	**(3)**	**(11)**	**(14)**

Movement in provisions	12 month ECL (Stage 1) 2020 € 000	Lifetime ECL (Stage 3) 2020 € 000	Total 2020 € 000
As at 1 January	(120)	(3,044)	(3,164)
New banking loans	(7)	-	(7)
Transfer to Stage 3 - credit impaired	47	(47)	-
ECL release - repayments/settlements	73	3,091	3,164
Foreign exchange and other movements	-	-	-
As at 31 December	(7)	-	(7)

Movement in loans amortised cost	Loans Stage 1 2021 € 000	Loans Stage 2 2021 € 000	Total 2021 € 000
As at 1 January	-	-	-
Disbursements	374	422	796
Day one fair value adjustment	(68)	(11)	(79)
Repayments/settlements	-	(241)	(241)
Release of concessional loan discount	7	7	14
Movement in effective interest rate adjustment	10	-	10
Foreign exchange and other movements	25	8	33
As at 31 December	**348**	**185**	**533**

Movement in loans amortised cost	Loans Stage 1 2020 € 000	Loans Stage 3 2020 € 000	Total 2020 € 000
As at 1 January	1,072	3,044	4,116
Transfer to Stage 3 - credit impaired	(1,129)	1,129	-
Repayments/settlements	-	(4,787)	(4,787)
Release of concessional loan discount	-	678	678
Movement in effective interest rate adjustment	56	-	56
Foreign exchange and other movements	1	(64)	(63)
As at 31 December	-	-	-

5. Concessional loan discount

Set out below is a breakdown of the change in concessional loan discount for the year:

	2021 € 000	2020 € 000
Day one fair value adjustment of liability	**(922)**	(69)
Release of discount on loan cancellation	**925**	224
Release of discount on loan repayment	**-**	678
Concessional loan discount	**3**	833

Set out below is an analysis of the movements in the Fund's concessional loan discount liability:

	2021 € 000	2020 € 000
Day one fair value adjustment of liability	**(922)**	(69)
Release of discount on loan cancellation	**925**	224
Release of discount on loan repayment	**-**	678
Change in concessional loan discount	**3**	833

6. Loan investments

Operating assets	**2021 € 000**	2020 € 000
At 1 January	**-**	4,116
Disbursements	**796**	-
Concessional loan discount movement	**14**	678
Repayments/settlements	**(241)**	(4,787)
Day one fair value adjustment	**(79)**	-
Movement in effective interest rate adjustment	**10**	56
Foreign exchange movements	**33**	(63)
At 31 December	**533**	-
Provisions for impairment at 31 December	**(14)**	(7)
Total loan investments net of impairment at 31 December	**519**	(7)

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

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

Assets	**Current 2021 € 000**	**Non-current 2021 € 000**	**Total 2021 € 000**	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000
Placements with credit institutions	**27,755**	**-**	**27,755**	29,874	-	29,874
Loan investments	**110**	**409**	**519**	-	-	-
Other financial assets	**2**	**-**	**2**	-	-	-
Total assets	**27,867**	**409**	**28,276**	29,874	-	29,874
Liabilities						
Technical cooperation expense	**(237)**	**-**	**(237)**	(151)	-	(151)
Concessional loan discount	**-**	**-**	**-**	(67)	-	(67)
Interest payable	**(1)**	**-**	**(1)**	(2)	-	(2)
Other payables	**-**	**-**	**-**	(62)	-	(62)
Management fees payable	**-**	**-**	**-**	(587)	-	(587)
Provisions for impairment	**-**	**-**	**-**	(7)	-	(7)
Total contributor's resources	**(27,629)**	**(409)**	**(28,038)**	(28,998)	-	(28,998)
Total liabilities	**(27,867)**	**(409)**	**(28,276)**	(29,874)	-	(29,874)

8. Fair value of financial assets and liabilities

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

9. Events after the reporting period

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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

10. Related parties

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

Fees are paid to the Bank based on a fixed fee per contribution as approved by the Trustee. The fees paid during the year are disclosed in the income statement. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. As at 31 December 2021 there were no fees payable to the Bank (2020: €587,000).

External auditors' remuneration of €18,200 is payable by the Bank from the management fee (2020: €8,600). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

11. Undrawn commitments

Undrawn commitments	**2021** **€ 000**	2020 € 000
Loan investments	**-**	373
Technical cooperation and investment grants	**384**	1,559
At 31 December	**384**	1,932

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

Report on the audit of the financial statements

Opinion

In our opinion, The EBRD GEF Investment Special Fund (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 7 May 2014, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The EBRD Green Climate Fund Special Fund

Annual Financial Report
31 December 2021

The EBRD Green Climate Fund Special Fund

Contents

Income statement 1
Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributor's resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 11
Notes to the financial statements 17
Independent Auditors' report to the Governors 21

The EBRD Green Climate Fund Special Fund

Income statement

For the year ended 31 December 2021	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest income			
From loans		4,682	5,010
From credit institutions		-	351
Net interest income		4,682	5,361
Commitment fee income		353	230
Technical cooperation expenses	3	(5,253)	(3,919)
Disbursements for investment grants		(5,179)	(22,795)
Foreign exchange movements		(5,606)	7,771
Accredited entity fee expense		(2,794)	(1,645)
Impairment release/(charge) on loan investments	4	852	(612)
Change in concessional loan discount	5	(1,233)	(5,703)
Operating expenses		(493)	(438)
Net loss for the period		(14,671)	(21,750)

Statement of comprehensive income

For the year ended 31 December 2021	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Net loss for the period	(14,671)	(21,750)
Other comprehensive income/(expense)		
Foreign exchange movement between functional and presentational currencies	22,886	(26,180)
Total comprehensive income/(expense)	8,215	(47,930)
Attributable to:		
Contributor	8,215	(47,930)

Balance sheet

As at 31 December 2021	Note	€ 000	31 December 2021 € 000	€ 000	31 December 2020 € 000
Assets					
Placements with credit institutions			180,945		178,716
Other financial assets	6		815		699
Loan investments					
Loans	4	165,999		110,481	
Less: Provisions for impairment	4	(860)		(1,598)	
			165,139		108,883
Contributions receivable			4,654		3,603
Total assets			351,553		291,901
Liabilities					
Other financial liabilities	7		7,632		5,574
Concessional loan discount	5		11,528		17,419
Contributor's resources			332,393		268,908
Total liabilities			351,553		291,901
Memorandum items					
Undrawn commitments	8		131,315		105,524

The EBRD Green Climate Fund Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2021

	Contributed Resources	General reserve	Total
	€ 000	€ 000	€ 000
As at 31 December 2019	264,109	5,617	269,726
Net loss for the year	(21,750)	-	(21,750)
Other comprehensive expense in the year	-	(26,180)	(26,180)
Contributions received and receivable	54,992	-	54,992
Distribution of funds to contributor	(7,880)	-	(7,880)
As at 31 December 2020	289,471	(20,563)	268,908
Net loss for the year	(14,671)	-	(14,671)
Other comprehensive income in the year	-	22,886	22,886
Contributions received and receivable	65,990	-	65,990
Distribution of funds to contributor	(10,720)	-	(10,720)
As at 31 December 2021	**330,070**	**2,323**	**332,393**

Statement of cash flows

For the year ended 31 December 2021		Year to 31 December 2021		Year to 31 December 2020
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the period	(14,671)		(21,750)	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	350		517	
Interest income unwinding discount[1]	(1,489)		(1,443)	
Change in concessional loan discount	1,233		5,703	
Foreign exchange movement	5,606		(7,771)	
Impairment (release)/charge on loan investments	(852)		612	
	(9,823)		(24,132)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan investments	8,326		4,420	
Funds advanced for loans	(60,708)		(34,422)	
Front end fees received	338		389	
Working capital adjustment				
Movement in interest income[2]	(97)		315	
Movement in fee income	(21)		24	
Accrued expenses	2,058		2,106	
Net cash used in operating activities		(59,927)		(51,300)
Cash flows from financing activities				
Contributions received	64,939		52,536	
Distribution of funds to the contributor	(10,548)		(7,516)	
Net cash from financing activities		54,391		45,020
Net decrease in cash and cash equivalents		(5,536)		(6,280)
Cash and cash equivalents at the beginning of the period		178,716		195,919
Effect of foreign exchange rate changes		7,765		(10,923)
Cash and cash equivalents at 31 December		180,945		178,716

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

Gordon Jones, Director - Financial Control
Date: 6 April 2022

[1] Loan interest income, the effective interest rate adjustment on loans and the interest income unwinding discount all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

The EBRD Green Climate Fund Special Fund

Fund purpose

The Fund was established to support the European Bank for Reconstruction and Development ("the Bank") in investing in low-emission and climate-resilient development across the regions in which the Bank invests in. To achieve this purpose, the Fund can provide concessional loans, grants and technical assistance.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the EBRD Green Climate Fund Special Fund ("the Fund"). The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting policies.

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

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 Fund considers that this standard is not applicable to its operations.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies

Financial assets - Classification and measurement

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

Financial assets at amortised cost

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost. Other liabilities are recognised on a settlement basis.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Fund is exposed have undergone reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, non-US dollar LIBORs (i.e. all GBP, EUR, CHF and JPY LIBOR settings) and the one-week and two-month USD LIBORs have ceased to be published. The remaining USD LIBOR settings (the overnight, one-month, three-months, six-months, and 12 months USD LIBOR) will cease to 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. However, market participants are encouraged to amend or close out existing IBOR contracts before then, rather than waiting to use the fallback mechanism.

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

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.

The Fund's exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €99.8 million (USD LIBOR). These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required

Impairment of financial assets

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

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

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

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

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

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

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

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

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

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

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

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

Contributor's resources

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

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

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

Contributions received in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. Currencies are then subsequently re-translated to the presentational currency at the year-end exchange rate.Contributions are recognised as receivable on the balance sheet on the date the conditions precedent to disbursement detailed in the relevant Funding Activity Agreement (FAA) has been met by the Fund. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date and the impact from discounting is expected to be minimal.

General reserve

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

Statement of cash flows

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

Foreign currencies

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

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

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

Interest and fees

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

Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest expense is recognised in 'operating expenses' in the income statement.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows.

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

Fees earned in respect of services provided over a period of time, including loan commitment fees are recognised as income as the services are provided.

Technical cooperation expenses and investment grants

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

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

Accredited entity fee expense

Accredited entity fee expense represents fees payable to the Bank for the costs and expenses for administering and managing the Fund.

Taxation

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

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve judgements 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 Fund’s expected credit losses.
- Classification of contributor’s resources: The classification of contributor’s resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules of the Fund.

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

C. Critical accounting estimates

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

The Fund's critical accounting estimates are outlined below:

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

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

In 2020, in addition to the modelled ECL thus calculated, the Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €343,000 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 becoming 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 are set out by internal rating grade below:

Financial Institutions						
2021 PD rating[4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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

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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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 LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long-term recovery experience.

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

Guarantors

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

Exposure at default

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

Sensitivity analysis

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

Adjusted risk parameter	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %
2021 portfolio provision (Stages 1 and 2)	860			1,598		
Staging						
All loans in Stage 1	860	-	0%	1,597	(1)	0%
All loans in Stage 2	6,935	6,075	706%	6,940	5,342	334%
PD Ratings						
All loans upgraded 1 notch	387	(473)	(55)%	936	(662)	(41)%
All loans downgraded 1 notch	2,191	1,331	155%	2,886	1,288	81%
All loans upgraded 3 notches	256	(604)	(70)%	551	(1,047)	(66)%
All loans downgraded 3 notches	14,641	13,781	1,602%	11,234	9,636	603%
Projected GDP						
Projected GDP increased by 1%	839	(21)	(2)%	1,546	(52)	(3)%
Projected GDP decreased by 1%	889	29	3%	1,711	113	7%
Projected GDP increased by 5%	805	(55)	(6)%	1,471	(127)	(8)%
Projected GDP decreased by 5%	1,241	381	44%	2,739	1,141	71%
LGD						
All loans decreased by 10%	640	(220)	(26)%	1,305	(293)	(18)%
All loans increased by 10%	1,080	220	26%	1,891	293	18%
EAD						
All undrawn commitments cancelled	777	(83)	(10)%	1,329	(269)	(17)%
All undrawn commitments disbursed within one month	999	139	16%	1,964	366	23%

Financial assets at amortised cost initial recognition

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

The EBRD Green Climate Fund Special Fund

Risk management

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

Risk governance

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

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

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

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

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

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

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans (see note 8).

Credit risk management and measurement

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

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

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

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

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

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with 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 portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external ratings agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

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

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

Loss given default
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested. 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 9.

Non-performing loans (NPL)

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

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

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

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified at the internal risk rating range of 2 and 3 (approximately AA+ to A- in terms of the S&P equivalent). Placements with credit institutions are considered to have low credit risk.

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

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

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

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

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

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Total net of impairment € 000	Impairment provisions coverage %
3: Strong	11,699	-	11,699	7.0%	(2)	-	11,697	0.0%
4: Good	22,984	-	22,984	13.8%	(31)	-	22,953	0.1%
5: Fair	127,420	-	127,420	76.9%	(698)	-	126,722	0.5%
7: Special attention	3,896	-	3,896	2.3%	(129)	-	3,767	3.3%
At 31 December 2021	165,999	-	165,999	100.0%	(860)	-	165,139	

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Total net of impairment € 000	Impairment provisions coverage %
3: Strong	10,670	-	10,670	9.7%	(5)	-	10,665	0.0%
5: Fair	13,414	-	13,414	12.1%	(36)	-	13,378	0.3%
6: Weak	85,381	-	85,381	77.3%	(1,453)	-	83,928	1.7%
7: Special attention	858	158	1,016	0.9%	(97)	(7)	912	9.5%
At 31 December 2020	110,323	158	110,481	100.0%	(1,591)	(7)	108,883	

At 31 December 2021 the Fund had security arrangements in place for loan investments with a disbursed value of €99.3 million (2020: €75.2 million). 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 Fund with rights and negotiating leverage that help mitigate the overall credit risk.

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

Risk category	**Undrawn loan commitments 2021 € 000**	Undrawn loan commitments 2020 € 000
4: Good	**14,375**	-
5: Fair	**35,520**	12,920
6: Weak	**500**	43,872
7: Special attention	**17,876**	21,080
At 31 December	**68,271**	77,872

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

Concentration of credit risk exposure

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

	Undrawn loan commitments 2021 € 000	**Loans 2021 € 000**	Undrawn loan commitments 2020 € 000	Loans 2020 € 000
Armenia	-	**5,211**	-	3,411
Egypt	**25,470**	**82,131**	20,367	58,475
Georgia	**10,000**	**5,654**	10,000	6,051
Jordan	**2,800**	**5**	2,800	-
Kazakhstan	-	**49,786**	20,205	31,738
Moldova	**1,500**	-	500	-
Mongolia	-	**336**	407	-
Morocco	**10,625**	**14,755**	2,920	4,873
Republic of Serbia	-	**4,563**	-	4,916
Tajikistan	**17,876**	**3,558**	20,673	1,017
At 31 December	**68,271**	**165,999**	77,872	110,481

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

	Undrawn loan commitments 2021 € 000	**Loans 2021 € 000**	Undrawn loan commitments 2020 € 000	Loans 2020 € 000
Depository credit (banks)	**15,542**	**64,305**	24,093	24,786
Leasing finance	-	-	407	5,251
Municipal and environmental infrastructure	**13,800**	**5**	12,800	-
Power and energy	**38,929**	**101,689**	40,572	80,444
At 31 December	**68,271**	**165,999**	77,872	110,481

B. Market risk

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

Market risk management and measurement

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

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

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

At 31 December 2021, the Fund has fixed rate loan investments of €83,144,000 (2020: €47,146,000). As all loans are held at amortised cost, a change in the underlying interest rates would not have an impact on net profit unless the loans were sold prior to their maturity date. As this is not part of the Fund's business model no impact on other comprehensive income is expected and therefore the exposure to interest rate risk on these instruments is considered to be minimal.

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

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

	Euro 2021 € 000	United States dollars 2021 € 000	Total 2021 € 000
Total assets	**77,375**	**274,178**	**351,553**
Total liabilities	**(84,332)**	**(267,221)**	**(351,553)**
Net currency position at 31 December 2021	**(6,957)**	**6,957**	**-**

	Euro 2020 € 000	United States dollars 2020 € 000	Total 2020 € 000
Total assets	84,157	207,744	291,901
Total liabilities	(68,476)	(223,425)	(291,901)
Net currency position at 31 December 2020	15,681	(15,681)	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentation currency movement, from a 8 per cent strengthening or weakening (2020: 7 per cent) is €488,000 (2020: €1,072,000).

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 (i.e. the overnight, one-month, three-month, six-month and 12-month settings) will cease to 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 in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. 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.

C. Liquidity risk

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

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

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Governors at its meeting on 5 July 2017 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules of the Fund and Accreditation Master Agreement (the AMA).

The AMA was signed between the Bank and the Green Climate Fund (GCF), the contributor, on 22 April 2017. The Fund became operational upon approval of the Rules on 5 July 2017.

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

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

The AMA allows either the Bank or the GCF to terminate the AMA by giving 180 days' notice. The Rules allow the Board of Directors to terminate the Fund after consultation between the Bank and the GCF.

2. Statement of Bank's responsibilities

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

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

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

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

3. Technical cooperation expenses[6]

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
As at 31 December 2020	12,996	(6,405)	6,591
Movement in the year	43,377	(5,253)	38,124
As at 31 December 2021	**56,373**	**(11,658)**	**44,715**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2021.

[6] Total technical cooperation expenses includes amounts accrued on the balance sheet.

4. Loan investments

Release/(charge) for the year	2021 € 000	2020 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	852	(612)
Provisions for impairment of loan investments	**852**	(612)

Movement in provisions	2021 € 000	2020 € 000
At beginning of period	(612)	(1,201)
Release/(charge) for the year to the income statement	852	(612)
Foreign exchange adjustments	(114)	215
At 31 December	**126**	(1,598)

Analysed between	2021 € 000	2020 € 000
Stage 1 and 2 provisions for loan investments at amortised cost	126	(1,598)
At 31 December	**126**	(1,598)

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages. Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

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

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

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

As at 31 December 2021, the Fund has no loan investments or undrawn commitments in Stage 2 or 3 (2020: none in Stage 3).

Movement in provisions	12-month ECL (Stage 1) 2021 € 000	Lifetime ECL (Stage 2) 2021 € 000	Total 2021 € 000	12-month ECL (Stage 1) 2020 € 000	Lifetime ECL (Stage 2) 2020 € 000	Total 2020 € 000
As at 1 January	(1,591)	(7)	(1,598)	(1,201)	-	(1,201)
New loans originated	(68)	-	(68)	(304)	-	(304)
Transfer to stage 1 - significant decrease in credit risk	(2)	2	-	-	-	-
Transfer to stage 2 - significant increase in credit risk	-	-	-	8	(9)	(1)
ECL release - cancelled loans	7	-	7	25	-	25
Changes in model or risk parameters	908	5	913	(333)	1	(332)
Foreign exchange and other movements	(114)	-	(114)	214	1	215
As at 31 December	**(860)**	-	**(860)**	(1,591)	(7)	(1,598)

Movement in loans at amortised cost	Loans Stage 1 € 000	Loans Stage 2 € 000	Total 2021 € 000	Loans Stage 1 € 000	Loans Stage 2 € 000	Total 2020 € 000
As at 1 January	110,323	158	110,481	93,634	-	93,634
New banking loans originated	60,695	-	60,695	33,141	-	33,141
Transfer to stage 1 - significant decrease in credit risk	49	(49)	-	-	-	-
Transfer to stage 2 - significant increase in credit risk	-	-	-	(200)	200	-
Repayments/settlements	(8,204)	(122)	(8,326)	(4,379)	(41)	(4,420)
Day one fair value adjustment	(8,143)	-	(8,143)	(3,030)	-	(3,030)
Unwind of concessional loan discount	1,484	5	1,489	1,436	7	1,443
Movement in effective interest rate adjustment	(702)	(3)	(705)	(890)	(1)	(891)
Foreign exchange movements	10,497	11	10,508	(9,389)	(7)	(9,396)
As at 31 December	**165,999**	-	**165,999**	110,323	158	110,481

5. Concessional loan discount

Set out below is an analysis of the movements in the Fund's concessional loan discount liability:

	2021 € 000	2020 € 000
At beginning of period	17,419	16,073
Day one fair value adjustment	1,233	5,703
Derecognition of liability on loan disbursement	(8,143)	(3,030)
Foreign exchange movements	1,019	(1,327)
At 31 December	11,528	17,419

The change in concessional loan discount recognised in the income statement is comprised of the day one fair value adjustment above.

6. Other financial assets

	2021 € 000	2020 € 000
Interest receivable	745	648
Front end fees receivable	8	10
Commitment fees receivable	62	41
As at 31 December	815	699

7. Other financial liabilities

	2021 € 000	2020 € 000
Technical cooperation expenses	6,691	4,718
Accredited entity fees payable	854	803
Negative interest rate expense	87	40
Other payable	-	13
As at 31 December	7,632	5,574

8. Undrawn commitments

	2021 € 000	2020 € 000
Loan commitments	68,271	77,872
Technical cooperation expenses	44,715	6,591
Investment grants	18,329	21,061
Undrawn commitments at 31 December	131,315	105,524

This represents amounts for which the Fund has contracted for but for which the transaction or service was not undertaken at 31 December 2021.

9. Contributions

	2021	2020
Pledged contributions not yet due	€ 000	€ 000
Total pledged	990,273	701,624
Total received	(425,351)	(360,412)
FX on contributions received	(3,106)	26,145
Contributions receivable	(4,654)	(3,603)
As at 31 December	557,162	363,754

As at 31 December 2021 the total contributions pledged per the signed FAAs is equivalent to €990,273,000 (2020: €701,624,000). The next tranche of contributions can be called when conditions precedent stipulated in the relevant FAA have been met.

During 2021, €10.5 million was distributed to the contributor (2020: €7.5 million).

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

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

Assets	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000
Placements with credit institutions	180,945	-	180,945	178,716	-	178,716
Other financial assets	815	-	815	699	-	699
Loans	18,792	147,207	165,999	5,337	105,144	110,481
Provisions for impairment	(102)	(758)	(860)	(92)	(1,506)	(1,598)
Contributions receivable	4,654	-	4,654	3,603	-	3,603
Total assets	205,104	146,449	351,553	188,263	103,638	291,901
Liabilities						
Other financial liabilities	7,632	-	7,632	5,574	-	5,574
Concessional loan discount	11,528	-	11,528	17,419	-	17,419
Total contributor's resources	185,944	146,449	332,393	165,270	103,638	268,908
Total liabilities	205,104	146,449	351,553	188,263	103,638	291,901

11. Fair value of financial assets and liabilities

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

12. Events after the reporting period

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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

13. Related parties

The Fund’s related parties are the Bank and the contributor, the GCF.

The Bank is entitled to an accredited entity fee in accordance with the terms of the relevant FAA. The accredited entity fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. The fees paid during the year are disclosed in the income statement as accredited fee expense.

External auditor's remuneration of €18,200 is payable by the Bank from the accredited entity fee (2020: €8,600). The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank’s external auditor for the five-year period 2020-24 following the completion of Deloitte’s second consecutive term in 2019.

The Accredited entity fees payable from the Fund to the Bank are outlined in note 7.

Contributions received and receivable from the contributor and amounts returned to the contributors are outlined in note 9.

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

Report on the audit of the financial statements

Opinion

In our opinion, The EBRD Green Climate Fund Special Fund (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 5 July 2017, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The EBRD Post-Graduation Special Fund

Annual Financial Report
31 December 2021

The EBRD Post-Graduation Special Fund

Contents

Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributors' resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 6
Notes to the financial statements 8
Independent Auditors' Report to the Governors 10

The EBRD Post-Graduation Special Fund

Statement of comprehensive income

For the year ended 31 December 2021	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Operating expenses	(71)	(48)
Net loss and comprehensive expense for the year	(71)	(48)
Attributable to:		
Contributors	(71)	(48)

Balance sheet

At 31 December 2021	Note	31 December 2021 € 000	31 December 2020 € 000
Assets			
Placements with credit institutions		**9,337**	9,402
Total assets		**9,337**	9,402
Liabilities and contributors' resources			
Negative interest payable		**6**	-
Total liabilities		**6**	-
Contributions	3	**10,000**	10,000
Reserves and accumulated loss		**(669)**	(598)
Total contributors' resources		**9,331**	9,402
Total liabilities and contributors' resources		**9,337**	9,402

The EBRD Post-Graduation Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2021	Contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2019	10,000	(550)	9,450
Total comprehensive expense for the year	-	(48)	(48)
At 31 December 2020	10,000	(598)	9,402
Total comprehensive expense for the year	-	(71)	(71)
At 31 December 2021	**10,000**	**(669)**	**9,331**

Statement of cash flows

For the year ended 31 December 2021	**€ 000**	**Year to 31 December 2021 € 000**	€ 000	Year to 31 December 2020 € 000
Cash flows used from operating activities				
Net loss for the year	**(71)**		(48)	
Working capital adjustment				
Movement in accrued expenses	**6**		(4)	
Net cash used in operating activities		**(65)**		(52)
Net decrease in cash and cash equivalents		**(65)**		(52)
Cash and cash equivalents at the beginning of the year		**9,402**		9,454
Cash and cash equivalents at 31 December		**9,337**		9,402

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

Date: 6 April 2022

The EBRD Post-Graduation Special Fund

Fund purpose

The EBRD Post-Graduation Special Fund ("the Fund") was established to assist the European Bank for Reconstruction and Development ("the Bank") achieve its mandate of implementing a strategic and comprehensive approach to post-graduation. The resources of the Fund may be used to finance activities and costs to provide expertise to clients in countries where there is a clear perspective on graduation or to support post-graduation business development.

As the primary purpose of the Fund is to assist the Bank to achieve its post-graduation objectives rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention and have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

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

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

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

Financial assets at amortised cost

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

Financial liabilities

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

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks

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

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that the termination of the contribution agreement would lead to the winding up of the Fund and the distribution of the residual assets to the contributors.

Statement of cash flows

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

Functional and reporting currencies

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

Interest

Interest is recorded on an accruals basis using the effective interest method. Interest income is recognised within 'interest income' in the Statement of comprehensive income. Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the Statement of comprehensive income.

Technical cooperation expenses

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

Taxation

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

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policy critical as it involves a judgement which could have a material impact on the financial statements:

- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

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

C. Critical accounting estimates

The Fund does not have any critical accounting estimates for the years presented.

Risk management

Risk governance

The Fund is subject to the European Bank for Reconstruction and Development's (the "Bank") risk governance procedures as below:

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

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

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

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

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

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

A. Credit risk

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

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

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

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2021 and 31 December 2020.

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

B. Market risk

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

Market risk management and measurement

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

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

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

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

The Fund does not hold any assets or liabilities of non-euro denomination, nor does it have any non-euro undrawn commitments as at 31 December 2021, hence it is not exposed to any foreign exchange risk.

C. Liquidity risk

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

The Fund's Rules and Regulations require that technical assistance is financed from the resources of the Fund, which comprise contributions received and income earned.

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

Notes to the financial statements

1. Creation of the Special Fund

The Fund was established to assist the Bank. The creation of the Fund was approved by the Board of the Bank at its meeting of 26 March 2014 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund approved by the Board on that date, as may be amended from time to time. The Fund became operational after the Governors of the Bank adopted the 2013 Net Income Allocation Resolution during its Annual Meeting on 15 May 2014.

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

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

The Fund will terminate automatically at the end of five years following the graduation of the last of the EU-8 countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, and the Slovak Republic) or upon full utilisation of the Fund's resources. The Board may decide to terminate the fund at any time.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Contributions

No contributions were received during the year by the Fund (2020: nil).

4. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

5. Analysis of current and non-current assets and liabilities

All assets and liabilities presented on the balance sheet are classified as current for both 2021 and 2020.

6. 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

7. Related parties

The Fund's only related party is the Bank.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent of contributions received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. During the year ended 31 December 2021, the Fund paid no management fee (2020: nil) and there were no accrued management fees payable by the Fund to the Bank at 31 December 2021 (2020: nil).

External auditors' remuneration of €18,200 (2020: €8,600) is payable by the Bank from the management fee. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The EBRD Post-Graduation Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The EBRD Post-Graduation Special Fund (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 26 May 2014, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The EBRD Shareholder Special Fund

Annual Financial Report
31 December 2021

The EBRD Shareholder Special Fund

Contents

Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributors' resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 11
Notes to the financial statements 16
Independent auditors' report to the Governors 19

The EBRD Shareholder Special Fund

Statement of comprehensive income

For the year ended 31 December 2021

	Note	Year to 31 December 2021 € million	Year to 31 December 2021 € million	Year to 31 December 2020 € million	Year to 31 December 2020 € million
Technical cooperation expenses	3	(63)		(63)	
Client cost sharing for technical cooperation		4		1	
Net technical cooperation expenses			(59)		(62)
Disbursements for investment grants			(9)		(7)
Incentive fees			(2)		(2)
Net gain/(loss) from share investments	6		5		(4)
Foreign exchange movement			3		(2)
Other operating expenses			(4)		(5)
Net loss and comprehensive expense for the year			(66)		(82)
Total comprehensive expense attributable to:					
Contributors			(66)		(82)

Balance sheet

At 31 December 2021

	Note	31 December 2021 € million	31 December 2021 € million	31 December 2020 € million	31 December 2020 € million
Assets					
Placements with credit institutions	4		470		438
Contributions receivable	5		110		144
Share investments	6		51		46
Total assets			631		628
Liabilities and contributors' resources					
Accrued technical cooperation expenses			52		48
Financial guarantee liability			1		1
Total liabilities			53		49
Contributions	5	1,200		1,135	
Reserves and accumulated loss		(622)		(556)	
Total contributors' resources			578		579
Total liabilities and contributors' resources			631		628
Memorandum items					
Undrawn commitments	7		117		128

The EBRD Shareholder Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2021

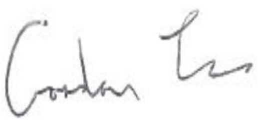
	Contributions € million	Accumulated loss € million	Total € million
At 31 December 2019	1,035	(474)	561
Contributions received and receivable	100	-	100
Total comprehensive expense for the year	-	(82)	(82)
At 31 December 2020	1,135	(556)	579
Contributions received and receivable	65	-	65
Total comprehensive expense for the year	-	(66)	(66)
At 31 December 2021	**1,200**	**(622)**	**578**

Statement of cash flows

For the year ended 31 December 2021

	€ million	Year to 31 December 2021 € million	€ million	Year to 31 December 2020 € million
Cash (used in)/from operating activities				
Net loss for the year	(66)		(82)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Net (gain)/loss on share investments	(5)		4	
Foreign exchange movement	(3)		2	
Management fees	3		3	
	(71)		(73)	
Cash flows from the sale and purchase of operating assets				
Funds advanced for share investments	-		(10)	
Net placements to credit institutions	(40)		160	
Working capital adjustment				
Movement in accrued expenses	4		5	
Net cash (used in)/from operating activities		(107)		82
Cash flows from financing activities				
Contributions received	96		46	
Net cash from financing activities		96		46
Net (decrease)/increase in cash and cash equivalents		(11)		128
Effect of foreign exchange rate changes		3		(3)
Cash and cash equivalents at the beginning of the year		288		163
Cash and cash equivalents at 31 December		280		288

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Date: 6 April 2022

The EBRD Shareholder Special Fund

Fund purpose

The purpose of the EBRD Shareholder Special Fund ("the Fund") is to assist the European Bank for Reconstruction and Development ("the Bank") to achieve its mandate of promoting transition towards open market-oriented economies by providing:

- Technical assistance (or cooperation) which involves the provision of services, usually those of consultants, to provide expertise to clients in economies in which the Bank invests;
- Non-technical assistance initiatives which are principally used to provide working capital, incentive fees or investment grants;
- Investment activities, which may include guarantees, equity or debt financing; and
- Nuclear safety activities.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting estimates and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment.

The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

All of the share investments held by the Fund are measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used is net asset value.

The Fund's share investments are recognised on a trade date basis.

At initial recognition, the Fund measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:

i. substantially all the risks and rewards of the asset; or
ii. significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial guarantees which are measured in accordance with IFRS 9, as described under "Financial guarantees" below.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Fund is exposed have undergone reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, non-US dollar LIBORs (i.e. all GBP, EUR, CHF and JPY LIBOR settings) and the one-week and two-month USD LIBORs have ceased to be published. The remaining USD LIBOR settings (the overnight, one-month, three-months, six-months, and 12 months USD LIBOR) will cease to 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. However, market participants are encouraged to amend or close out existing IBOR contracts before then, rather than waiting to use the fallback mechanism.

In August 2020, the IASB issued "Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16", which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

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.

The Fund's exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €0.2 million (USD LIBOR). These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

A "three-stage" model for impairment is applied based on changes in credit quality since origination[1], with the stage allocation being based on the financial asset's probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of credit-impairment is identified, the asset is reallocated to Stage 3 as described below.

The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

[1] For calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment

In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2 is required, a combination of quantitative and qualitative risk metrics are employed. The determination of what constitutes a significant increase in credit risk is a critical judgement. All loans with at least a three-notch downgrade in PD on the Bank's internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the "watch list" are transitioned to Stage 2[2].

Financial assets at amortised cost – non performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:

- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate of the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Financial guarantees

The Fund's resources may be used to provide the following guarantees:

- Participating Bank ("PB") guarantees: cover a proportion of principal losses of loan investments made by PB's under specific signed loan agreements.
- Parallel loan investment guarantees: cover the Bank's principal losses on parallel loan investments, limited to the debt proceeds recovered on the Fund's loan investment.
- Small and Medium Enterprise Programme ("SME") guarantees: cover principal losses of loan investments in the Bank's SME Programme and principal losses the Bank may incur from providing its own guarantee.

Initial recognition and measurement
A financial liability is recognised once the financial guarantee contract is effective. As the Fund does not charge the Bank any fee for its guarantee, the initial fair value is estimated based on the fee that the Fund might otherwise have charged, given the credit risk attaching to the guaranteed portfolio, assuming an arm's-length commercial transaction.

This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement.

Subsequent measurement
The initial value of each financial guarantee liability is amortised over the life of the financial guarantee contract using the straight-line method. Amortisation is recognised in profit and loss in the period to which it relates, and is recorded as other financial guarantees movement in the statement of profit and loss. In addition, the carrying value of the financial guarantee liability is measured as the higher of:

- The initial fair value of the financial guarantee liability less accumulated amortisation, and
- The expected credit loss associated with the financial guarantee.

[2] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

Contributions are recognised as receivable on the balance sheet on the date the conditions precedent to disbursement has been met by the Fund. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date and the impact from discounting is expected to be minimal.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The Fund's functional currency and reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

Interest

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

Technical cooperation expenses and investment grants

Technical cooperation expenses, which represent services provided to beneficiaries on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Client cost sharing for technical cooperation represents reimbursements in relation to consultancy services provided. A letter of engagement indicates expected amounts and timing of payments, however these are not considered due until an invoice is issued from the Fund to the client. Amounts are recorded as income when invoiced. This approach is not materially different from recognising the recovery at the same time as performance of the service.

Capital expenditure (investment) grants are disbursed in coordination with the related Bank loan resources, generally directly to the contractor. Disbursements are made upon verification of the goods works or services that have been delivered or carried out by the contractor. The grants are non-refundable.

Incentive fees

Incentive fees are paid to the Bank's clients ("Borrowers") or end-borrowers to encourage eligible lending activities that are defined in the loan agreement between the Bank and the Borrower. The Incentive fees are recognised in the period in which they are incurred, payments are made to Borrowers and end-borrowers either on the basis of disbursement made in a relevant reporting period or verification of the investment.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Other than the judgements applied in making accounting estimates, which are described in the "Critical accounting estimates" section below, the Fund has deemed the following accounting policies critical as they involve judgements 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 Fund's expected credit losses.
- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund's critical accounting estimates are outlined below:

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the Accounting Policies section of the report and an analysis of the share investments portfolio is provided in note 6. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

Financial guarantee liability
The Fund's method for determining the carrying value of financial guarantee liability is determined by assessing the expected credit loss (ECL) of the underlying covered Bank loan investments. In assessing the ECL, the Fund relies on the Bank's risk management processes and procedures.

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

In 2020, in addition to the modelled ECL thus calculated, the Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments 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 becoming 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[3]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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

[3] The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

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

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long-term recovery experience.

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure at default

EAD estimates the outstanding balance at the point of default. EAD is modelled at an individual loan level, with all future expected contractual cash flows including disbursements, cancellations, prepayments and interest being considered. The Fund's EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

Sensitivity analysis

A 3-notch PD upgrade on the Bank's loan investments covered by the Fund's guarantees would have decreased the financial guarantees by €0.1 million (2020: €0.3 million). Conversely, a 3-notch PD downgrade would have increased the amount of the financial guarantees provided by €0.4 million (2020: €0.6 million).

Risk management

As the primary purpose of the Fund is to assist the Bank to achieve its transition mandate rather than to generate a return on its assets, not all financial risks are actively managed by the Fund. Credit risk is jointly managed with the Bank; however the Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[4] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance, and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied;
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank's key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

Included in the placements with credit institutions is a €50 million (2020: €50 million) placement. This arrangement involves the Fund receiving, as collateral, highly liquid securities equal to the value of the placement, for a period of approximately one to three months. The credit risk on the placement is fully mitigated by collateral held. On termination of the arrangement, the placement and collateral are returned to the respective parties, and a new arrangement is entered into based on the Fund's excess available cash. Custodian ensures that the value of the securities held covers the full value of the placement on a daily basis.

[4] With the Banking Vice-Presidency being the first line of defence in identifying and managing risks related to Banking debt and equity operations.

The Fund is not entitled to sell or repledge the collateral outside of a default. The Fund has not taken possession of any securities held as collateral during the year.

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

Individual projects
The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board.

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

Probability of default ratings (PD ratings)
The Bank assigns internal risk ratings to all counterparties including borrowers, investee companies, guarantors, put counterparties and sovereigns in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external ratings agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

The table below shows the Bank's internal probability of default rating scale from 1.0 (lowest risk) to 8.0 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P). References to risk rating through this text relate to probability of default ratings unless otherwise specified.

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
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 3 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 10.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, and the sector of the exposure, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The majority of the Fund's placements with credit institutions were classified in internal credit rating risk ranges 2 and 3 (approximately AA- to A- in terms of the S&P equivalent). Placements with credit institutions are considered to have low credit risk. The Fund also has a minimal balance with a credit institution that had an internal credit rating risk range of 6 (approximately B+ to B- in terms of the S&P equivalent). Placements with credit institutions are considered to have low credit risk.

Financial guarantee liabilities
The Fund's assets may be used to guarantee the Bank's and PB's potential future default losses that are incurred on specific loan operating assets. At 31 December 2021, the total eligible loans outstanding under the Bank and PB guarantees is €42.3 million (2020: €50.9 million). At 31 December 2021, the maximum exposure of eligible operations covered by the guarantees is €6.4 million (2020: €8.4 million). The guarantee liability on the balance sheet of €0.9 million (2020: €1.4 million) represents the initial fair value of the liability recognised when the guarantees were issued adjusted for amortisation and expected credit losses. The Fund does not actively manage credit risk on its guarantee exposure.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.
The Fund's placements are repriced to market interest rates within one month, three months, and six months and the floating rate loan investment within three months, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2021 € million	United States dollars 2021 € million	Total € million
Total assets	542	89	631
Total liabilities	(47)	(6)	(53)
Net currency position at 31 December 2021	495	83	578

	Euro 2020 € million	United States dollars 2020 € million	Total € million
Total assets	546	82	628
Total liabilities	(46)	(3)	(49)
Net currency position at 31 December 2020	500	79	579

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund’s net loss from a 8 per cent strengthening or weakening (2020: 7 per cent) is +/- €6 million (2020: +/- €5 million). The majority of this impact is represented by the Fund’s Share investments.

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 (i.e. the overnight, one-month, three-month, six-month and 12-month settings) will cease to 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 in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. 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.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that technical assistance, non-technical assistance and investment activities are financed from the resources of the Fund, which comprises contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund also recognises contributions received as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

Level 3 - sensitivity analysis

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

The main valuation technique used in the valuation of the Fund's share investments is net asset value (NAV). Reasonably plausible alternative valuations have been determined based on adjustments to accounting estimates in the measurement of the NAV and would lead to a favourable change in value of nil (2020: €2.5 million) and an unfavourable change in value of €2.1 million (2020: €5.7 million).

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 15 April 2008 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations ("the Rules") of the Fund. The Fund became operational after the Governors of the Bank adopted the 2007 Net Income Allocation Resolution during its Annual Meeting on 18-19 May 2008.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

The Rules allows the Board to terminate the Fund at any time.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Technical cooperation expenses

	Commitments approved € million	Technical cooperation expenses[8] € million	Undrawn commitments € million
Total projects			
At 31 December 2019	446	(389)	57
Movement in the year	62	(63)	(1)
As at 31 December 2020	508	(452)	56
Movement in the year	58	(63)	(5)
As at 31 December 2021	**566**	**(515)**	**51**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2021.

4. Placements with credit institutions

	2021 € million	2020 € million
Cash and cash equivalents	280	288
Other current placements	190	150
At 31 December	**470**	438

Cash and cash equivalents are those placements which have an original tenor equal to, or less than, three months. "Current" is defined as those assets maturing, within the next 12 months.

[5] Total technical cooperation expenses includes amounts accrued on the balance sheet.

5. Contributions received and receivable

	2021 € million	2020 € million
Cumulative contributions received	1,087	988
Contributions pledged by Donors		
Contributions receivable	110	144
Management fee expense	3	3
Total contributions at 31 December	1,200	1,135

6. Share investments

The table below provides information about the Fund's share investments.

	2021 € million	2020 € million
Outstanding disbursements		
At 1 January	48	38
Disbursements	-	10
At 31 December	48	48
Fair value adjustment		
At 1 January	(2)	2
Movement in fair value revaluation	5	(4)
At 31 December	3	(2)
Fair value at 31 December	51	46

	2021 € million	2020 € million
Net unrealised gain/(loss) from share investments	5	(4)
Net gain from share investments	5	(4)

7. Undrawn commitments

	2021 € million	2020 € million
Technical cooperation expenses	51	56
Incentive fees	9	9
Financial guarantees	6	7
Investment grants	51	56
At 31 December	117	128

This represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2021. Undrawn commitments for technical cooperation expenses excludes amounts accrued on the balance sheet.

8. Analysis of current and non-current assets and liabilities

Assets	Current 2021 € million	Non-current 2021 € million	Total 2021 € million	Current 2020 € million	Non-current 2020 € million	Total 2020 € million
Placements with credit institutions	470	-	470	438	-	438
Contributions receivable	110	-	110	144	-	144
Share investments	-	51	51	-	46	46
Total assets	580	51	631	582	46	628
Liabilities						
Accrued expenses	52	-	52	48	-	48
Financial guarantee liability	1	-	1	1	-	1
Total liabilities	53	-	53	49	-	49

9. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

10. Related parties

The Fund's only related party is the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee, as determined by the Board of Directors, each time a contribution is made to the Fund. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. Management fees of €3 million was charged during the year (2020: €3 million). There was an accrued management fee payable of €4.9 million by the Fund to the Bank at 31 December 2021 (2020: €4.4 million) offset against contributions receivable.

External auditors' remuneration of €18,200 (2020: €8,500) is payable by the Bank from the management fee. The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the next external auditors for the five-year period 2020-24 following the completion of Deloitte's second term. As part of the wider services provided to the Bank, the auditors have also performed non audit services in relation to the activities under the Fund.

As at 31 December 2021, €14,300 is receivable from the Bank for bank charges incurred (2020: €37,900).

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The EBRD Shareholder Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The EBRD Shareholder Special Fund (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 15 April 2008, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The EBRD SME Special Fund

Annual Financial Report
31 December 2021

The EBRD SME Special Fund

Contents

Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributors' resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 7
Notes to the financial statements 10
Independent Auditors' Report 13

The EBRD SME Special Fund

Statement of comprehensive income

For the year ended 31 December 2021

	Note	Year to 31 December 2021 € 000	€ 000	Year to 31 December 2020 € 000	€ 000
Interest income			2		10
Technical cooperation expenses		(82)		(753)	
Client cost sharing for technical cooperation		2		31	
Net technical cooperation expenses			(80)		(722)
Net gain/(loss) from share investments	5		512		(421)
Foreign exchange movement			171		(241)
Other operating expenses	3		(56)		(9)
Net profit/(loss) and comprehensive income/(expense) for the year			549		(1,383)
Attributable to:					
Contributors			549		(1,383)

Balance sheet

At 31 December 2021

	Note	31 December 2021 € 000	€ 000	31 December 2020 € 000	€ 000
Assets					
Placements with credit institutions			4,425		2,546
Other financial assets	4		-		28
Share investment	5		3,943		3,431
Total assets			8,368		6,005
Liabilities					
Other financial liabilities	6		88		39
Contributors' resources					
Contributions	7	42,147		40,382	
Reserves and accumulated loss		(33,867)		(34,416)	
Total contributors' resources			8,280		5,966
Total liabilities			8,368		6,005

The EBRD SME Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributions	Accumulated Loss	Total
	€ 000	€ 000	€ 000
At 31 December 2019	40,382	(33,033)	7,349
Net loss and comprehensive expense for the year	-	(1,383)	(1,383)
At 31 December 2020	40,382	(34,416)	5,966
Contributions received	1,765	-	1,765
Net gain and comprehensive income for the year	-	549	549
At 31 December 2021	**42,147**	**(33,867)**	**8,280**

Statement of cash flows

For the year ended 31 December 2021

	Year to 31 December 2021		Year to 31 December 2020	
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net profit/(loss) for the year	549		(1,383)	
Adjustment to reconcile profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Net (gain)/loss from share investments	(512)		421	
Foreign exchange movement	(171)		241	
	(134)		(721)	
Working capital adjustment				
Movement in Client cost sharing for technical cooperation receivable	28		(20)	
Movement in accrued expenses	49		(1)	
Net cash used in operating activities		(57)		(742)
Cash flows from financing activities				
Contributions received	1,765		-	
Net cash from financing activities		1,765		-
Net increase/(decrease) in cash and cash equivalents		1,708		(742)
Cash and cash equivalents at the beginning of the year		2,546		3,529
Effect of foreign exchange rate changes		171		(241)
Cash and cash equivalents at 31 December		4,425		2,546

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Date: 6 April 2022

The EBRD SME Special Fund

Fund purpose

The EBRD SME Special Fund ("the Fund") was established to assist the development of small (including micro) and medium-size enterprises ("SMEs") in Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, North Macedonia, Moldova, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan (collectively, the "Eligible Countries").

To achieve this, the resources of the Fund may be used to:
- participate alongside the Bank in providing loans to SMEs;
- finance technical assistance which includes procuring consultancy services to assist SMEs;
- facilitate lending in local currency to SMEs by mitigating exchange rate risk.
- provide guarantees on a first loss basis on the European Bank for Reconstruction and Development's ("the Bank") SME loans; and
- allocate resources to other Funds pursuing similar development objectives.

As the primary purpose of the Fund is to assist the development of SMEs rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in Significant accounting policies and judgements" and "Critical accounting estimates" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The share investment held by the Fund is measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for the share investment that is unlisted is determined using valuation techniques appropriate to the market and industry of the investment. The primary valuation technique used is net asset value.
The Fund's share investment is recognised on a trade date basis.

At initial recognition, the Fund measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from contributors as a liability on the basis that Fund is obligated to return Funds under the terms of the agreement as set out below.

The Fund is required to return to contributors reflows of investment income earned on contributed resources. The return of funds to the contributor is disclosed as 'distribution of funds to contributors' in the statement of changes in contributors' resources.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributor were to withdraw from the Fund and contributions returnable to the contributor from operating activities.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The Fund's functional currency and reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

Contributions

Contributions received in USD are translated into euro at the exchange rates ruling at the time of transaction.

Outstanding contributions are recognised as receivables in the balance sheet on the date of signature of a contribution arrangement by the the Bank and a contributor.

Interest

Interest is recorded on an accruals basis using the effective interest method. Interest income is recognised within 'interest income' in the income statement.

Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'other operating expenses' in the income statement.

Technical cooperation expenses

Technical cooperation expenses, which represent services provided to beneficiaries on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Client cost sharing for technical cooperation represents reimbursements in relation to consultancy services provided. A letter of engagement indicates expected amounts and timing of payments, however these are not considered due until an invoice is issued from the Fund to the client. Amounts are recorded as income when invoiced. This approach is not materially different from recognising the recovery at the same time as performance of the service.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policy critical as it involves a judgement which could have a material impact on the financial statements:

- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund's critical accounting estimates are outlined below:

Fair value of the share investment
The Fund's method for determining the fair value of the share investment is described under "Financial assets" within the accounting policies section of the report and an analysis of the share investment is provided in note 5. Where unobservable market data has been used, a sensitivity analysis has been included note 5.

Risk management

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank's key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which arised 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 Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources, as well as client cost sharing amounts receivable and contributions receivable from the Contributor. For banks with which the Fund places its cash, internal credit ratings are determined by the Bank's Risk Management department and are the same as those used for banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through the synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

At year end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating risk range assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating of AA+ to AA-. Placements with credit institutions are considered to have low credit risk.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2021 and 31 December 2020.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2021 € 000	United States dollars 2021 € 000	Total € 000
Total assets	486	7,882	**8,368**
Total liabilities	(8,368)	-	**(8,368)**
Net currency position at 31 December 2021	**(7,882)**	**7,882**	-

	Euro 2020 € 000	United States dollars 2020 € 000	Total € 000
Total assets	556	5,449	6,005
Total liabilities	(6,005)	-	(6,005)
Net currency position at 31 December 2020	(5,449)	5,449	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net loss from a 8 per cent strengthening or weakening (2020: 7 per cent) is €554,000 (2020: €372,000).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that technical assistance, loan investments and guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as a liability, which may be returned to a contributor upon termination of a contribution agreement. Amounts returned are based on the Fund's net assets and take into account any existing commitments. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments for which not all market data is observable.

The fair values of the Fund's share investment has been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

Level 3 - sensitivity analysis
IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investment has been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

The technique used for the Fund’s share investment in the SME Local Currency Special Fund is net asset value (NAV). Reasonably plausible alternative valuations have been determined based on adjustments to accounting estimates in the measurement of the NAV and would lead to a favourable change in value of €nil (2020: €208,000) and an unfavourable change in value of €164,000 (2020: €463,000).

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank on 28 June 2000 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations ("the Rules") of the Fund. The Fund became operational on 24 July 2000 following the signing of the first contribution agreement.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

The Rules allows either the Bank or the contributor to terminate the Fund by giving written notice. The Board may terminate the Fund at any time.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Other operating expenses

	2021	2020
	€ 000	€ 000
Management fees	35	-
Audit fees	18	9
Negative interest rate expense payable	3	-
Year to 31 December	56	9

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditor's remuneration of €18,200 (2020: €8,600). The Bank pays the external auditor's remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2021 no fee (2020: nil) is payable in relation to the 2021 external audit. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

4. Other financial assets

	2021	2020
	€ 000	€ 000
Client cost sharing for technical cooperation receivable	-	28
At 31 December	-	28

5. Share investment

The table below provides information about the Fund's share investment.

	2021 € 000	2020 € 000
Outstanding disbursements		
At 1 January	3,747	3,747
At 31 December	3,747	3,747
Fair value adjustment		
At 1 January	(316)	105
Movement in fair value revaluation	512	(421)
At 31 December	196	(316)
Fair value at 31 December	3,943	3,431

6. Other financial liabilities

	2021 € 000	2020 € 000
Technical cooperation expenses	53	39
Management fees payable	35	-
At 31 December	88	39

7. Contributions

Contributions of €1,765,000 were received from the Embassy of the United States of America during the year (2020: nil). The US dollar equivalent of this contribution was $2,000,000.

8. Undrawn commitments

	2021 € 000	2020 € 000
Total commitments approved	31,224	31,182
Total technical cooperation expenses[1]	(31,209)	(31,127)
Undrawn commitments at 31 December	15	55

This represents amounts for which the Fund has contracted but for which the transaction or service was not performed at 31 December.

Analysis of current and non-current assets and liabilities

	Current 2021	Non-current 2021	Total 2021	Current 2020	Non-current 2020	Total 2020
Assets	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Placements with credit institutions	4,425	-	4,425	2,546	-	2,546
Other financial assets	-	-	-	28	-	28
Share investments	-	3,943	3,943	-	3,431	3,431
Total assets	4,425	3,943	8,368	2,574	3,431	6,005
Liabilities						
Other financial liabilities	88	-	88	39	-	39
Contributors' resources	4,337	3,943	8,280	2,535	3,431	5,966
Total liabilities	4,425	3,943	8,368	2,574	3,431	6,005

[1] Total technical cooperation expenses includes amounts accrued on the balance sheet.

9. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

10. 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

11. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2.0 per cent of contributions received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. There were no management fees paid by the Fund to the Bank in 2021 (2020: nil) and €35,000 is payable by the Fund to the Bank at 31 December 2021 (2020: nil). Audit fees paid to the bank are outlined in note 3.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The EBRD SME Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The EBRD SME Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 28 June 2000, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Financial Intermediary and Private Enterprises Investment Special Fund

Annual Financial Report
31 December 2021

Contents

Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributors' resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 11
Notes to the financial statements 17
Independent Auditors' report to the Governors 21

The Financial Intermediary and Private Enterprises Investment Special Fund

Statement of comprehensive income

For the year ended 31 December 2021

	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest and other similar income			
From loans		662	893
From credit institutions		8	53
Fee income		8	10
Foreign exchange movement		1,127	(1,931)
Other operating expenses	3	(18)	(137)
Impairment release/(charge) on loan investments	4	2,310	(6,934)
Change in concessional loan discount	5	-	(117)
Net profit/(loss) and total comprehensive income/(expense) for the year		4,097	(8,163)
Attributable to:			
Contributor		4,097	(8,163)

Balance sheet

At 31 December 2021

	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			24,622		20,254
Other financial assets	6		92		108
Loan investments					
Loans	4	31,266		33,216	
Less: Provisions for impairment	4	(8,377)		(9,957)	
			22,889		23,259
Total assets			47,603		43,621
Liabilities					
Concessional loan discount	5		-		117
Negative interest expense payable			2		-
Contributors' resources			47,601		43,504
Total liabilities			47,603		43,621
Memorandum items					
Undrawn loan commitments			-		6,478

The Financial Intermediary and Private Enterprises Investment Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributions	Retained Earnings / (Accumulated Loss)	Total
	€ 000	€ 000	€ 000
Balance at 31 December 2019	40,405	4,870	45,275
Total comprehensive expense for the year	-	(8,163)	(8,163)
Contributions received	6,392	-	6,392
Balance at 31 December 2020	46,797	(3,293)	43,504
Total comprehensive income for the year	-	4,097	4,097
Balance at 31 December 2021	**46,797**	**804**	**47,601**

Statement of cash flows

For the year ended 31 December 2021

	Year to 31 December 2021		Year to 31 December 2020	
	€ 000	€ 000	€ 000	€ 000
Cash flows from/(used in) operating activities				
Net profit/(loss) for the year	4,097		(8,163)	
Adjustments to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Interest income unwinding discount[1]	(101)		(327)	
Effective interest rate adjustment on loans[1]	(7)		37	
Change in concessional loan discount	-		117	
Foreign exchange movement	(1,127)		1,931	
Impairment (release)/charge on loan investments	(2,310)		6,934	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	9,103		6,647	
Funds advanced for loans	(6,429)		(8,548)	
Front end fees received	-		24	
Working capital adjustment				
Movement in interest income	15		118	
Movement in interest payable	2		-	
Movement in fee income	1		10	
Net cash from/(used in) operating activities		3,244		(1,220)
Cash flows from financing activities				
Contributions received	-		6,392	
Net cash from financing activities		-		6,392
Net increase in cash and cash equivalents		3,244		5,172
Cash and cash equivalents at the beginning of the year		20,254		16,649
Effect of foreign exchange rate changes		1,124		(1,567)
Cash and cash equivalents at 31 December		24,622		20,254

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Date: 6 April 2022

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding discount all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

Fund purpose

The Financial Intermediary and Private Enterprises Investment Special Fund ("the Fund") was established to support financial intermediaries and private enterprises and to support green economy investments in the economies in which the European Bank for Reconstruction and Development ("the Bank") invests by providing loans, investing in equity capital and providing guarantees or other credit support.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and "Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

The classification of the Fund’s financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as “amortised cost” only if both of the following criteria are met: the objective of the Fund’s business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's statement of comprehensive income, with a corresponding liability. The day one loss is recognised upon signing of the loan. Once the Fund disburses the loan to its borrower, the day one loss is reflected within the loan investment as it forms part of the initial fair value of the asset.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment that may be necessary. The initial fair value discount applied to each loan is therefore recovered in the effective interest rate (EIR) at which income is recognised in the statement of comprehensive income over the tenor of the loan.

All loans are subsequently measured at amortised cost using the effective interest method less any impairment. The initial fair value discount applied to each concessional loan is therefore recovered in the effective interest rate at which income is recognised in the statement of comprehensive income over the tenor of the loan.
The Fund’s financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as “fair value through other comprehensive income” only if both of the following criteria are met: the objective of the Fund’s business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Fund is exposed have undergone reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, non-US dollar LIBORs (i.e. all GBP, EUR, CHF and JPY LIBOR settings) and the one-week and two-month USD LIBORs have ceased to be published. The remaining USD LIBOR settings (the overnight, one-month, three-months, six-months, and 12 months USD LIBOR) will cease to 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. However, market participants are encouraged to amend or close out existing IBOR contracts before then, rather than waiting to use the fallback mechanism.

In August 2020, the IASB issued "Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16", which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

Changes to the basis for determining contractual cash flows because of the reform are required as a practical expedient to be treated as changes to a floating interest rate.

The Fund's exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €9.5 million (USD LIBOR). These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

A "three-stage" model for impairment is applied based on changes in credit quality since origination, with the stage allocation being based on the financial asset's probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of credit-impairment is identified, the asset is reallocated to Stage 3 as described below.

The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the statement of comprehensive income.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment
In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2 is required, a combination of quantitative and qualitative risk metrics are employed. The determination of what constitutes a significant increase in credit risk is a critical judgement. All loans with at least a three-notch downgrade in PD on the Bank's internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the "watch list" are transitioned to Stage 2[2].

Financial assets at amortised cost – non-performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:

- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate of the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, any changes in present value attributable to the modification will to be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Contributors' resources

The Fund recognises contributions received from the contributors as a liability on the basis that, should the contributors choose to withdraw from the Fund, the Fund is obligated to return that contributor's share of contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributors were to withdraw from the Fund and contributions returnable to the contributors from operating activities.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The Fund's functional currency and reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the statement of comprehensive income.

[2] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Contributions are recognised as receivable on the balance sheet on the date the conditions precedent to disbursement has been met by the Fund. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date and the impact from discounting is expected to be minimal.

The Fund is required to settle contributor accounts upon termination of the Contribution Agreement, returning to the contributors reflows of interest earned on investment, principal repayments on loan investments and investment income earned on contributed resources. The return of funds to the contributors is disclosed as ‘distribution of funds to the contributors’ in the statement of changes in contributors’ resources. The reinvestment of funds returned to the contributors is disclosed as ‘reinvestment of distribution of funds to the contributors’ in the statement of changes in contributors’ resources.

Interest and fees

Interest is recorded using the effective interest method. Interest income is recognised within 'interest and similar income' in the statement of comprehensive income. Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest expense is recognised in 'operating expenses' in the statement of comprehensive income.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of the expected cash flows.

The unwinding of the day one loss on concessional loans is recognised in interest income as part of the effective interest rate of the loan.

Fees earned in respect of services provided over a period of time are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Other than the judgements applied in making accounting estimates, which are described in the “Critical accounting estimates” section below, the Fund has deemed the following accounting policies critical as they involve judgements 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 Fund’s expected credit losses.
- Classification of contributors’ resources: The classification of contributors’ resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the statement of comprehensive income during the reporting period.

The Fund's critical accounting estimates are outlined below:

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

In 2020, in addition to the modelled ECL thus calculated, the Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €79,000 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 becoming 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[3]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

[3] The Bank's internal PD rating scale is explained in detail on page 13 of the Risk Management section.

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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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 LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long-term recovery experience.

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Guarantors

Where the Fund's loans are fully and unconditionally guaranteed, and the PD and/or LGD rating of the guarantor is better than the PD and/or LGD rating of the borrower, the ECL is based on the PD and/or LGD rating of the guarantor. Staging continues to be based solely on the borrower's PD.

Exposure at default

EAD estimates the outstanding balance at the point of default. EAD is modelled at an individual loan level, with all future expected contractual cash flows including disbursements, cancellations, prepayments and interest being considered. The Fund's EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

Sensitivity analysis

The sensitivity of portfolio provisions to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %
2021 portfolio provision (Stages 1 and 2)	328	-	-	403	-	-
Staging						
All loans in Stage 1	201	(127)	(39%)	373	(30)	(7)%
All loans in Stage 2	425	97	30%	696	293	73%
PD Ratings						
All loans upgraded 1 notch	185	(143)	(44%)	292	(111)	(28)%
All loans downgraded 1 notch	459	131	40%	518	115	29%
All loans upgraded 3 notches	50	(278)	(85%)	143	(260)	(65)%
All loans downgraded 3 notches	636	308	94%	850	447	111%
Projected GDP						
Projected GDP increased by 1%	312	(16)	(5%)	386	(17)	(4)%
Projected GDP decreased by 1%	346	18	5%	422	19	5%
Projected GDP increased by 5%	275	(53)	(16%)	343	(60)	(15)%
Projected GDP decreased by 5%	436	108	33%	514	111	28%
LGD						
All loans decreased by 10%	256	(72)	(22%)	331	(72)	(18)%
All loans increased by 10%	400	72	22%	475	72	18%
EAD						
All undrawn commitments cancelled	328	-	-	371	(32)	(8)%
All undrawn commitments disbursed within one month	328	-	-	458	55	14%

With respect to Stage 3 provisions, a decrease of ten percent on the current provision cover level would have an impact of - €805,000 (2020: - €956,000). An increase of ten percent on the cover level is not applicable as the loans with specific provisions are fully provided for.

Risk management

As the primary purpose of the Fund is to encourage development in the economies in which the Bank invests, rather than to generate a return on its net assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and foreign exchange.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank's key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans (see page 14).

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

Individual projects
The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board.

The Operations Committee reviews all Banking projects (both debt and equity transactions) prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

Probability of default ratings (PD ratings)
The Bank assigns internal risk ratings to all counterparties including borrowers, investee companies, guarantors, put counterparties and sovereigns in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external ratings agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

The table below shows the Bank's internal probability of default rating scale from 1.0 (lowest risk) to 8.0 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P). References to risk rating through this text relate to probability of default ratings unless otherwise specified.

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	
5	4.7 5.0 5.3	BB+ BB BB-	Fair	Risk range 5
6	5.7 6.0 6.3	B+ B B-	Weak	Risk range 6

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
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 3 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 9.

Non-performing loans (NPL)
NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, and the sector of the exposure, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
Set out below is an analysis of the Fund's placements with credit institutions classified by internal credit rating risk rankings. Placements with credit institutions are considered to have low credit risk.

Risk rating category	2021 € 000	2020 € 000
2: Very strong	17,333	17,486
3: Strong	7,289	-
4: Good	-	2,768
At 31 December	24,622	20,254

Loan investments at amortised cost
For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the loan investments and the associated impairment provisions for each of the Bank's internal risk rating categories.

	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions coverage %
4: Good	2,684	-	-	2,684	8.6%	(1)	-	-	2,683	0.0%
5: Fair	11,056	-	-	11,056	35.4%	(7)	-	-	11,049	0.1%
6: Weak	2,858	-	-	2,858	9.1%	(25)	-	-	2,833	0.9%
7: Special Attention	2,995	3,624	-	6,619	21.2%	(78)	(217)	-	6,324	4.5%
8: Non-performing	-	-	8,049	8,049	25.7%	-	-	(8,049)	-	100.0%
At 31 December 2021	**19,593**	**3,624**	**8,049**	**31,266**	**100.0%**	**(111)**	**(217)**	**(8,049)**	**22,889**	

	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions coverage %
4: Good	4,506	-	-	4,506	13.6%	(3)	-	-	4,503	0.1%
5: Fair	9,305	-	-	9,305	28.0%	(22)	-	-	9,283	0.2%
6: Weak	-	-	-	-	0.0%	-	-	-	-	0.0%
7: Special Attention	7,252	2,599	-	9,851	29.6%	(240)	(138)	-	9,473	3.8%
8: Non-performing	-	-	9,554	9,554	28.8%	-	-	(9,554)	-	100.0%
At 31 December 2020	21,063	2,599	9,554	33,216	100.0%	(265)	(138)	(9,554)	23,259	

At 31 December 2021 the Fund had security arrangements in place for €5.0 million of its disbursed loan investments (2020: €4.3 million). 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 Fund with rights and negotiating leverage that help mitigate the overall credit risk.

Undrawn loan commitments

Set out below is an analysis of the Funds undrawn commitments for loan for each of the Bank relevant internal risk rating categories.

Risk category	Undrawn loan commitments 2021 € 000	Undrawn loan commitments 2020 € 000
5: Fair	-	3,985
7: Special attention	-	2,493
At 31 December	**-**	6,478

The Fund would typically have conditions precedent that would need to be satisfied before further disbursements on its debt transactions.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at their carrying amount by country.

	Undrawn loan commitments 2021 € 000	Loans 2021 € 000	Undrawn loan commitments 2020 € 000	Loans 2020 € 000
Azerbaijan	-	**2,599**	-	2,397
Lebanon	-	**5,450**	-	7,158
Moldova	-	**1,485**	-	2,055
Romania	-	**13,740**	3,985	13,810
Tunisia	-	-	-	429
Turkey	-	**2,858**	-	4,001
Turkmenistan	-	**644**	-	1,370
Ukraine	-	**4,490**	2,493	1,996
At 31 December	**-**	**31,266**	6,478	33,216

The following table breaks down the main credit risk exposures at the carrying amount by sector.

	Undrawn loan commitments 2021 € 000	Loans 2021 € 000	Undrawn loan commitments 2020 € 000	Loans 2020 € 000
Agribusiness	-	9,384	2,493	9,174
Depository credit (banks)	-	17,525	-	22,491
Leasing Finance	-	-	-	429
Non-depository credit (non-bank)	-	4,357	3,985	1,122
At 31 December	-	31,266	6,478	33,216

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements and floating rate loan investments are repriced to market interest rates within one and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

At 31 December 2021, the Fund has fixed rate loan investments of €3,920,000 (2020: €429,000). As all loans are held at amortised cost, a change in the underlying interest rates would not have an impact on net profit unless the loans were sold prior to their maturity date. As this is not part of the Fund's business model no impact on other comprehensive income is expected and therefore the exposure to interest rate risk on these instruments is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2021 € 000	Romanian Leu 2021 € 000	United States dollars 2021 € 000	Total € 000
Total assets	26,338	6,966	14,299	47,603
Total liabilities	(47,603)	-	-	(47,603)
Net currency position at 31 December 2021	(21,265)	6,966	14,299	-

	Euro 2020 € 000	Romanian Leu 2020 € 000	United States dollars 2020 € 000	Total € 000
Total assets	22,677	4,511	16,433	43,621
Total liabilities	(43,504)	(117)	-	(43,621)
Net currency position at 31 December 2020	(20,827)	4,394	16,433	-

The overall potential impact on the Fund's net profit based on the average five year absolute rolling average movement in the below currencies is:

- €1,080,000 (2020: €1,205,000) from a 8 per cent strengthening or weakening in the United States dollar to Euro exchange rate (2020: 7 per cent)
- €89,000 (2020: €49,000) from a 1 per cent strengthening or weakening in the Romanian Leu to Euro exchange rate (2020: 1 per cent).

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 (i.e. the overnight, one-month, three-month, six-month and 12-month settings) will cease to 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 in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. 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.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan, equity investments and guarantees are financed from the resources of the Fund, which comprises contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as a liability, which may be returned to the contributors upon termination of a contribution agreement only after relevant liabilities have been discharged and assets disposed of or redeemed. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Management of contributors' resources

At 31 December 2021, the Fund had four Sub-accounts:

- The United States Agency for International Development (USAID) Horizonte Slovene Enterprise Fund, equity Sub-account;
- The International Cooperation and Development Fund (ICDF) Small Business Account (SBA) III, loan Sub-account;
- The ICDF Agribusiness Account (ABA), loan Sub-account; and
- The ICDF Innovation and Sustainability in Agribusiness Value Chains Account (AVC), loan Sub-account.

The ICDF is the sole remaining contributor to the Fund. The other contributors have chosen to withdraw from the Fund but have some remaining resources to be distributed.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of the Bank at its meeting of 16 December 1996 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations ("the Rules") of the Fund. The Fund became operational on 22 May 1997 following the receipt of the first contributions. On 17 March 2015, the Rules and Regulations of the Fund was amended, changing the name of the Fund from "Financial Intermediary Investment Special Fund" to "Financial Intermediary and Private Enterprises Investment Special Fund".

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

The Rules allows either the Bank or the contributors to terminate a Contribution Agreement or the Fund by giving 30 days' notice.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Other operating expenses

Other operating expenses are comprised of the following:

	2021 € 000	2020 € 000
Management fees	-	129
Interest expense	18	8
Year to 31 December	18	137

4. Loan investments

Release/Charge for the year	2021 € 000	2020 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	78	895
Impairment of loan investments at amortised cost in stage 3	2,232	(7,829)
Provisions for impairment of loan investments	2,310	(6,934)

Movement in provisions		
At 1 January	(9,957)	(3,970)
Release/(charge) for the year to the income statement	2,310	(6,934)
Unwinding of the discount on expected future cash flows of stage 3 assets	-	158
Foreign exchange adjustments	(730)	789
At 31 December	(8,377)	(9,957)

Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	(328)	(403)
Stage 3 provisions for loan investments at amortised cost	(8,049)	(9,554)
At 31 December	(8,377)	(9,957)

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the movements in the Banking loan investments and the associated impairment provisions for each of the stages of impairment.

Movement in provisions	12-month ECL (Stage 1) 2021 € 000	Lifetime ECL (Stage 2) 2021 € 000	Lifetime ECL (Stage 3) 2021 € 000	Total 2021 € 000
As at 1 January	(265)	(138)	(9,554)	(9,957)
Transfer to stage 1	(76)	110	-	34
Transfer to stage 2 - significant increase in credit risk	144	(242)	-	(98)
ECL release - repayments	-	11	-	11
Changes in model or risk parameters	87	44	2,232	2,363
Foreign exchange and other movements	(1)	(2)	(727)	(730)
As at 31 December 2021	(111)	(217)	(8,049)	(8,377)

Movement in provisions	12-month ECL (Stage 1) 2020 € 000	Lifetime ECL (Stage 2) 2020 € 000	Lifetime ECL (Stage 3) 2020 € 000	Total 2020 € 000
As at 1 January	(272)	(1,026)	(2,672)	(3,970)
New loans originated	(84)	-	-	(84)
Transfer to stage 2 - significant increase in credit risk	24	(33)	-	(9)
Transfer to stage 3 - credit impaired	-	838	(4,002)	(3,164)
ECL release - repayments	-	-	51	51
Changes in model or risk parameters	55	95	(3,720)	(3,570)
Foreign exchange and other movements	12	(12)	789	789
As at 31 December 2020	(265)	(138)	(9,554)	(9,957)

Movement in loans at amortised cost	Loans Stage 1 2021 € 000	Loans Stage 2 2021 € 000	Loans Stage 3 2021 € 000	Total 2021 € 000
As at 1 January	21,063	2,599	9,554	33,216
Loan disbursements	6,429	-	-	6,429
Transfer to stage 1	1,703	(1,703)	-	-
Transfer to stage 2 - significant increase in credit risk	(3,339)	3,339	-	-
Repayments	(6,203)	(656)	(2,244)	(9,103)
Day one fair value adjustment	(116)	-	-	(116)
Movement in effective interest rate adjustment	107	-	-	107
Foreign exchange and other movements	(51)	45	739	733
As at 31 December 2021	19,593	3,624	8,049	31,266

Movement in loans at amortised cost	Loans Stage 1 2020 € 000	Loans Stage 2 2020 € 000	Loans Stage 3 2020 € 000	Total 2020 € 000
As at 1 January	19,549	10,321	2,672	32,542
New loans originated	8,548	-	-	8,548
Transfer to stage 2 - significant increase in credit risk	(808)	808	-	-
Transfer to stage 3 - credit impaired	-	(8,335)	8,335	-
Repayments	(5,850)	(417)	(380)	(6,647)
Day one fair value adjustment	(182)	-	-	(182)
Movement in effective interest rate adjustment	46	63	(1)	108
Foreign exchange and other movements	(240)	159	(1,072)	(1,153)
As at 31 December 2020	21,063	2,599	9,554	33,216

5. Concessional loan discount

Set out below is an analysis of the movements in the Fund's concessional loan discount liability:

	2021 € 000	2020 € 000
At 1 January	(117)	(182)
Day one fair value adjustment	-	(117)
Derecognition of liability on loan disbursement	116	182
Foreign exchange movements	1	-
As at 31 December	-	(117)

The change in concessional loan discount recognised in the income statement is comprised of the day one fair value adjustment above.

6. Other financial assets

	2021 € 000	2020 € 000
Interest receivable	92	107
Commitment fee income receivable	-	1
At 31 December	92	108

7. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

8. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000
Assets						
Placements with credit institutions	24,622	-	24,622	20,254	-	20,254
Other financial assets	92	-	92	108	-	108
Loans	7,148	24,118	31,266	6,828	26,388	33,216
Provisions for impairment	(1,918)	(6,459)	(8,377)	(116)	(9,841)	(9,957)
Total assets	29,944	17,659	47,603	27,074	16,547	43,621
Liabilities						
Concessional loan discount	-	-	-	117	-	117
Other liabilities	2	-	2	-	-	-
Contributors' resources	29,942	17,659	47,601	26,957	16,547	43,504
Total liabilities	29,944	17,659	47,603	27,074	16,547	43,621

9. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that 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 crisis will result in an increase in the Fund's 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 Fund carried on its balance sheet the following loan exposures:

- Ukraine: loans of €4.5 million.

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.

10. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to one to three per cent of contributions received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. During the year no management fee was charged by the Bank to the Fund (2020: €129,462). There was no accrued management fee payable by the Fund to the Bank at 31 December 2021 (2020: nil). External auditors' remuneration of €18,200 was paid by the Bank from the management fee (2020: €8,600). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The Financial Intermediary and Private Enterprises Investment Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The Financial Intermediary and Private Enterprises Investment Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 16 December 1996, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Italian Investment Special Fund

Annual Financial Report
31 December 2021

The Italian Investment Special Fund

Contents

Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributor's resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 11
Notes to the financial statements 19
Independent Auditors' report to the Governors 25

The Italian Investment Special Fund

Statement of comprehensive income

For the year ended 31 December 2021	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest income from loans	3	180	17
Dividend income		67	-
Fee income		7	7
Net gains/(losses) from share investments	4	475	(168)
Financial guarantees movement	5	338	(136)
Foreign exchange movement		93	76
Operating expenses	6	(65)	(63)
Impairment release/(charge) on loan investments	7	74	(63)
Net profit/(loss) and comprehensive income/(expense) for the year		1,169	(330)
Attributable to:			
Contributor		1,169	(330)

Balance sheet

At 31 December 2021	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			7,601		10,233
Other financial assets	8		-		513
Loan investments					
Loans at amortised cost	9	651		726	
Less: Provisions for impairment	7	(337)		(449)	
			314		277
Share investments	10		2,758		2,578
Financial guarantee assets			38		43
Total assets			10,711		13,644
Liabilities and contributor's resources					
Other financial liabilities	11		80		739
Financial guarantee liabilities	12		880		1,323
Total liabilities			960		2,062
Contributions			14,524		17,524
Reserves and accumulated loss			(4,773)		(5,942)
Total contributor's resources			9,751		11,582
Total liabilities and contributor's resources			10,711		13,644
Memorandum items					
Undrawn commitments and guarantees	14		2,216		2,107

The Italian Investment Special Fund

Statement of changes in contributor's resources

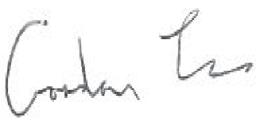
For the year ended 31 December 2021	Note	Net contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2019		17,524	(5,612)	11,912
Total comprehensive expense for the year		-	(330)	(330)
At 31 December 2020		17,524	(5,942)	11,582
Distribution to other donor funds	13	(3,000)	-	(3,000)
Total comprehensive income for the year		-	1,169	1,169
At 31 December 2021		**14,524**	**(4,773)**	**9,751**

Statement of cash flows

For the year ended 31 December 2021

	Year to 31 December 2021 € 000	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000	Year to 31 December 2020 € 000
Cash flows from operating activities				
Net profit/(loss) for the year	1,169		(330)	
Adjustment to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	(5)		-	
Unwinding discount on stage 3 loans	-		(17)	
Fair value movement on share investments	(475)		(282)	
Foreign exchange movement	(93)		(76)	
Financial guarantees movement	(338)		136	
Impairment (release)/charge on loan investments	(74)		63	
	184		(506)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan investments	40		93	
Proceeds from return of capital on share investments	62		378	
Proceeds from sale of share investments	508		-	
Settlement of derivative financial instruments	(477)		-	
Funds advanced for share investments	-		(625)	
Working capital adjustment				
Movement in interest income	-		1	
Movement in fee income	1		-	
Movement in other receivable	512		-	
Movement in accrued expenses	(1)		-	
Movement in guarantee payable	(450)		450	
Movement in other payable	(6)		2	
Net cash from/(used in) operating activities		373		(207)
Distribution to other donor funds	(3,000)		-	
Net cash used in financing activities		(3,000)		-
Net decrease in cash and cash equivalents		(2,627)		(207)
Cash and cash equivalents at the beginning of the year		10,233		10,445
Effect of foreign exchange rate changes		(5)		(5)
Cash and cash equivalents at 31 December		7,601		10,233

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Date: 6 April 2022

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding discount on specific provisions all make up the interest income from loans figure in the Statement of comprehensive income but have been separated for presentation in the cash flow statement

The Italian Investment Special Fund

Fund purpose

The Italian Investment Special Fund ("the Fund") has been established to support the development of small and medium size enterprises ("SMEs") in EBRD countries of operation as set out in the individual Contribution Agreements to the Fund. To achieve this purpose, the Fund has participated, alongside the European Bank for Reconstruction and Development ("the Bank"), in providing equity investments and loans to such businesses. The Fund's resources are also used to mitigate the Bank's risk exposure by providing guarantees on some of the Bank's investments.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
In 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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.

Pronouncement	Nature of change	Potential impact
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

All loans are subsequently measured at amortised cost using the effective interest method less any impairment. The initial fair value discount applied to each concessional loan is therefore recovered in the effective interest rate at which income is recognised in the Statement of comprehensive income over the tenor of the loan.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

All of the share investments held by the Fund are measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are multiples applied to net asset value and earnings-based valuations to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

The Fund's share investments are recognised on a trade date basis.
At initial recognition, the Fund measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of comprehensive income. Such assets are carried at fair value on the balance sheet with changes in fair value included in the Statement of comprehensive income in the period in which they occur.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

All financial liabilities are measured at amortised cost, except for derivative instruments, which must be measured at fair value, and financial guarantees which are measured in accordance with IFRS 9, as described under "Financial guarantees" below.

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

The Fund does not have any current exposures subject to benchmark reforms.

Impairment of financial assets

Financial assets at amortised cost – performing assets (stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

A "three-stage" model for impairment is applied based on changes in credit quality since origination[2], with the stage allocation being based on the financial asset's probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of credit-impairment is identified, the asset is reallocated to Stage 3 as described below.

The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the Statement of comprehensive income.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.

Stage assessment
In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2 is required, a combination of quantitative and qualitative risk metrics are employed. The determination of what constitutes a significant increase in credit risk is a critical judgement. All loans with at least a three-notch downgrade in PD on the Bank's internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the "watch list" are transitioned to Stage 2[3].

Financial assets at amortised cost – nonperforming assets (stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the Statement of comprehensive income, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:
- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the Statement of comprehensive income. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate of the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the Statement of comprehensive income.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the Statement of comprehensive income.

Derivative financial instruments

The Fund makes use of derivatives for two purposes:

- to guarantee a minimum return to the European Bank for Reconstruction and Development ("the Bank") in respect of share investments in which the Fund makes a parallel investment. The Fund's liability to make up the minimum return is limited to the recoverable amount of its own parallel investment; and
- to provide potential exit strategies for its unlisted equity investments through negotiated put options.

All derivatives are measured at fair value through the Statement of comprehensive income. Fair values are derived from option-pricing models. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Financial guarantees

Initial recognition and measurement
The Fund's resources may be used to provide the following guarantees:

- to cover the principal losses of parallel loan investments, limited to the debt proceeds recovered on the Fund's loan investment. When a guarantee is issued, it is initially recognised at its fair value, which is estimated using the risk margin, principal and tenor of the guaranteed loan as a proxy for the fees which may have been received if the transaction had been at arm's length. These Financial guarantees are recognised within other financial liabilities;

- to cover the principal losses of the Bank's unilateral loan investments, limited to the Fund's percentage of the aggregate committed amount of the unilateral investment that is to be covered by the Fund's first loss risk coverage. As the Fund charges the Bank a fee for these guarantees, the initial fair value is estimated based on

[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

the present value of fees the Fund is expected to receive over the period of the financial guarantee and recognised within other financial assets and other financial liabilities.

A guarantee is recognised once the financial guarantee contract is effective.

Subsequent measurement
The initial value of each financial guarantee liability is amortised over the life of the financial guarantee contract using the straight-line method. Amortisation is recognised in profit and loss in the period to which it relates, and is recorded as other financial guarantees movement in the statement of profit and loss. In addition, the carrying value of the financial guarantee liability is measured as the higher of:

- The initial fair value of the financial guarantee liability less accumulated amortisation, and
- The expected credit loss associated with the financial guarantee.

The guarantee assets represents the discounted value of the guarantee fee income.

Contributor's resources

The Fund recognises contributions received from the contributor as equity on the basis that outside of termination, there are no cash flows contractually payable to the contributor. The termination of the contribution agreement would lead to the winding up of the Fund and the distribution of the residual assets to the contributor.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The Fund’s functional currency and reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the Statement of comprehensive income.

Interest, fees and dividends

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows. Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the Statement of comprehensive income.

Fees earned in respect of services provided over a period of time, including loan guarantee fees are recognised as income as the services are provided.

Dividends relating to share investments are recognised in accordance with IFRS 9 when the Fund’s right to receive payments has been established, and when it is probable that the economic benefits will flow to the Fund and the amount can be reliably measured.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank (“the AEB”), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied upon goods and services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the

Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve 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 Fund's expected credit losses.
- Classification of contributor's resources: The classification of contributor's resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the Statement of comprehensive income during the reporting period. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the economies in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk.

The Fund's critical accounting estimates are outlined below:

Fair value of derivative financial instruments
The fair values of the Fund's derivative financial instruments are determined by using discounted cash flow models. These cash flow models are based on underlying market prices for currencies, interest rates and option volatilities. Where market data is not available for all elements of a derivative's valuation, extrapolation and interpolation of existing data has been used. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the accounting policies section of the report and an analysis of the share investment portfolio is provided in note 10. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

Point-in-time PD rates

To calculate expected credit losses for both Stage 1 and Stage 2 assets, a default probability is mapped to each PD rating using historical default data. The Bank uses forward looking point-in-time (PIT) PD rates to calculate the ECL. The PIT PD rates are derived from through-the-cycle (TTC) PD rates adjusted for projected macroeconomic conditions.

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[4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings

[4] The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long-term recovery experience.

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Guarantors

Where the Fund's loans are fully and unconditionally guaranteed, and the PD and/or LGD rating of the guarantor is better than the PD and/or LGD rating of the borrower, the ECL is based on the better of the PD and LGD ratings of the borrower and the guarantor. Staging continues to be based solely on the borrower's PD.

Exposure at default

EAD estimates the outstanding balance at the point of default. EAD is modelled at an individual loan level, with all future expected contractual cash flows including disbursements, cancellations, prepayments and interest being considered. The Funds EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

Sensitivity analysis

There are no Stage 1 provisions at 31 December 2021 (2020: no Stage 1 or Stage 2 provisions).

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 €000	Change in provision 2021 €000	Change in provision 2021 %
2021 portfolio provision (Stage 2)	17		
Staging			
All loans in Stage 1	12	(5)	(29)%
All loans in Stage 2	17	-	0%
PD Ratings			
All loans upgraded 1 notch	14	(3)	(18)%
All loans downgraded 1 notch	17	-	0%
All loans upgraded 3 notches	6	(11)	(65)%
All loans downgraded 3 notches	17	-	0%
Projected GDP			
Projected GDP increased by 1%	16	(1)	(6)%
Projected GDP decreased by 1%	18	1	6%
Projected GDP increased by 5%	15	(2)	(12)%
Projected GDP decreased by 5%	24	7	41%
LGD			
All loans decreased by 10%	13	(4)	(24)%
All loans increased by 10%	21	4	24%
EAD			
All undrawn commitments cancelled	17	-	0%
All undrawn commitments disbursed within one month	17	-	0%

With respect to Stage 3 provisions, an increase or decrease of ten percent on the current provision cover level would have an impact of +/-€38,000 (2020: +/-€73,000).

Financial guarantee liability
The Fund's method for determining the fair value of financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained under credit risk within the risk management section of the report.

A 3 notch PD upgrade on the Bank's loan investments covered by the Fund's guarantees would have decreased the ECL of the financial guarantee liability by €183,000 (2020: €132,000). Conversely, a 3 notch PD downgrade would have increased the ECL of the financial guarantee liability €220,000 (2020: €19,000).

A LGD increase or decrease of 10 percent of the Bank's loan investments covered by the Fund's guarantees would have an impact of +€12,000/-€63,000 (2020: +/-€29,000) on the Fund's financial guarantee liability.

Risk management

As the primary purpose of the Fund is to assist the development of SMEs rather than to generate a return on its net assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate, foreign exchange and equity price risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied; and
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank's key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans and guarantees (see note 14).

[5] With the Banking Vice-Presidency being the first line of defence in identifying and managing risks related to Banking debt and equity operations.

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

Individual projects

The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board.

The Operations Committee reviews all Banking projects (both debt and equity transactions) prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review

Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional level (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Fund operates.

EBRD internal ratings

Probability of default ratings (PD ratings)

The Bank assigns internal risk ratings to all counterparties including borrowers, investee companies, guarantors, put counterparties and sovereigns in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external ratings agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

The table below shows the Bank's internal probability of default rating scale from 1.0 (lowest risk) to 8.0 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P). References to risk rating through this text relate to probability of default ratings unless otherwise specified.

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
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 3 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 9.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, and the sector of the exposure, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
Set out below is an analysis of the Fund's placements with credit institutions classified by internal credit rating risk rankings. Placements with credit institutions are considered to have low credit risk.

Risk rating category	2021 € 000	2020 € 000
2: Very strong	7,595	10,210
6: Weak	6	23
At 31 December	7,601	10,233

Derivative financial assets
Derivative financial assets represent option contracts to provide potential exit routes for the Fund on its unlisted equity investments. All derivative financial assets are currently valued at nil.

Loan investments at amortised cost
For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the Banking loan investments and the associated impairment provisions for each of the Bank's internal risk rating categories.

As at 31 December 2021, the Fund has no loan investments in Stage 1 (2020: no loans in Stage 1 or Stage 2).

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions coverage %
7: Special attention	276	-	276	42.4%	(17)	-	259	6.2%
8: Non-performing	-	375	375	57.6%	-	(320)	55	85.3%
As at 31 December 2021	276	375	651	100.0%	(17)	(320)	314	

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions coverage %
8: Non-performing	-	726	726	100.0%	-	(449)	277	61.8%
As at 31 December 2020	-	726	726	100.0%	-	(449)	277	

At 31 December 2021 the Fund had security arrangements in place for €592,000 of its disbursed loan investments (2020: €613,000). 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 Fund with rights and negotiating leverage that help mitigate the overall credit risk.

Credit risk in the loan portfolio
As at 31 December 2021 there were distressed restructured loans[6] with a disbursed value of €271,000 (2020: none).

Undrawn commitments and guarantees
Set out below is an analysis of the Bank's undrawn commitments and guarantees for each of the Bank's relevant internal risk rating categories.[7]

	Undrawn commitments and guarantees 2021 € 000	Undrawn commitments and guarantees 2020 € 000
6: Weak	**-**	375
7: Special attention	**1,682**	970
8: Non-performing	**534**	1,205
At 31 December	**2,216**	2,550

Guarantees and derivative financial instrument liabilities
The Fund's assets may be used to guarantee the Bank's potential future default losses that are incurred on specific loan operating assets and share investments, as at 31 December 2021 the relevant amounts outstanding were €16.9 million (2020: €18.4 million). At 31 December 2021, the Fund's maximum exposure under such guarantees was €2.3 million (2020: €3.5 million). An amount of €0.1 million (2020: €0.3 million) is recognised as "Derivative financial instrument liabilities" in relation to the share investments and an amount of €0.9 million (2020: €1.3 million) is recognised as "Financial guarantee liabilities" in relation to the loan operating assets on the balance sheet.

[6] Defined as a loan in which any of the key terms and conditions have been amended due to the financial stress of the borrower, and without such amendment(s) would likely have become an impaired loan
[7] Guarantees include both on-balance sheet liabilities and off-balance sheet undrawn commitments.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at their carrying amounts by country.

	Loans	Undrawn commitments and guarantees	Total	Loans	Undrawn commitments and guarantees	Total
	2021	2021	2021	2020	2020	2020
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Albania	277	270	547	243	618	861
Bulgaria	-	824	824	-	815	815
Croatia	-	307	307	-	375	375
Egypt	-	279	279	-	155	155
Serbia	321	387	708	372	351	723
Turkey	53	149	202	111	236	347
At 31 December	651	2,216	2,867	726	2,550	3,276

The following table breaks down the main credit risk exposures at the carrying amounts by the industry sector of the project.

	Loans	Undrawn commitments and guarantees	Total	Loans	Undrawn commitments and guarantees	Total
	2021	2021	2021	2020	2020	2020
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Agribusiness	53	428	481	111	391	502
Manufacturing and services	598	1,788	2,386	615	2,159	2,774
At 31 December	651	2,216	2,867	726	2,550	3,276

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk, foreign exchange risk and equity risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements and floating rate loan investments are repriced to market interest rates within one and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk excluding share investments is outlined in the table below. The exposure to foreign exchange risk for share investments is outlined under equity price risk below.

	British Pounds 2021	Euro 2021	Turkish lira 2021	Total
	€ 000	€ 000	€ 000	€ 000
Total assets	8	10,697	6	10,711
Total liabilities	(18)	(793)	(149)	(960)
Net currency position at 31 December 2021	(10)	9,904	(143)	9,751

	British Pounds 2020 € 000	Euro 2020 € 000	Turkish lira 2020 € 000	Total € 000
Total assets	5	13,604	35	13,644
Total liabilities	(6)	(1,819)	(237)	(2,062)
Net currency position at 31 December 2020	(1)	11,785	(202)	11,582

Based on the average five year absolute rolling average movement in the below currencies, the potential impact on comprehensive income is €27,000 (2020: €31,000):

- 6.1 per cent strengthening or weakening in the British pound to euro exchange rate (2020: 6.5 per cent); and
- 22.1 per cent strengthening or weakening in the Turkish lira to euro exchange rate (2020: 17.8 per cent).

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund expects the effect of equity price risk on net profit will bear some correlation to the movement in equity indices. The following table breaks down the main equity price risk at their net fair value by country.

	Equities 2021 € 000	Equities 2020 € 000
Albania	67	169
Bosnia and Herzegovina	117	169
Croatia	501	338
Kosovo	1,473	916
Montenegro	-	169
North Macedonia	133	254
Serbia	467	563
At 31 December	2,758	2,578

As the above currencies are closely linked to the EUR, the impact in the fluctuation of foreign exchange rates is expected to be minimal.

Based on the five year rolling average movement in the Croatia Zagreb Stock Exchange Crobex Index and the Belgrade Stock Exchange BELEX15 Index, the potential impact on the Fund's fair value of share investments from a 9 per cent movement (2020: 9 per cent) in equity prices is €248,000 (2020: €232,000).

Interest rate benchmark reforms
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 (i.e. the overnight, one-month, three-month, six-month and 12-month settings) will cease to 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 in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. 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.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan investments, equity investments and guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund's guarantees are limited to the proceeds recoverable on the Fund's parallel investment. The Fund also recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund or one of its sub-Funds. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

The fair values of the Fund's share investments, derivative financial instruments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.
At 31 December 2021, the Fund's balance sheet approximates to the fair value of all financial assets and liabilities.

The table below provides a reconciliation of the fair values of the Fund's Level 3 financial assets and financial liabilities.

	Share investments 2021	financial instruments 2021	Total 2021	Share investments 2020	financial instruments 2020	Total 2020
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Balance as at 1 January	2,578	(279)	2,299	2,911	(1,007)	1,904
Net gains/(losses) recognised in:						
- Net gains/(losses) from share investments at fair value through profit or loss	750	(275)	475	(446)	278	(168)
Purchases	-	-	-	625	-	625
Sales	(570)	-	(570)	(512)	-	(512)
Settlements	-	477	477	-	450	450
Balance at 31 December	**2,758**	**(77)**	**2,681**	2,578	(279)	2,299
Net gains/(losses) recognised for the year for Level 3 instruments held at 31 December 20021 recognised in:						
- Net gains from share investments at fair value through profit or loss	498	(23)	475	(286)	118	(168)

Level 3 - sensitivity analysis

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2021 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2021	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments and associated derivatives	2,681	1,076	(660)
At 31 December 2021	2,681	1,076	(660)

		Impact on net profit in 2020	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments and associated derivatives	2,299	755	(661)
At 31 December 2020	2,299	755	(661)

Level 3 financial liabilities relate to derivatives attached to share investments which have been analysed together in the table above.

Share investments and associated derivatives

The Fund's unlisted equity portfolio comprises direct share investments, equity derivatives and equity funds. The valuation techniques/models used to fair value these financial instruments are net asset value multiples, earnings before interest, tax, depreciation and amortisation (EBITDA) multiples, book cost and discounted cash flow models. Reasonable possible alternative valuations have been determined based on the net asset value and EBITDA multiple ranges used in the valuations.

A valuation model is used to fair value the guarantee of a minimum rate of return on the Bank's parallel share investments. The inputs into the model include the euro yield curve, the valuation of the underlying parallel investments, future dividend yields, equity volatility, the subscription price and an equity valuation additional amount. Reasonable possible alternative valuations have been determined based on the favourable and unfavourable change in the underlying direct share investments.

The Italian Investment Special Fund

Notes to the financial statements

1. **Creation of the Special Fund**

   The creation of the Fund was approved by the Board of the Bank at its meeting of 15/16 September 1998 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations ("the Rules") of the Fund. The Fund became operational on 19 January 1999 following the receipt of the first contribution.

   The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

   The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

   The Rules allow the Board or the Contributor to terminate the Fund at any time.

2. **Statement of Bank's responsibilities**

   The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

   The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:
   - safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
   - ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
   - such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
   - preparing financial statements in accordance with the accounting policies.

   The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. **Interest income from loans**
   Interest income from loans includes €134,000 of interest reclassified from loan repayments to interest income during December 2021 in relation to one loan moving from Stage 3 impaired to Stage 2 (2020: nil).

4. **Net gains/(losses) from share investments**

	2021	2020
	€ 000	€ 000
Net unrealised gains/(losses) from share investments	1,220	(446)
Net realised losses from share investments	(470)	-
Net unrealised gains from equity related derivatives	202	278
Charge on derivative financial liability guarantee	(477)	-
Net gains/(losses) from share investments	475	(168)

5. **Financial guarantees movement**

	2021	2020
	€ 000	€ 000
Movement in financial guarantee for Stage 1 and Stage 2 loans	37	90
Change in guarantee on loan transfer from Stage 3 to Stage 2	346	-
Charge for estimated settlement of credit impaired guaranteed loans	(45)	(226)
Financial guarantees movement	338	(136)

6. Operating expenses

	2021	2020
	€ 000	€ 000
Audit fees	18	9
Negative interest rate expense on placements	47	54
Year to 31 December	65	63

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditor's remuneration of €18,200 (2020: €8,600). The Bank pays the external auditor's remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2021 no fee (2020: no fee) is payable to the Bank in relation to the 2021 external audit. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

7. Provision for impairment of loan investments

	2021	2020
Release/(charge) for the year	€ 000	€ 000
Impairment of loan investments at amortised cost in stage 2	(17)	-
Impairment of loan investments at amortised cost in stage 3	91	(63)
Provisions for impairment of loan investments	74	(63)

Movement in provisions		
As at 1 January	(449)	(442)
Release/(charge) for the year to the income statement	74	(63)
Unwinding of the discount on expected future cash flows of stage 3 assets	-	17
Foreign exchange adjustments	38	39
At 31 December	(337)	(449)

Analysed between		
Stage 2 provisions for loan investments at amortised cost	(17)	-
Stage 3 provisions for loan investments at amortised cost	(320)	(449)
At 31 December	(337)	(449)

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the movements in the Banking loan investments and the associated impairment provisions for each of the stages of impairment.

As at 31 December 2021, the Fund has no loan investments in Stage 1 (2020: no loans in Stage 1 or Stage 2).

Movement in provisions	Lifetime ECL (Stage 2) 2021 € 000	Lifetime ECL (Stage 3) 2021 € 000	Total 2021 € 000
As at 1 January	-	(449)	(449)
Changes in model or risk parameters	-	43	43
Transfer to stage 2 - significant decrease in credit risk	(17)	48	31
Foreign exchange movements	-	38	38
As at 31 December	**(17)**	**(320)**	**(337)**

Movement in provisions	Lifetime ECL (Stage 2) 2020 € 000	Lifetime ECL (Stage 3) 2020 € 000	Total 2020 € 000
As at 1 January	-	(442)	(442)
Changes in model or risk parameters	-	(63)	(63)
Unwinding discount relating to the identified impairment of assets	-	17	17
Foreign exchange movements	-	39	39
As at 31 December	-	(449)	(449)

Movement in loans at amortised cost	Loans Stage 2 2021 € 000	Loans Stage 3 2021 € 000	Total 2021 € 000
As at 1 January	-	726	726
Transfer to stage 2 - significant decrease in credit risk	271	(271)	-
Repayments/settlements	-	(40)	(40)
Movement in effective interest rate adjustment	5	-	5
Foreign exchange movements	-	(40)	(40)
As at 31 December	**276**	**375**	**651**

Movement in loans at amortised cost	Loans Stage 2 2020 € 000	Loans Stage 3 2020 € 000	Total 2020 € 000
As at 1 January	19	844	863
Repayments/settlements	(19)	(74)	(93)
Foreign exchange movements	-	(44)	(44)
As at 31 December	-	726	726

8. Other financial assets

	2021 € 000	2020 € 000
Fee income receivable	-	1
Receivable from the Bank	-	512
At 31 December	-	513

9. Loan investments

	2021	2020
	€ 000	€ 000
At 1 January	726	863
Repayments	(40)	(93)
Movement in effective interest rate adjustment	5	-
Foreign exchange movement	(40)	(44)
At 31 December	651	726
Impairment at 31 December	(337)	(449)
Total loan investments net of impairment at 31 December	314	277

10. Share investments

	2021	2020
	€ 000	€ 000
Outstanding disbursements		
At 1 January	3,534	3,674
Disbursements	-	625
Disposals	(1,040)	(765)
At 31 December	**2,494**	3,534
Fair value adjustment		
At 1 January	(956)	(763)
Movement in fair value revaluation	1,220	(193)
At 31 December	**264**	(956)
Fair value at 31 December	**2,758**	2,578

11. Other financial liabilities

	2021	2020
	€ 000	€ 000
Fair value of equity related derivatives	77	279
Negative interest rate expense payable	3	4
Guarantee payable	-	450
Other payable	-	6
At 31 December	**80**	739

12. Financial guarantee liabilities

	2021	2020
	€ 000	€ 000
At 1 January	**1,323**	1,280
Financial guarantee movement	(338)	136
Unamortised fair value of loan guarantee	(5)	(8)
Foreign exchange movement	(100)	(85)
At 31 December	**880**	1,323

	2021	2020
Represented by:	€ 000	€ 000
Guarantees on Stage 1 and Stage 2 loans	345	118
Guarantees on credit impaired loans	535	1,205
At 31 December	**880**	1,323

13. Contributions

At the request of the Contributor, the following contributions were transferred to other donor funds during the year:

Distribution to other donor funds	2021 € 000	2020 € 000
Small Business Impact Fund	2,000	-
Italian Technical Cooperation Fund	1,000	-
At 31 December	3,000	-

14. Undrawn commitments and guarantees

	2021 € 000	2020 € 000
Guarantees	1,336	1,227
Undrawn share commitments	880	880
Undrawn commitments and guarantees at 31 December	**2,216**	2,107

15. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000
Placements with credit institutions	7,601	-	7,601	10,233	-	10,233
Other financial assets	-	-	-	513	-	513
Loan investments at amortised cost	325	326	651	-	726	726
Provisions for impairment	(215)	(122)	(337)	-	(449)	(449)
Share investments	-	2,758	2,758	225	2,353	2,578
Financial guarantee assets	8	30	38	7	36	43
Total assets	7,719	2,992	10,711	10,978	2,666	13,644
Liabilities						
Derivative financial instruments	-	77	77	225	54	279
Other financial liabilities	3	-	3	460	-	460
Financial guarantee liabilities	34	846	880	29	1,294	1,323
Total liabilities	37	923	960	714	1,348	2,062

16. 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

17. Related parties

The Fund’s related parties are the Bank and the contributor.

The Bank is entitled to charge the Fund a management fee of an amount equal to 1.5 per cent of contributions received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. As there were no contributions received in 2021, there were no management fees paid by the Fund to the Bank (2020: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2021 (2020: nil). Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

The Fund charges the Bank a fee on the first loss risk coverage guarantees. The fees received during the year are disclosed in the Statement of comprehensive income as fee income. At 31 December 2021 nothing was owing to the Fund from the Bank (2020: €1,000).

At 31 December 2021 no amounts were owing from the Bank to the Fund. (2020: €512,000 was owing for proceeds from return of capital on share investments). Amounts receivable from the Bank are outlined in note 7. At 31 December 2021 no amounts were owing to the Bank from the Fund (2020: €6,000 was owing to for an overpayment of a loan repayment as well as €450,000 for guarantee loss on share disposal). Amounts payable from the Bank are outlined in note 11.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The Italian Investment Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The Italian Investment Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 15/16 September 1998, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Multi-Donor Trust Fund for the West Bank and Gaza

Financial Report
31 December 2021

The Multi-Donor Trust Fund for the West Bank and Gaza

Contents

Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributors' resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 7
Notes to the financial statements 9
Independent Auditors' Report to the Governors 11

The Multi-Donor Trust Fund for the West Bank and Gaza

Statement of comprehensive income

For the year ended 31 December 2021

	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Operating expenses	3	(23)	(9)
Technical cooperation expenses	4	(538)	(341)
Net loss and total comprehensive expense for the year		(561)	(350)
Attributable to:			
Contributors		(561)	(350)

Balance sheet

At 31 December 2021

	Note	**31 December 2021 € 000**	31 December 2020 € 000
Assets			
Placements with credit institutions		**1,757**	1,186
Total assets		**1,757**	1,186
Liabilities and contributors' resources			
Other financial liabilities	5	**459**	227
Total liabilities		**459**	227
Contributions	6	**2,362**	1,462
Reserves and accumulated loss		**(1,064)**	(503)
Total contributors' resources		**1,298**	959
Total liabilities and contributors' resources		**1,757**	1,186

The Multi-Donor Trust Fund for the West Bank and Gaza

Statement of changes in contributors’ resources

For the year to 31 December 2021

	Contributions	Accumulated loss	Total
	€ 000	**€ 000**	**€ 000**
At 31 December 2019	1,379	(153)	1,226
Contributions received	83	-	83
Total comprehensive expense for the year	-	(350)	(350)
At 31 December 2020	1,462	(503)	959
Contributions received	900	-	900
Total comprehensive expense for the year	-	(561)	(561)
At 31 December 2021	**2,362**	**(1,064)**	**1,298**

Statement of cash flows

For the year to 31 December 2021

		Year to 31 December 2021		Year to 31 December 2020
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the period	(561)		(350)	
Adjustments to reconcile net loss to net cash flows:				
Working capital adjustment				
Movement in accrued expenses	232		186	
Net cash used in operating activities		(329)		(164)
Cash flows from financing activities				
Contributions received	900		83	
Net cash generated from financing activities		900		83
Net increase/(decrease) in cash and cash equivalents		571		(81)
Cash and cash equivalents at the beginning of the period		1,186		1,267
Cash and cash equivalents at 31 December		1,757		1,186

igned for and on behalf of the President of European Bank for Reconstruction and Development by:

Date: 6 April 2022

The Multi-Donor Trust Fund for the West Bank and Gaza

Fund purpose

The purpose of the Multi-Donor Trust Fund for the West Bank and Gaza (“the Fund”) is to provide financial assistance to support the economic development of West Bank and Gaza (“WB&G”) and thereby contribute to the stability and prosperity of the southern and eastern Mediterranean region.

The resources of the Fund may be used to finance:

- Technical assistance which involves the provision of project preparation and implementation in support of lending, guarantee or investment operational activities or other types of technical assistance;
- Non-technical assistance initiatives which are principally used to provide incentive fees or to pay for goods and works contracts in support of a lending, guarantee or investment operational activities in the WB&G; and
- Investment activities which may include guarantees, equity or debt financing.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund’s financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in “Significant accounting policies and judgements” and” Critical accounting estimates” within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.

Pronouncement	Nature of change	Potential impact
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies

Financial assets – classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Financial liabilities

All financial liabilities are measured at amortised cost.

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

Foreign currencies

The Fund's functional currency and reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the period-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and are subject to insignificant risk of changes in value.

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Technical cooperation expenses

Technical cooperation expenses, which represent services provided to beneficiaries on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Interest

Interest is recorded on an accruals basis. Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

Management fees

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent, 3 per cent or 4 per cent of contributions received, depending on the amount of the contribution received.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. The Fund has deemed the following accounting policy critical as it involves a judgement which could have a material impact on the financial statements:

- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Guidelines of the Fund.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

The Fund does not have any critical accounting estimates for the years presented.

Risk management

Not all financial risks are actively managed by the Fund. Credit risk is managed in line with Bank policies. The Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness.

The Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources. For banks with which the Fund places its cash, internal credit ratings are determined by the Bank's Risk Management department and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

At period end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating risk category assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating of A+ to AA-.

The carrying amounts of placements presented on the balance sheet best represents the Fund's maximum exposure to credit risk at 31 December 2021 and 31 December 2020.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The driver of market risk for the Fund is interest rate risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro	United States dollars	Total
	€ 000	€ 000	€ 000
Total assets	1,757	-	1,757
Total liabilities	380	79	459
Net currency position at 31 December 2021	2,137	79	2,216

	Euro	United States dollars	Total
	€ 000	€ 000	€ 000
Total assets	1,186	-	1,186
Total liabilities	113	114	227
Net currency position at 31 December 2020	1,299	114	1,413

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund’s net loss from a 7 per cent strengthening or weakening (2021: 7 percent) is +/- €5,550 (2020: +/- €7,790).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund’s Rules and Guidelines require that operations are financed from the resources of the Fund, which comprise of contributions received.

Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund also recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the Fund’s exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Trust Fund

The creation of the Fund was approved by the Board of Governors ("the Board") at its meeting on 10 May 2017 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Guidelines ("the Rules") of the Fund. The Fund became effective after two contributors pledged contributions and a contribution was received from one of the contributors.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 20.1 (vii) of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but the privileges and immunities available to the Bank are extended to the Fund.

The Rules allows the Board to terminate the Fund at any time.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Operating expenses

Operating expenses comprised the following:

	2021 € 000	2020 € 000
Management fees	(16)	(3)
Negative interest rate expense	(7)	(6)
Year to 31 December	**(23)**	(9)

4. Technical cooperation expenses

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
At 31 December 2019	**247**	**(94)**	**153**
Movement in the year[1]	585	(341)	244
At 31 December 2020	**832**	**(435)**	**397**
Movement in the year[1]	527	(538)	(11)
At 31 December 2021	**1,359**	**(973)**	**386**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2021.

5. Other financial liabilities

Other financial liabilities consist of accrued technical cooperation expenses of €459,000 (2020: €227,000).

6. Contributions

Contributions received are set out below.

Cumulative contributions received	2021 € 000	2020 € 000
Netherlands	1,200	800
Spain	500	-
United Kingdom	662	662
At 31 December	2,362	1,462

7. Analysis of current and non-current assets and liabilities

All assets and liabilities on the balance sheet are classified as current for 2021 and 2020.

8. 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

9. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent, 3 per cent or 4 per cent of contributions received, depending on the amount of the contribution received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. Management fees of €16,000 were paid during the period (2020: €3,344) and there were no accrued management fees payable by the Fund to the Bank at period end (2020: Nil).

External auditors' remuneration of €18,179 (2020: €8,600) is payable by the Bank for audit fees from the management fee. The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Contributions received from the contributors are outlined in note 6.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The Multi Donor Trust Fund for the West Bank and Gaza

Report on the audit of the financial statements

Opinion

In our opinion, The Multi Donor Trust Fund for the West Bank and Gaza's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 10 May 2017, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Russia Small Business Technical Cooperation Special Fund

Annual Financial Report
31 December 2021

The Russia Small Business Technical Cooperation Special Fund

Contents

Income statement....1
Statement of comprehensive income....1
Balance sheet....1
Statement of changes in contributors' resources....2
Statement of cash flows....2
Accounting policies....3
Risk management....6
Notes to the financial statements....8
Independent Auditors' report to the Governors....10

The Russia Small Business Technical Cooperation Special Fund

Income statement

For the year ended 31 December 2021

	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest income			
From credit institutions		1	6
Other operating expenses	3	(18)	(9)
Net loss for the year		(17)	(3)
Attributable to:			
Contributors		(17)	(3)

Statement of comprehensive income

For the year ended 31 December 2021

	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Net loss for the year	(17)	(3)
Other comprehensive income/(expense)		
Foreign exchange movement between functional and presentational currencies	135	(150)
Total comprehensive income/(expense) for the year	118	(153)
Attributable to:		
Contributors	118	(153)

These items will not subsequently be reclassified to profit or loss.

Balance sheet

As at 31 December 2021

	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			1,715		1,597
Total assets			1,715		1,597
Liabilities and contributors' resources					
Contributions	4	69,580		69,580	
Reserves and accumulated loss		(67,865)		(67,983)	
Total contributors' resources			1,715		1,597
Total liabilities and contributors' resources			1,715		1,597

Statement of changes in contributors' resources

Statement of changes in contributor's resources
For the year ended 31 December 2021

	Contributions	General reserve	Accumulated loss	Total
	€ 000	€ 000	€ 000	€ 000
As 31 December 2019	69,580	998	(68,828)	1,750
Total comprehensive expense for the year	-	(150)	(3)	(153)
As 31 December 2020	69,580	848	(68,831)	1,597
Total comprehensive income/(expense) for the year	-	135	(17)	118
As at 31 December 2021	**69,580**	**983**	**(68,848)**	**1,715**

Statement of cash flows

Statement of cash flows
For the year ended 31 December 2021

	Year to 31 December 2021		Year to 31 December 2020	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss	(17)		(3)	
Net cash used in operating activities		(17)		(3)
Net decrease in cash and cash equivalents		(17)		(3)
Cash and cash equivalents at the beginning of the year		1,597		1,750
Effect of foreign exchange rate changes		135		(150)
Cash and cash equivalents at 31 December		1,715		1,597

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Date: 6 April 2022

The Russia Small Business Technical Cooperation Special Fund

Fund Purpose

The Russia Small Business Technical Cooperation Special Fund ("the Fund") was established to finance technical cooperation for the design and implementation of the pilot, extended pilot and full-scale phase operations of the Russia Small Business Programme ("the Programme").

As the purpose of the Fund is to assist the operations of the Programme rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention and on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by The European Bank for Reconstruction and Development ("the Bank") 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.

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 Fund considers that this standard is not applicable to its operations.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies

Financial assets – classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

All financial assets are measured at amortised cost.

Financial assets at fair value through other comprehensive income

A financial asset is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:

(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

General reserve

The general reserve represents cumulative foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement and presentation currency is the euro (€).
For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities in currencies other than USD are re-translated into USD at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at the year-end exchange rate with the resultant exchange gains and losses taken to other comprehensive income.

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Interest

Interest is recorded on an accruals basis. All interest is recognised within 'interest income' in the income statement.

Technical cooperation expenses

Technical cooperation expenses, which represent consultancy services provided to beneficiaries on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above, the Fund has deemed the following accounting policy critical as it involves a judgement which could have a material impact on the financial statements:

- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

The Fund does not have any critical accounting estimates for the years presented.

Risk management

The Fund was established to finance technical cooperation for the design and implementation of the pilot, extended pilot and full-scale phase operations of the Programme.

As the purpose of the Fund is to assist the operations of the Programme rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Risk governance

The Fund is subject to the Bank’s risk governance procedures as below:

The Bank’s overall framework for identification and management of risks is underpinned by independent second line of defence[1] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied; and
- support the Bank’s business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors’ International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank’s key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources. For banks with which the Fund places its cash, internal credit ratings are determined by the Bank’s Risk Management department and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

[1] With the Banking Vice Presidency being the first line of defence in identifying and managing risks related to Banking debt and equity operations.

At year end the Fund's cash was placed with a single financial institution which ranked in the second highest internal credit rating risk category assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating in the range of AA+ to AA-.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2021 and 31 December 2020.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to functional currency foreign exchange risk is considered to be minimal, as all assets are denominated in USD.

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentational currency movement from an 8 per cent strengthening or weakening (2020: 7 per cent) is €0.1 million (2020: €0.1 million).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that technical assistance is financed from the resources of the Fund, which comprises contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. As a result, the exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank at its meeting of 18 October 1993 and is administered, *inter alia*, under the terms of the Rules and Regulations of the Fund. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from the European Currency Unit to United States dollars. The full-scale phase of the Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

The Rules allows the Board to terminate the Fund at any time.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Other operating expenses

Other operating expenses represent external auditors' remuneration of €18,200 (2020: €8,600). The Bank pays the remuneration on behalf of the Fund, who in turn reimburses the Bank in full. At 31 December 2021, no fee (2020: no fee) is payable to the Bank in relation to the 2021 external audit. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2021-24 following the completion of Deloitte's second consecutive term in 2019.

4. Contributions

Contributions received are set out below:

	2021		2020	
Cumulative contributions received	**€ 000**	**%**	€ 000	%
Canada	**4,309**	**6.2**	4,309	6.2
France	**4,980**	**7.2**	4,980	7.2
Germany	**3,025**	**4.3**	3,025	4.3
Italy	**1,360**	**2.0**	1,360	2.0
Japan	**3,295**	**4.7**	3,295	4.7
The Russia Small Business Investment Special Fund	**8,848**	**12.7**	8,848	12.7
Switzerland	**1,244**	**1.8**	1,244	1.8
United Kingdom	**12,824**	**18.4**	12,824	18.4
United States of America	**29,695**	**42.7**	29,695	42.7
At 31 December	**69,580**	**100.00**	69,580	100.00

5. Undrawn commitments

All contracts were completed and closed in 2018, there are no remaining amounts undrawn.

6. Analysis of current and non-current assets and liabilities

All assets and liabilities on the balance sheet are classified as current for both 2021 and 2020.

7. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

8. Events after the reporting period

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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

9. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. As there were no contributions received in 2021, there were no management fees paid by the Fund to the Bank (2020: nil), and there was no accrued management fee payable by the Fund to the Bank at 31 December 2021 (2020: nil).

Audit fees paid to the Bank are outlined in note 3.

Contributions received from the contributors are outlined in note 4.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The Russia Small Business Technical Cooperation Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The Russia Small Business Technical Cooperation Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the income statement, statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 14 July 1994, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Russia Small Business Investment Special Fund

Annual Financial Report
31 December 2021

The Russia Small Business Investment Special Fund

Contents

Income statement....1
Statement of comprehensive income....1
Balance sheet....1
Statement of changes in contributors' resources....2
Statement of cash flows....2
Fund purpose....3
Accounting policies....3
Risk management....10
Notes to the financial statements....16
Independent Auditors' report to the Governors....21

The Russia Small Business Investment Special Fund

Income statement

For the year ended 31 December 2021	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest and similar income			
From loans		-	(6)
From credit institutions		53	309
Total interest income		53	303
Dividend income		130	79
Net loss from share investments		(126)	(624)
Foreign exchange movement		4	90
Financial guarantees movement	3	-	8
Other operating expenses	4	(18)	(9)
Impairment provisions on loan investments	5	-	10
Net profit/(loss) for the year		43	(143)
Attributable to:			
Contributors		43	(143)

Statement of comprehensive income

For the year ended 31 December 2021	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Net profit/(loss) for the year	43	(143)
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	5,281	(5,851)
Total comprehensive income/(expense) for the year	5,324	(5,994)
Attributable to:		
Contributors	5,324	(5,994)

This item will not subsequently be reclassified to profit or loss.

Balance sheet

At 31 December 2021	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			67,185		61,737
Other financial assets	6		1		63
Loan investments					
Loans	7	12		11	
Less: Provisions for impairment	5	(12)		(11)	
			-		-
Share investments	8		1,413		1,424
Total assets			68,599		63,224
Liabilities and contributors' resources					
Financial guarantee liability	9		677		626
Total liabilities			677		626
Contributions	10	59,351		59,351	
Reserves and retained earnings		8,571		3,247	
Total contributors' resources			67,922		62,598
Total liabilities and contributors' resources			68,599		63,224
Memorandum items					
Guarantees			820		821

The Russia Small Business Investment Special Fund

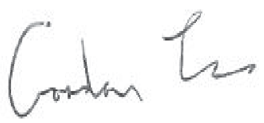
Statement of changes in contributors' resources

For the year ended 31 December 2021	Contributions	General reserve	Retained earnings	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2019	59,351	5,893	3,348	68,592
Total comprehensive expense for the year	-	(5,851)	(143)	(5,994)
At 31 December 2020	59,351	42	3,205	62,598
Total comprehensive income for the year	-	5,281	43	5,324
At 31 December 2021	**59,351**	**5,323**	**3,248**	**67,922**

Statement of cash flows

For the year ended 31 December 2021	Year to 31 December 2021		Year to 31 December 2020	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit/(loss) for the year	43		(143)	
Adjustment to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans	-		16	
Impairment charge on loan investments	-		(10)	
Net loss from share investments	126		624	
Foreign exchange movement	(4)		(90)	
Financial guarantees movement	-		(8)	
	165		389	
Cash flows from the sale and purchase of operating assets				
Proceeds from sale of share investments	-		8	
Proceeds from repayment of loans	-		103	
Working capital adjustment				
Movement in other financial assets	60		(45)	
Net cash from operating activities		225		455
Net increase in cash and cash equivalents		225		455
Cash and cash equivalents at the beginning of the year		61,737		67,082
Effect of foreign exchange rate changes		5,223		(5,800)
Cash and cash equivalents at 31 December		67,185		61,737

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:



Date: 6 April 2022

The Russia Small Business Investment Special Fund

Fund purpose

The Russia Small Business Investment Special Fund (“the Fund”) was established to assist the development of small businesses in the private sector in the Russian Federation. To achieve this, the resources of the Fund may be used to:

- participate alongside the European Bank for Reconstruction and Development (“the Bank”) in providing loans to small businesses;
- participate alongside the Bank in equity investments; and
- provide guarantees on a first loss basis on the Bank’s parallel loans and investments.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund’s financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in “Significant accounting policies and judgements” and” Critical accounting estimates” within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

All of the share investments held by the Fund are measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are multiples applied to net asset value and earnings-based valuations to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

The Fund's share investments are recognised on a trade date basis.

At initial recognition, the Fund measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial guarantees

The Fund provides guarantees to cover losses incurred by the Bank in parallel loan and equity investments, such guarantees being limited to the resources of the Fund.

When a guarantee is issued, its initial fair value reflects the fees charged for such guarantee, assuming an arm's-length commercial transaction. As the Fund does not charge the Bank any fee for its guarantee, its estimated initial fair value is based on the fee that the Fund might otherwise have charged, given the credit risk attaching to the guaranteed portfolio. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement. Subsequently the guarantees are measured at the higher of the initial fair value less cumulative amortisation and the expected credit loss (ECL) at the balance sheet date.

Financial liabilities

The Fund does not designate any other financial liabilities at fair value through profit or loss. All others are measured at amortised cost.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Fund is exposed are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

A "three-stage" model for impairment is applied based on changes in credit quality since origination[1], with the stage allocation being based on the financial asset's probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of impairment is identified, the asset is reallocated to Stage 3 as described below.

The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

For Stage 1 and Stage 2 assets, impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

[1] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.

Stage assessment
In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2 is required, a combination of quantitative and qualitative risk metrics are employed. The determination of what constitutes a significant increase in credit risk is a critical judgement. All loans with at least a three-notch downgrade in PD on the Bank's internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the "watch list" are transitioned to Stage 2.[2]

Financial assets at amortised cost – non-performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is objective evidence of an impairment loss include:
- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate of the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended, it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, it will continue to be shown as overdue if appropriate and individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

General reserve

The general reserve represents foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement and presentation currency is the euro (€).

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities denominated in currencies other than USD are re-

2 A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

translated into USD at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.
For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at the year-end exchange rate with the resultant exchange gains and losses taken to other comprehensive income.

Contributions

Contributions received in USD are translated into euro at the exchange rates ruling at the time of the transaction.

Interest, dividends and fees

Interest is recorded on an accruals basis using the effective interest method. All interest income is recognised within 'interest and similar income' in the income statement.

Dividends relating to share investments are recognised in accordance with IFRS 9 when the Fund's right to receive payments has been established, and when it is probable that the economic benefits will flow to the Fund and the amount can be reliably measured.

Fees received in respect of services provided over a period of time are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve judgements 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 Fund's expected credit losses.
- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the economies in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The Fund's critical accounting estimates are outlined below.

The Fund's critical accounting estimates are outlined below:

Financial guarantees
The Fund's method for determining the fair value of financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained under credit risk within the risk management section of the report.

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the accounting policies section of the report and an analysis of the share investment portfolio is provided in note 8. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report and in note 8.

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

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 are set out by internal rating grade below:

Financial Institutions

2021 PD rating[3]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

[3] The Bank's internal PD rating scale is explained in detail on page 11 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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long-term recovery experience.

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure at default

EAD estimates the outstanding balance at the point of default. EAD is modelled at an individual loan level, with all future expected contractual cash flows including disbursements, cancellations, prepayments and interest being considered. The Fund's EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

Sensitivity analysis

There were no Stage 1 or Stage 2 provisions for the unidentified impairment of loan investments at 31 December 2021 (2020: nil).

With respect to specific provisions, a decrease of ten percent on the current provision cover level would have an impact of €1,000 (2020: €1,000).

Risk management

Risk governance

As the primary purpose of the Fund is to assist the development of small businesses in the Russian Federation rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate, foreign exchange and equity price risk.

The Fund is subject to the Bank's risk governance procedures as below:

The Bank’s overall framework for identification and management of risks is underpinned by independent second line of defence[4] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied
- support the Bank’s business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors’ International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank’s key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

The carrying amounts of financial assets presented on the balance sheet, together with the guarantees as shown under memorandum items, best represents the Fund’s maximum exposure to credit risk at 31 December 2021 and 31 December 2020, without taking account of any collateral held or other credit enhancements.

[4] With the Banking Vice-Presidency being the first line of defence in identifying and managing risks related to Banking debt and equity operations.

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

Individual projects
The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board.

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional level (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

Probability of default ratings (PD ratings)
The Bank assigns internal risk ratings to all counterparties including borrowers, investee companies, guarantors, put counterparties and sovereigns in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external rating agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

The table below shows the Bank's internal probability of default rating scale from 1.0 (lowest risk) to 8.0 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P). References to risk rating through this text relate to probability of default ratings unless otherwise specified.

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
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 3 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 9.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, and the sector of the exposure, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
Set out below is an analysis of the Fund's placements with credit institutions classified by internal credit rating risk rankings. Placements with credit institutions are considered to have low credit risk.

Risk rating category	2021 € 000	2020 € 000
2: Very strong	47,118	61,737
3: Strong	19,966	-
5: Weak	101	-
At 31 December	67,185	61,737

Loan investments at amortised cost
For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

The Fund's loan investment and the associated impairment provisions are rated at 8: non-performing under the Bank's internal risk rating categories.

Guarantees
In accordance with the Fund's Rules and Regulations, losses incurred in respect of the Fund's investments and the parallel Bank investments up to a maximum aggregate amount of USD 75 million will be borne by the resources of the Fund. Thereafter, losses will be borne equally by the Fund and the Bank.

At 31 December 2021, the Bank had outstanding parallel loans and share investments amounting to €1.5 million for which, in the event of a future default or loss, losses incurred by the Bank may be refunded in part from the resources of the Fund (2020: €1.4 million). At 31 December 2021, the Fund's maximum exposure under such guarantees was €1.5 million (2020: €1.4 million).

At 31 December 2021 €0.7 million of €1.4 million has been recognised as a financial guarantee liability as a result of a specific impairment on a Bank loan (2020: €0.6 million). The Fund does not actively manage credit risk on its guarantee exposure.

Concentration of credit risk exposure

The Fund's credit risk exposure on loan investments is concentrated in a single geographic region, the Russian Federation.

The Fund's credit risk exposure on loan investments is concentrated in a single industry sector, depository credit (banks).

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk, foreign exchange risk and equity risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2021 € 000	Russian rouble 2021 € 000	United States dollar 2021 € 000	Total € 000
Total assets (excluding share investments)	3	102	67,081	**67,186**
Share investments	-	1,194	219	**1,413**
Total liabilities	-	(677)	-	**(677)**
Net currency position at 31 December 2021	**3**	**619**	**67,300**	**67,922**

	Euro 2020 € 000	Russian rouble 2020 € 000	United States dollar 2020 € 000	Total € 000
Total assets (excluding share investments)	3	63	61,734	61,800
Share investments	-	1,220	204	1,424
Total liabilities	-	(626)	-	(626)
Net currency position at 31 December 2020	3	657	61,938	62,598

Based on the average five year absolute rolling average movement in the Russian rouble to United States dollar exchange rate, the potential functional currency impact on the Fund's income statement from a 19 per cent strengthening or weakening (2020: 22 per cent) is €0.1 million (2020: €0.1 million).

The potential impact on other comprehensive income due to presentational currency movement based on the average five year absolute rolling average movement, from an 8 per cent strengthening or weakening of the USD (2020: 7 per cent) is €4.7 million (2020: €4.3 million).

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund expects the effect of equity price risk on net profit will bear some correlation to the movement in equity indices for the Russian rouble based equity investment.

Based on the five year rolling average movement in the Russian RTS index, the potential impact on the Fund's net profit from a 16 per cent strengthening or weakening (2020: 22 per cent) is €0.2 million (2020: €0.3 million).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan investments, equity investments and guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Fair value of financial assets and liabilities

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments, derivative financial instruments and loans at fair value through profit or loss for which not all market data is observable.

The fair values of the Fund's share investments, derivative financial instruments and loans at fair value have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

Share investments

The main valuation technique used in the valuation of these share investments is net asset value (NAV).

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2021 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

Assets	Carrying amount € 000	Impact on net profit in 2021 Favourable change € 000	Unfavourable change € 000
Share investments and associated derivatives	1,413	318	(451)
At 31 December 2021	**1,413**	**318**	**(451)**

Assets	Carrying amount € 000	Impact on net profit in 2020 Favourable change € 000	Unfavourable change € 000
Share investments and associated derivatives	1,424	386	(436)
At 31 December 2020	1,424	386	(436)

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of the Bank at its meeting of 18 October 1993 and is administered, inter alia, in accordance with the AEB and under the terms of the Rules and Regulations ("the Rules") of the Fund. The Fund became operational in 1994 following the commitment of USD 3 million by contributors. The pilot phase of the programme was further extended during that year. An amendment to the Rules was approved by the Board on 14 July 1994 to change the denomination of the Fund from euro to United States dollars. However, consistent with the Bank's financial statements, the unit of measurement for the presentation of the Fund's financial statements is euro. The full-scale phase of the Russia Small Business Fund Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

The Rules allows the Board to terminate the Fund at any time.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Financial guarantees movement

	2021	2020
	€ 000	€ 000
Release for estimated settlement of impaired guaranteed loans	-	8
Financial guarantees movement	-	8

4. Other operating expenses

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditors' remuneration of €18,200 (2020: €8,600). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2021 no fee (2020: €nil) is payable to the Bank in relation to the 2021 external audit. In 2019 the Bank approved the appointment of PricewaterhouseCoopers LLP as the next external auditors for the five-year period 2020-24 following the completion of Deloitte LLP's second term.

5. Provision for impairment of loan investments

Release for the year	2021 € 000	2020 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	-	10
Provisions for impairment of loan investments	-	10

Movement in provisions		
At 1 January	(11)	(24)
Release for the year to the income statement	-	10
Foreign exchange movement	(1)	3
At 31 December	(12)	(11)
Stage 3 provisions for loan investments at amortised cost	(12)	(11)
At 31 December	(12)	(11)

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the movements in the Banking loan investments and the associated impairment provisions for each of the stages of impairment.

Movement in provisions	Lifetime ECL (Stage 3) 2021 € 000	Total 2021 € 000
As at 1 January 2021	(11)	(11)
Foreign exchange and other movements	(1)	(1)
As at 31 December 2021	(12)	(12)

Movement in loans at amortised cost	Loans Stage 3 2021 € 000	Total 2021 € 000
As at 1 January 2021	11	11
Foreign exchange and other movements	1	1
As at 31 December 2021	12	12

Movement in provisions	Lifetime ECL (Stage 2) 2020 € 000	Lifetime ECL (Stage 3) 2020 € 000	Total 2020 € 000
As at 1 January 2020	(10)	(14)	(24)
Repayments/settlements	8	0	8
Foreign exchange and other movements	2	3	5
As at 31 December 2020	-	(11)	(11)

Movement in loans at amortised cost	Loans Stage 2 2020 € 000	Loans Stage 3 2020 € 000	Total 2020 € 000
As at 1 January 2020	136	14	150
Repayments/settlements	(103)	-	(103)
Effective interest rate adjustment	(16)	-	(16)
Foreign exchange and other movements	(17)	(3)	(20)
As at 31 December 2020	-	11	11

6. Other financial assets

	2021 € 000	2020 € 000
Interest receivable on placements with credit institutions	1	-
Receivable from the Bank	-	63
At 31 December	1	63

7. Loan investments

	2021 € 000	2020 € 000
At 1 January	11	150
Repayments	-	(103)
Movement in effective interest rate adjustment	-	(14)
Foreign exchange movements	1	(22)
At 31 December	12	11
Impairment at 31 December	(12)	(11)
Total loan investments net of impairment at 31 December	-	-

8. Share investments

	2021 € 000	2020 € 000
Outstanding disbursements		
At 1 January	9,054	9,054
At 31 December	9,054	9,054
Fair value adjustment		
At 1 January	(7,630)	(6,856)
Movement in fair value revaluation	(126)	(624)
Movement in functional currency	115	(150)
At 31 December	(7,641)	(7,630)
Fair value at 31 December	1,413	1,424

9. Financial guarantee liability

	2021 € 000	2020 € 000
At 1 January	(626)	(834)
Financial guarantee movement	-	8
Foreign exchange movement	(51)	200
At 31 December	**(677)**	(626)

10. Contributions

Contributions received are set out below:

Cumulative contributions received	2021 € 000	%	2020 € 000	%
Canada	2,707	4.5	2,707	4.5
France	7,686	12.9	7,686	12.9
Germany	9,843	16.6	9,843	16.6
Italy	8,402	14.2	8,402	14.2
Japan	21,162	35.7	21,162	35.7
Switzerland	2,360	4.0	2,360	4.0
United States of America	7,191	12.1	7,191	12.1
At 31 December	**59,351**	**100.0**	59,351	100.0

11. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

12. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000
Placements with credit institutions	67,185	-	67,185	61,737	-	61,737
Other financial assets	1	-	1	63	-	63
Loans	-	12	12	-	11	11
Provisions for impairment	-	(12)	(12)	-	(11)	(11)
Share investments	-	1,413	1,413	-	1,424	1,424
Total assets	**67,186**	**1,413**	**68,599**	61,800	1,424	63,224
Liabilities						
Audit fee payable	-	-	-	-	-	-
Negative interest payable	-	-	-	-	-	-
Financial guarantee liability	-	(677)	(677)	-	(626)	(626)
Total liabilities	-	**(677)**	**(677)**	-	(626)	(626)

13. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that 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 crisis will result in substantial downward pressure on the Fund's equity valuations, there will be no impact on loan provisioning as they are fully provisioned as at year end. 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 Fund carried on its balance sheet the following loan and equity exposures:

- Russian Federation: loans of €12,000, equities and related guarantees of €2.2 million.

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.

14. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. As there were no contributions received in 2021, there were no management fees paid by the Fund to the Bank (2020: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2021 (2020: nil).

No amounts are receivable from the Bank as at 31 December 2021 (2020 an amount of €63,000 was receivable from the Bank as outlined in note 6).

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

Audit fees paid to the Bank are outlined in note 4.

Contributions received from the contributors are outlined in note 10.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The Russia Small Business Investment Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The Russia Small Business Investment Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the income statement, statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 18 October 1993, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The SME Local Currency Special Fund

Annual Financial Report
31 December 2021

The SME Local Currency Special Fund

Contents

Income statement 1
Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributors' resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 9
Notes to the financial statements 13
Independent Auditors' report to the Governors 16

The SME Local Currency Special Fund

Income statement

For the year ended 31 December 2021	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest income		51	202
Financial guarantees movement		2,121	(1,212)
Net profit/(loss) for the year		2,172	(1,010)
Attributable to:			
Contributors		2,172	(1,010)

Statement of comprehensive income

For the year ended 31 December 2021	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Net profit/(loss) for the year	2,172	(1,010)
Other comprehensive income/(expense)		
Foreign exchange movement between functional and presentational currencies	4,752	(4,576)
Total comprehensive income/(expense) for the year	6,924	(5,586)
Attributable to:		
Contributors	6,924	(5,586)

Balance sheet

At 31 December 2021	Note	31 December 2021 € 000	31 December 2020 € 000
Assets			
Placements with credit institutions		67,742	62,420
Total assets		67,742	62,420
Liabilities and contributors' resources			
Financial guarantee liability	3	4,543	6,145
Total liabilities		4,543	6,145
Contributions	4	60,731	60,731
Reserves and accumulated profit/(loss)		2,468	(4,456)
Total contributors' resources		63,199	56,275
Total liabilities and contributors' resources		67,742	62,420
Memorandum items			
Guarantees*		67,742	62,420

*See section on credit risk exposures on page 11 for additional details.

The SME Local Currency Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributions € 000	General reserve € 000	Accumulated loss € 000	Total € 000
At 31 December 2019	50,731	4,701	(3,571)	51,861
Contributions received and receivable	10,000	-	-	10,000
Total comprehensive loss for the year	-	(4,576)	(1,010)	(5,586)
At 31 December 2020	60,731	125	(4,581)	56,275
Total comprehensive income for the year	-	4,752	2,172	6,924
At 31 December 2021	**60,731**	**4,877**	**(2,409)**	**63,199**

Statement of cash flows

For the year ended 31 December 2021	Year to 31 December 2021 € 000	 € 000	Year to 31 December 2020 € 000	 € 000
Cash flows from operating activities				
Net profit/(loss) for the year	2,172		(1,010)	
Adjustment to reconcile net profit to net cash flows:				
Financial guarantees movement	(2,121)		1,212	
	51		202	
Net cash from operating activities		51		202
Cash flows from financing activities				
Contributions received	-		10,000	
Net cash from financing activities		-		10,000
Net increase in cash and cash equivalents		51		10,202
Cash and cash equivalents at the beginning of the year		62,420		57,274
Effect of foreign exchange rate changes		5,271		(5,056)
Cash and cash equivalents at 31 December		67,742		62,420

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Date: 6 April 2022

The SME Local Currency Special Fund

Fund purpose

The SME Local Currency Special Fund ("the Fund") was established to support an increase in local currency lending in the Early Transition Countries ("the ETCs") and extended to cover small and medium enterprises (SME) across all EBRD countries of operations, with Contributors able to stipulate specific country coverage in the Contribution Agreement. The Fund provides guarantees on a first-loss basis for the European Bank for Reconstruction and Development's ("the Bank") SME Local Currency Programme.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in ""Significant accounting policies and judgements" and "Critical accounting estimates" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The Fund does not currently have any such assets in this category.

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial guarantees which are measured in accordance with IFRS 9, as described under "Financial guarantees" below.

Interest rate benchmark reforms

A number of interest rate benchmarks are currently undergoing reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks.

The Fund does not have any current exposures subject to interest rate benchmark reforms.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

General reserve

The general reserve represents foreign exchange movements on translation from functional currency to presentational currency.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The functional currency of the Fund is the United States dollar (USD) as this reflects the transactions, events and conditions under which the Fund conducts its business. For financial statement reporting purposes the unit of measurement and presentation currency is the euro (€).

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities denominated in currencies other than USD are re-translated into USD at spot rates ruling at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

For financial statement reporting, income and expenses (excluding exchange gains or losses) are translated from the functional currency to euro using exchange rates ruling at the time of the transaction. Exchange gains or losses are translated from the functional currency to euro at year-end using the average exchange rate for the year. Assets and liabilities denominated in the functional currency are re-translated to euro at spot rates ruling at the year-end exchange rate with the resultant exchange gains and losses taken to other comprehensive income.

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction.

Financial guarantees

The Fund provides guarantees to the Bank to cover principal losses of loan investments in the Bank's SME Programme and principal losses the Bank may incur from providing its own guarantees, limited to the resources of the Fund. When a guarantee is issued, its initial fair value reflects the fees charged for such guarantee, assuming an arm's-length commercial transaction. As the Fund does not charge the Bank any fee for its guarantee, its initial fair value is estimated based on the fee that the Fund might otherwise have charged, given the credit risk attaching to the guaranteed portfolio. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement.

Subsequently the guarantee liabilities are measured at the higher of the initial fair value less cumulative amortisation and the expected credit loss (ECL) at the balance sheet date.

Interest

Interest is recorded on an accruals basis. All interest income is recognised within 'interest income' in the income statement.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve judgements which could have a material impact on the financial statements:

- Financial guarantee liability – 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 Fund's expected credit losses for financial guarantees.
- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund's critical accounting estimate is outlined below:

Financial guarantee liability
The Fund's method for determining the carrying value of financial guarantee liability is determined by assessing the expected credit loss (ECL) of the underlying covered Bank loan investments. In assessing the ECL, the Fund relies on the Bank's risk management processes and procedures.

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

In 2020, in addition to the modelled ECL thus calculated, the Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments. 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 becoming 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[1]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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.

[1] The Bank's internal PD rating scale is explained in detail on page 10 of the Risk Management section.

Loss given default rates

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long-term recovery experience.

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure at default

EAD estimates the outstanding balance at the point of default. EAD is modelled at an individual loan level, with all future expected contractual cash flows including disbursements, cancellations, prepayments and interest being considered. The Fund's EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

Sensitivity analysis

Financial guarantee liability
A 3-notch PD downgrade on the Bank's loan investments covered by the Fund's guarantees would have increased the amount of the financial guarantees provided by €2.6 million. No other sensitivities affect the value of the guarantee as at 31 December 2021.

The sensitivity of the financial guarantee relating to stage 1 and 2 loans are provided below for 31 December 2020.

Adjusted risk parameter	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %
Financial guarantee liability on stage 1 and 2 loans	**5,853**		
Staging			
All loans in Stage 1	5,724	(129)	(2)%
All loans in Stage 2	8,277	2,424	41%
PD Ratings			
All loans upgraded 1 notch	4,216	(1,637)	(28)%
All loans downgraded 1 notch	7,953	2,100	36%
All loans upgraded 3 notches	2,568	(3,285)	(56)%
All loans downgraded 3 notches	13,177	7,324	125%
Projected GDP			
Projected GDP increased by 1%	5,661	(192)	(3)%
Projected GDP decreased by 1%	6,094	241	4%
Projected GDP increased by 5%	5,218	(635)	(11)%
Projected GDP decreased by 5%	7,460	1,607	27%
LGD			
All loans decreased by 10%	4,983	(870)	(15)%
All loans increased by 10%	6,725	872	15%
EAD			
All undrawn commitments cancelled	5,620	(233)	(4)%
All undrawn commitments disbursed within one month	6,222	369	6%
PD Rates - weighting of Bank data and external data			
Increase weighting of Bank data by 10%	4,983	(870)	(15)%
Decrease weighting of Bank data by 10%	6,725	872	15%

With respect to the portion of the guarantee liability related to Stage 3 loans, an increase or decrease of 10 percentage points would have no impact on the guarantee liability in 2021 (2020:€29,000).

Risk management

As the purpose of the Fund is to promote local currency lending in the SMEs rather than to generate a return on its assets, not all financial risks are actively managed by the Fund. Credit risk is jointly managed with the Bank; however, the Fund does not hedge against market risk and is hence exposed to interest rate risk and foreign exchange risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[2] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank's key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 carrying amounts of financial assets presented on the balance sheet, together with the guarantees as shown under memorandum items, best represents the Fund's maximum exposure to credit risk at 31 December 2021 and 31 December 2020.

Credit risk management and measurement

As previously stated, the Fund participates alongside the Bank as a guarantor for the financing of investments in the economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

[2] With the Banking Vice-Presidency being the first line of defence in identifying and managing risks related to Banking debt and equity operations.

Individual projects
The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board.

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review
Risk Management reports on the development of the portfolio as a whole on a quarterly basis to senior management and the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

Probability of default ratings (PD ratings)
The Bank assigns its internal risk ratings to all counterparties including borrowers, investee companies, guarantors, put counterparties and sovereigns in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external ratings agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

The table below shows the Bank's internal probability of default rating scale from 1.0 (lowest risk) to 8.0 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P). References to risk rating through this text relate to probability of default ratings unless otherwise specified.

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	
5	4.7 5.0 5.3	BB+ BB BB-	Fair	Risk range 5
6	5.7 6.0 6.3	B+ B B-	Weak	Risk range 6
7	6.7 7.0 7.3	CCC+ CCC CCC-/CC/C	Special attention	Risk range 7
8	8.0	D	Non-performing	NPL/Credit-impaired assets

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested. 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 8.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, and the sector of the exposure, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
At year end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating risk range assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating in the range of AA+ to AA-. Placements with credit institutions are considered to have low credit risk.

Guarantees
At 31 December 2021, the Bank had outstanding loans amounting to €250 million (2020: €253 million), for which, in the event of a future default, losses incurred by the Bank may be refunded in part from the resources of the Fund. At 31 December 2021, the Fund's maximum exposure under such guarantees was €67.7million (2020: €62.4 million).

At 31 December 2021, the guarantee liability on the balance sheet is €4.5 million (2020: €6.1 million). The Fund does not actively manage credit risk on its guarantee exposure.

During the year, no amount was paid from the Fund to the Bank (2020: €nil) for losses incurred by the Bank on a loan covered under the Fund's guarantee.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placement is repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund has no exposure to functional currency foreign exchange risk (euro to USD) as all assets and liabilities are held in USD as at 31 December 2021 and 31 December 2020.

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive expense due to presentational currency movement, from a 8 per cent strengthening or weakening (2020: 7 per cent) is €4.7 million (2020: €3.8 million).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund's guarantees are limited to the resources of the Fund, and contributions received are recognised as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. As a result, the exposure to liquidity risk is considered to be minimal.

The SME Local Currency Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 15 February 2011 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 4 April 2011 when the initial aggregate resources of the Fund equalled €10 million. An amendment to the Rules and Regulations was approved by the Board on 9 May 2012 to change the denomination of the Fund from euro to the United States dollar. In 2016, following consultation with the Contributors to the Fund, the Bank's Board of Directors approved an amendment renaming the Fund from the "ETC Local Currency Risk Sharing Special Fund" to the "SME Local Currency Special Fund".

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

The Fund shall terminate on 30 January 2030, unless otherwise approved by the Board. The Rules allow the Board to terminate the Fund after consultation between the Bank and the Contributors, or upon full utilisation of the Fund's resources.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Financial guarantee liability

	2021 € 000	2020 € 000
At 1 January	6,145	5,413
Financial guarantee movement	(2,121)	1,212
Movement in functional currency	519	(480)
At 31 December	4,543	6,145

4. Contributions

Cumulative contributions received	2021 € 000	2020 € 000
EBRD Shareholder Special Fund	48,834	48,834
Finland	155	155
Germany	78	78
Ireland	71	71
Japan	3,218	3,218
Korea	117	117
Luxembourg	62	62
Netherlands	1,168	1,168
Norway	312	312
Spain	310	310
Sweden	210	210
Switzerland	1,736	1,736
Taiwan ICDF	108	108
United Kingdom	605	605
United States of America	3,747	3,747
Total contributions at 31 December	60,731	60,731

5. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

	Current	Non-current	Total	Restated[3] Current	Restated[3] Non-current	Total
	2021	2021	2021	2020	2020	2020
Assets	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Placements with credit institutions	67,742	-	67,742	62,420	-	62,420
Total assets	67,742	-	67,742	62,420	-	62,420
Liabilities						
Financial guarantee liability	490	4,053	4,543	869	5,276	6,145
Total liabilities	490	4,053	4,543	869	5,276	6,145

6. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

7. 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

[3] The financial guarantee liability current and non-current split in the prior year was restated to better reflect the maturity dates of the guaranteed loans

8. Related parties

The Fund's related parties are the Bank and contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent of contributions received, taking into account the amount of any management fees paid to the Bank previously for contributions transferred from existing funds managed and administered by the Bank. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. During the period there was no management fee charged by the Bank to the Fund (2020: nil). At 31 December 2021 there was no accrued management fee payable by the Fund to the Bank (2020: nil). External auditor's remuneration of €18,200 (2020: €8,700) is payable by the Bank from the management fee. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

Contributions received from the contributors are outlined in note 5.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The SME Local Currency Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, The SME Local Currency Special Fund's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the income statement, statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 15 February 2011, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Special Fund for the High Impact Partnership on Climate Action

Annual Financial Report
31 December 2021

The Special Fund for the High Impact Partnership on Climate Action

Contents

Statement of comprehensive income 1
Balance sheet 1
Statement of changes in contributors' resources 2
Statement of cash flows 2
Fund purpose 3
Accounting policies 3
Risk management 11
Notes to the financial statements 17
Independent Auditors' report to the Governors 21

The Special Fund for the High Impact Partnership on Climate Action

Statement of comprehensive income
For the year ended 31 December 2021

	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest income			
From loans		551	286
From credit institutions		4	2
Total interest		555	288
Fee income		87	150
Operating expenses	3	(1,754)	(286)
Foreign exchange movement		764	(358)
Impairment provisions on loan investments	4	(455)	(1,934)
Change in concessional loan discount	5	-	(35)
Net loss and comprehensive expense for the year		(803)	(2,175)
Attributable to:			
Contributors		(803)	(2,175)

Balance sheet
At 31 December 2021

	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			83,483		24,660
Interest receivable			22		23
Commitment fees receivable			9		21
Loan investments					
Loans	6	28,371		20,942	
Less: Provisions for impairment	4	(2,682)		(2,227)	
			25,689		18,715
Total assets			109,203		43,419
Liabilities					
Other liabilities	7		860		10
Concessional loan discount	5		3,678		6,800
Contributors' resources			104,665		36,609
Total liabilities			109,203		43,419
Memorandum items					
Undrawn loan commitments			17,148		28,550
Pledged contributions not yet due	10		61,017		16,294

The Special Fund for the High Impact Partnership on Climate Action

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributions	Accumulated loss	Total
	€ 000	€ 000	€ 000
At 31 December 2019	33,765	(8,744)	25,021
Total comprehensive expense for the year	-	(2,175)	(2,175)
Contributors' resource transactions			
Contributions received	13,763	-	13,763
At 31 December 2020	47,528	(10,919)	36,609
Total comprehensive expense for the year	-	(803)	(803)
Contributors' resource transactions			
Contributions received	79,817	-	79,817
Distribution of funds to the contributors	(10,958)	-	(10,958)
At 31 December 2021	**116,387**	**(11,722)**	**104,665**

Statement of cash flows

For the year ended 31 December 2021

		31 December 2021		31 December 2020
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the year	(803)		(2,175)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Effective interest rate adjustment on loans[1]	43		86	
Unwind of concessional loan discount[1]	(420)		(237)	
Change in concessional loan discount	-		35	
Foreign exchange movement	(764)		358	
Impairment charge on loan investments	455		1,934	
	(1,489)		1	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	1,343		478	
Funds advanced for loans	(11,280)		(20,487)	
Working capital adjustment				
Movement in interest income	1		9	
Movement in fee income	12		(3)	
Movement in accrued expenses	850		(2)	
Net cash used in operating activities		(10,563)		(20,004)
Cash flows from financing activities				
Contributions received	79,817		13,763	
Distribution of funds to the contributors	(10,958)		-	
Net cash from financing activities		68,859		13,763
Net increase/(decrease) in cash and cash equivalents		58,296		(6,241)
Cash and cash equivalents at the beginning of the year		24,660		30,974
Effect of foreign exchange rate changes		527		(73)
Cash and cash equivalents at 31 December		83,483		24,660

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Date: 6 April 2022

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding discount on specific provisions all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

The Special Fund for the High Impact Partnership on Climate Action

Fund purpose

The Special Fund for the High Impact Partnership on Climate Action ("the Fund") was established to provide financial support to eligible projects and activities that have the potential to directly or indirectly mitigate climate change, enhance resilience and adaptation to climate change or achieve other environmental benefits. To achieve this, the Fund provides grants, concessional loans and other concessional financial instruments alongside the European Bank for Reconstruction and Development's ("the Bank") resources.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund's financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the Bank on 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Significant accounting policies and judgements" and" Critical accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.

Pronouncement	Nature of change	Potential impact
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's income statement, with a corresponding liability. The day one loss is recognised upon signing of the loan. Once the Fund disburses the loan to its borrower, the day one loss is reflected within the loan investment as it forms part of the initial fair value of the asset.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment that may be necessary. The initial fair value discount applied to each loan is therefore recovered in the effective interest rate at which income is recognised in the income statement over the tenor of the loan.

The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as ‘fair value through profit or loss’.

The Fund does not currently have any such assets in this category.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:

(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Fund is exposed have undergone reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, non-US dollar LIBORs (i.e. all GBP, EUR, CHF and JPY LIBOR settings) and the one-week and two-month USD LIBORs have ceased to be published. The remaining USD LIBOR settings (the overnight, one-month, three-months, six-months, and 12 months USD LIBOR) will cease to 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. However, market participants are encouraged to amend or close out existing IBOR contracts before then, rather than waiting to use the fallback mechanism.

In August 2020, the IASB issued “Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16”, which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

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.

The Fund’s exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €2.9 million (USD LIBOR). These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required.

Impairment of financial assets

Financial assets at amortised cost – performing assets stages 1 and 2
Under IFRS 9 the Fund’s methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

A “three-stage” model for impairment is applied based on changes in credit quality since origination[2], with the stage allocation being based on the financial asset’s probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of credit-impairment is identified, the asset is reallocated to Stage 3 as described below.

The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund’s loans at amortised cost), not the date of the initial recognition of the asset on the Fund’s balance sheet.

different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment
In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2 is required, a combination of quantitative and qualitative risk metrics are employed. The determination of what constitutes a significant increase in credit risk is a critical judgement. All loans with at least a three-notch downgrade in PD on the Bank's internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the "watch list" are transitioned to Stage 2[3].

Financial assets at amortised cost – non performing assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit impaired include:

- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate of the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Contributors' resources

The Fund recognises contributions received from the contributors as a liability on the basis that, should a contributor choose to withdraw from the Fund, the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

The Fund is required to return to contributors reflows of investment income earned on contributed resources. The return of funds to the contributors is disclosed as 'distribution of funds to contributors' in the statement of changes in contributors' resources.

Contributed resources are carried at the redemption amount that is payable at the balance sheet date if the contributors were to withdraw from the Fund and contributions returnable to the contributors from operating activities.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Foreign currencies

The Fund’s functional and reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

Contributions

Contributions received in USD are translated into euro at the exchange rates ruling at the time of the transaction.

The Fund is required to return to contributors reflows of interest earned on investment, principal repayments on loan investments and investment income earned on contributed resources. The return of funds to the contributors is disclosed as ‘distribution of funds to contributors’ in the statement of changes in contributors’ resources.

Interest and fees

Interest income and expense is recognised on an accruals basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows. Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

The unwinding of the day one loss on concessional loans is recognised in interest income as part of the effective interest rate of the loan.

Fees earned in respect of services provided over a period of time, including loan commitment fees are recognised as income as the services are provided.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Other critical judgements

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve judgements 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 Fund’s expected credit losses.
- Classification of contributors’ resources: The classification of contributors’ resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Regulations of the Fund.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the economies in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk.

The Fund's critical accounting estimates are outlined below:

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the Risk Management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default, whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

In 2020, in addition to the modelled ECL thus calculated, the Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €396,000 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 becoming 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[4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

[4] The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 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

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long term recovery experience.

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Guarantors

Where the Fund's loans are fully and unconditionally guaranteed, and the PD and/or LGD rating of the guarantor is better than the PD and/or LGD rating of the borrower, the ECL is based on the better of the PD and LGD ratings of the borrower and the guarantor. Staging continues to be based solely on the borrower's PD.

Exposure at default

EAD estimates the outstanding balance at the point of default. EAD is modelled at an individual loan level, with all future expected contractual cash flows including disbursements, cancellations, prepayments and interest being considered. The Fund's EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

Sensitivity analysis

The sensitivity of portfolio provisions to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %
2021 portfolio provision (Stages 1 and 2)	2,682			2227[5]		
Staging						
All loans in Stage 1	504	(2,178)	(81)%	1,006	(1,221)	(55)%
All loans in Stage 2	2,775	93	3%	2,984	757	34%
PD Ratings						
All loans upgraded 1 notch	1,431	(1,251)	(47)%	1,294	(933)	(42)%
All loans downgraded 1 notch	3,443	761	28%	2,664	437	20%
All loans upgraded 3 notches	789	(1,893)	(71)%	969	(1,258)	(56)%
All loans downgraded 3 notches	3,724	1,042	39%	3,548	1,321	59%
Projected GDP						
Projected GDP increased by 1%	2,561	(121)	(5)%	2,146	(81)	(4)%
Projected GDP decreased by 1%	2,819	137	5%	2,322	95	4%
Projected GDP increased by 5%	2,246	(436)	(16)%	1,952	(275)	(12)%
Projected GDP decreased by 5%	3,453	771	29%	2,797	570	26%
LGD						
All loans decreased by 10%	2,080	(602)	(22)%	1,816	(411)	(18)%
All loans increased by 10%	3,285	603	22%	2,637	410	18%
EAD						
All undrawn commitments cancelled	2,141	(541)	(20)%	1,493	(734)	(33)%
All undrawn commitments disbursed within one month	3,160	478	18%	2,596	369	17%

Financial assets at amortised cost initial recognition
The Fund's method for determining the fair value on the initial recognition of concessional loans is further detailed in the significant accounting policies section of the report.

[5] Overlay added to modelled General Provision in 2020

Risk management

As the primary purpose of the Fund is to provide concessional lending rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments alongside the Bank, although under different terms, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and foreign exchange risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[6] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:
- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank's key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the fund's investments could become credit-impaired. In addition, the Fund is exposed to credit risk for contributions pledged by the contributors.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans.

[6] With the Banking Vice-Presidency being the first line of defence in identifying and managing risks related to Banking debt and equity operations.

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in economies in which the Bank invests. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

Individual projects

The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board.

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

Risk Management conducts reviews of all exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments.

Portfolio level review

Risk Management reports on the development of the portfolio as a whole on a quarterly basis to the senior management of the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with portfolio risk limits.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and regional (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

Probability of default ratings (PD ratings)

The Bank assigns internal risk ratings to all counterparties including borrowers, investee companies, guarantors, put counterparties and sovereigns in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external ratings agencies. For sovereign risk projects, the overall rating is the same as the sovereign rating. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

The table below shows the Bank's internal probability of default rating scale from 1.0 (lowest risk) to 8.0 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P). References to risk rating through this text relate to probability of default ratings unless otherwise specified.

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	
5	4.7 5.0 5.3	BB+ BB BB-	Fair	Risk range 5
6	5.7 6.0 6.3	B+ B B-	Weak	Risk range 6

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
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 3 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 8.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL loans held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, and the sector of the exposure, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified at the internal risk rating range of 2 and 3 (approximately AA+ to A- in terms of the S&P equivalent). Placements with credit institutions are considered to have low credit risk.

Loan investments at amortised cost
For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the loan investments and the associated impairment provisions for each of the Bank's internal risk rating categories

	Amortised cost carrying value				Impairment		Total net of impairment	
	Stage 1	Stage 2	Total	Total	Stage 1	Stage 2	Total net of impairment	Impairment provisions coverage
Risk rating category	€ 000	€ 000	€ 000	%	€ 000	€ 000	€ 000	%
6: Weak	-	13,822	13,822	48.7%	-	(1,334)	12,488	9.7%
7: Special attention	4,446	10,103	14,549	51.3%	(9)	(1,339)	13,201	9.3%
At 31 December 2021	**4,446**	**23,925**	**28,371**	**100%**	**(9)**	**(2,673)**	**25,689**	

	Amortised cost carrying value				Impairment		Total net of impairment	
	Stage 1	Stage 2	Total	Total	Stage 1	Stage 2	Total net of impairment	Impairment provisions coverage
Risk rating category	€ 000	€ 000	€ 000	%	€ 000	€ 000	€ 000	%
5: Fair	3,824	-	3,824	18.3%	(8)	-	3,816	0.2%
6: Weak	5,432	7,075	12,507	59.7%	(103)	(1,570)	10,834	13.4%
7: Special attention	236	4,375	4,611	22.0%	(110)	(436)	4,065	11.8%
At 31 December 2020	9,492	11,450	20,942	100%	(221)	(2,006)	18,715	

At 31 December 2021 the Fund had no security arrangements for disbursed loan investments (2020: none).

Credit risk in the loan portfolio
As at 31 December 2021 there were distressed restructured loans[7] with a disbursed value of €5.5 million (2020: €5.5 million).

Undrawn commitments

Set out below is an analysis of the Fund's undrawn loan commitments for each of the Fund's relevant internal risk rating categories.

	2021	2020
Risk rating	**€ 000**	€ 000
5: Fair	**5,000**	5,732
6: Weak	**5,754**	16,518
7: Special attention	**6,394**	6,300
At 31 December	**17,148**	28,550

The Fund would typically have conditions precedent that would need to be satisfied before further disbursements on its loan transactions.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at their carrying amount by country.

	Undrawn loan commitments 2021	Loans 2021	Undrawn loan commitments 2020	Loans 2020
	€ 000	**€ 000**	€ 000	€ 000
Bosnia and Herzegovina	**6,312**	**10,804**	11,280	6,518
Bulgaria	-	**3,521**	-	3,934
Jordan	-	**2,829**	-	2,974
Moldova	**82**	**224**	82	441
Romania	**5,000**	-	5,000	-
Serbia	**5,754**	**10,993**	12,188	7,075
At 31 December	**17,148**	**28,371**	28,550	20,942

The following table breaks down the main credit risk exposures at their carrying amount by the industry sector of the project.

	Undrawn loan commitments 2021	Loans 2021	Undrawn loan commitments 2020	Loans 2020
	€ 000	**€ 000**	€ 000	€ 000
Manufacturing and services	-	**4,446**	732	3,824
Municipal and environmental infrastructure	**10,836**	**17,567**	17,270	14,424
Power and energy	**6,312**	**6,358**	10,548	2,694
At 31 December	**17,148**	**28,371**	28,550	20,942

[7] Defined as a loan in which any of the key terms and conditions have been amended due to the financial stress of the borrower, and without such amendment(s) would likely have become an impaired loan.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk and foreign exchange risk.

Market risk management and measurement

As discussed at the beginning of the Risk Management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.
The Fund's placements are repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal. The Fund also has a fixed rate loan investment. Based on reasonable basis point change in the underlying interest rates, this potential impact on the fund's net profit is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2021 € 000	United States dollars 2021 € 000	Total 2021 € 000
Total assets	**92,802**	**16,401**	**109,203**
Total liabilities	**(109,203)**	**-**	**(109,203)**
Net currency position at 31 December 2021	**(16,401)**	**16,401**	**-**

	Euro 2020 € 000	United States dollars 2020 € 000	Total 2020 € 000
Total assets	38,985	4,434	43,419
Total liabilities	(43,419)	-	(43,419)
Net currency position at 31 December 2020	(4,434)	4,434	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net loss from a 7 per cent strengthening or weakening (2020: 7 per cent) is €1.2 million (2020: €0.3 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 (i.e. the overnight, one-month, three-month, six-month and 12-month settings) will cease to 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 in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. 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.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that loan investments are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and pledged contributions and cannot borrow funds to finance operations. If the Fund has not received sufficient contributions to fund loan disbursements, payments under the loan agreement are not legally binding. The Fund recognises contributions received as a liability, which may be returned to a contributor upon termination of a contribution agreement. Amounts returned are based on the Fund's net assets and take into account existing commitments. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

D. Management of contributors' resources

At 31 December 2021, the Fund had six Sub-accounts:

- The EBRD Green Energy Special Fund;
- The International Cooperation and Development Fund (Taiwan ICDF) Sub-account;
- The Federal Ministry of Finance of the Republic of Austria Finance (Austria) Sub-account;
- The Ministry of Foreign Affairs of the Netherlands (Netherlands) Sub-account;
- The Ministry of Foreign Affairs of Finland (Finland) Sub-account; and
- The State Secretariat for Economic Affairs of Switzerland (SECO) Sub-account.

Pursuant to Article VI(d) of the contribution agreement with ICDF, there was a mutual termination of ICDF's agreement on 19 May 2021 in respect of the Sub-account for the EBRD Green Energy Special Fund. The sub-Fund will close following the maturity of the loan investments and the return of the remaining balance to the contributor.

Five Sub-accounts were opened during 2021. At 31 December 2021, €63.4 million contributions were received in relation to the Sub-accounts.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank at its meeting of 29 March 2011 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 19 May 2011 following the signing of the first Contribution Agreement. On 11 December 2020, the Rules and Regulations of the Fund were amended, changing the name of the Fund from "EBRD Green Energy Special Fund" to "Special Fund for the High Impact Partnership on Climate Action".

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

The Rules and Regulations of the Fund allows the Fund to be terminated either by:
- decision by the Board after consultation between the Bank and the contributors; or
- upon closure of the last Sub-Account.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3 In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. Operating expenses

	2021 € 000	2020 € 000
Interest expense	183	159
Management fees	1,571	127
At 31 December	1,754	286

4. Provisions for impairment of loan investments

Charge for the year	€ 000	€ 000
Impairment of loan investments at amortised cost in stages 1 and 2	(455)	(1,934)
Provisions for impairment of loan investments	(455)	(1,934)

Movement in provisions		
At 1 January	(2,227)	(293)
Charge for the year to the income statement	(455)	(1,934)
At 31 December	(2,682)	(2,227)
Representing:		
Impairment of loan investments at amortised cost in stages 1 and 2	(2,682)	(2,227)
At 31 December	(2,682)	(2,227)

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

- Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.

- Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

- Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the movements in the loan investments and the associated impairment provisions for each of the stages of impairment.

	12 month ECL (Stage 1) 2021	Lifetime ECL (Stage 2) 2021	Total 2021
Movement in provisions	**€ 000**	**€ 000**	**€ 000**
As at 1 January	(221)	(2,006)	(2,227)
Transfer to stage 2 - significant increase in credit risk	392	(1,266)	(874)
Changes in model or risk parameters	(180)	599	419
As at 31 December	**(9)**	**(2,673)**	**(2,682)**

	Loans Stage 1 2021	Loans Stage 2 2021	Total 2021
Movement in loans at amortised cost	**€ 000**	**€ 000**	**€ 000**
As at 1 January	9,407	11,535	20,942
Loan disbursements	7,031	4,249	11,280
Transfer to stage 2 - significant increase in credit risk	(12,018)	12,018	-
Repayments	(415)	(928)	(1,343)
Day one fair value adjustment[8]	206	(3,328)	(3,122)
Movement in effective interest rate adjustment	5	372	377
Foreign exchange movements	230	7	237
As at 31 December	**4,446**	**23,925**	**28,371**

	12 month ECL (Stage 1) 2020	Lifetime ECL (Stage 2) 2020	Total 2020
Movement in provisions	€ 000	€ 000	€ 000
As at 1 January	(293)	-	(293)
New loans originated	(32)	-	(32)
Transfer to stage 2 - significant increase in credit risk	255	(2,175)	(1,920)
Changes in model or risk parameters	(151)	169	18
As at 31 December	(221)	(2,006)	(2,227)

	Loans Stage 1 2020	Loans Stage 2 2020	Total 2020
Movement in loans at amortised cost	€ 000	€ 000	€ 000
As at 1 January	5,326	-	5,326
New loans originated	20,487	-	20,487
Transfer to stage 2 - significant increase in credit risk	(11,451)	11,451	-
Repayments	(478)	-	(478)
Day one fair value adjustment	(4,259)	-	(4,259)
Movement in effective interest rate adjustment	67	84	151
Foreign exchange movements	(285)	-	(285)
As at 31 December	9,407	11,535	20,942

8 The day one fair value adjustment was reassessed and reduced for the Stage 1 loan disbursements during the year.

5. Concessional loan discount

Set out below is an analysis of the movements in the Fund's concessional loan discount liability:

	2021 € 000	2020 € 000
At 1 January	(6,800)	(11,024)
Derecognition of liability on loan disbursement	3,122	4,259
Day one fair value adjustment	-	(35)
At 31 December	(3,678)	(6,800)

The change in concessional loan discount recognised in the income statement is comprised of the day one fair value adjustment above.

6. Loan investments

Operating assets	2021 € 000	2020 € 000
At 1 January	20,942	5,326
Disbursements	11,280	20,487
Day one fair value adjustment	(3,122)	(4,259)
Movement in effective interest rate adjustment	377	151
Repayments	(1,343)	(478)
Foreign exchange movements	237	(285)
At 31 December	28,371	20,942
Impairment at 31 December	(2,682)	(2,227)
Total loan investments net of impairment at 31 December	25,689	18,715

7. Other liabilities

	2021 € 000	2020 € 000
Interest expense	15	10
Management fees payable	845	-
At 31 December	860	10

8. Analysis of current and non-current assets and liabilities

Assets	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000
Placements with credit institutions	83,483	-	83,483	24,660	-	24,660
Interest receivable	22	-	22	23	-	23
Commitment fees receivable	9	-	9	21	-	21
Loan investments						
Loans	2,136	26,235	28,371	1,655	19,287	20,942
Less: Provisions for impairment	(202)	(2,480)	(2,682)	(176)	(2,051)	(2,227)
Total assets	85,448	23,755	109,203	26,183	17,236	43,419
Liabilities						
Other liabilities	(860)	-	(860)	(10)	-	(10)
Concessional loan discount	(3,678)	-	(3,678)	(6,800)	-	(6,800)
Contributor's resources	(80,910)	(23,755)	(104,665)	(19,373)	(17,236)	(36,609)
Total liabilities	(85,448)	(23,755)	(109,203)	(26,183)	(17,236)	(43,419)

9. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

10. Contributions

Pledged contributions not yet due	Executing agency	2021 € 000	2020 € 000
Total pledged	ICDF	112,202	64,070
Total received	ICDF	(76,863)	(47,776)
Total pledged	Netherlands	20,000	-
Total received	Netherlands	(5,000)	-
Total pledged	Austria	5,000	-
Total received	Austria	(5,000)	-
Total pledged	Finland	41,730	-
Total received	Finland	(40,730)	-
Total pledged	SECO	9,678	-
Total received	SECO	-	-
At 31 December		61,017	16,294

The next tranche of contributions can be called when the threshold of loan commitments have disbursed.

11. 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

10. Related parties

The Fund's related parties are the Bank and its contributors, International Cooperation Development Fund (TaiwanICDF), the Federal Ministry of Finance of the Republic of Austria, the Ministry of Foreign Affairs of Finland, the Ministry of Foreign Affairs of the Netherlands, and the State Secretariat for Economic Affairs of Switzerland.

The Bank is entitled to charge the Fund a management fee of an amount equal to 1 per cent on contributions greater than €10 million and 2 per cent on contributions of less than €10 million. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. Contributions of €39,087,257 were received in 2021, and management fees of €726,268 were paid by the Fund to the Bank (2020: €126,668) and there was €746,179 accrued management fees payable by the Fund to the Bank as at 31 December 2021 (2020: nil).

External auditor's remuneration of €18,200 (2020: €8,600) is payable by the Bank from the management fee. The external auditor is appointed by the Board of Directors, on the recommendation of the President. The external auditor may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditor for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The Special Fund for the High Impact Partnership on Climate Action

Report on the audit of the financial statements

Opinion

In our opinion, The Special Fund for the High Impact Partnership on Climate Action's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 29 March 2011, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022

European Bank
for Reconstruction and Development

The Trust Fund for the West Bank and Gaza

Financial Report
31 December 2021

The Trust Fund for the West Bank and Gaza

Contents

Statement of comprehensive income....1
Balance sheet....1
Statement of changes in contributors' resources....2
Statement of cash flows....2
Fund purpose....3
Accounting policies....3
Risk management....11
Notes to the financial statements....17
Independent Auditors' report to the Governors....22

The Trust Fund for the West Bank and Gaza

Statement of comprehensive income

Statement of comprehensive income
For the year ended 31 December 2021

	Note	Year to 31 December 2021 € 000	Year to 31 December 2020 € 000
Interest and other similar income			
From loans at amortised cost		936	448
From loans at fair value through profit and loss		24	14
From credit institutions		3	61
Total interest income		963	523
Fee income		62	3
General adminstrative expenses and depreciation	3	(334)	(408)
Technical cooperation expenses	4	(458)	(525)
Financial guarantees movement		13	(104)
Impairment release/(charge) on loan investments	5	1,122	(1,442)
Management fees	6	(450)	(450)
Negative interest expense		(284)	(201)
Foreign exchange movement		3,893	(3,311)
Losses from loans at fair value through profit and loss		(14)	-
Net gain/(loss) and comprehensive income/(expense) for the year		4,513	(5,915)
Attributable to:			
Contributors		4,513	(5,915)

Balance sheet

At 31 December 2021

	Note	31 December 2021 € 000	31 December 2021 € 000	31 December 2020 € 000	31 December 2020 € 000
Assets					
Placements with credit institutions			73,028		62,118
Interest receivable			152		68
Share investments			5		4
Trade finance guarantees			28		12
Loan investments at fair value through profit and loss	7		292		282
Loan investments at amortised cost					
Loans	8	24,280		16,579	
Less: Provisions for impairment	5	(557)		(1,569)	
			23,723		15,010
Office equipment	9		6		7
Total assets			97,234		77,501
Liabilities and contributors' resources					
Other financial liabilities	10		894		694
Trade finance guarantees			136		116
Total liabilities			1,030		810
Contributions		100,000		85,000	
Reserves and accumulated loss		(3,796)		(8,309)	
Total contributors' resources			96,204		76,691
Total liabilities and contributors' resources			97,234		77,501
Memorandum items					
Undrawn commitments	11		11,442		11,193

The Trust Fund for the West Bank and Gaza

Statement of changes in contributors' resources

For the year ended 31 December 2021

	Contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2019	70,000	(2,394)	67,606
Contributions received	15,000	-	15,000
Total comprehensive expense for the year	-	(5,915)	(5,915)
At 31 December 2020	85,000	(8,309)	76,691
Contributions received	15,000	-	15,000
Total comprehensive income for the year	-	4,513	4,513
At 31 December 2021	**100,000**	**(3,796)**	**96,204**

Statement of cash flows

For the year ended 31 December 2021

	Year to 31 December 2021 € 000	€ 000	Year to 31 December 2020 € 000	€ 000
Cash flows from operating activities				
Net gain/(loss) for the year	**4,513**		(5,915)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Depreciation	**1**		2	
Effective interest rate adjustment on loans[1]	**(44)**		40	
Financial guarantees movement	**(13)**		104	
Impairment provision	**(1,122)**		1,442	
Foreign exchange movement	**(3,893)**		3,311	
Fair value loan movement	**14**		-	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayments of loan investments	**9,197**		2,420	
Funds advanced for loans	**(15,047)**		(10,712)	
Front end fees received	**117**		68	
Funds advanced for share investments	-		(5)	
Working capital adjustment				
Movement in accrued expenses	**200**		280	
Movement in interest income	**(84)**		23	
Net cash used in operating activities		**(6,161)**		(8,942)
Cash flows used in investing activities				
Contributions received	**15,000**		15,000	
Net cash from financing activities		**15,000**		15,000
Net increase in cash and cash equivalents		**8,839**		6,058
Cash and cash equivalents at the beginning of the year		**62,118**		58,264
Effect of foreign exchange rate changes		2,071		(2,204)
Cash and cash equivalents at 31 December		**73,028**		62,118

Signed for and on behalf of the President of European Bank for Reconstruction and Development by:

Date: 6 April 2022

[1] Loan interest income and the effective interest rate adjustment on loans make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

The Trust Fund for the West Bank and Gaza

Fund purpose

The purpose of the Trust Fund for the West Bank and Gaza (“the Fund”) is to provide financial assistance to support the economic development of West Bank and Gaza (“WB&G”) and thereby contribute to the stability and prosperity of the southern and eastern Mediterranean region.

The resources of the Fund may be used to finance:

- Technical assistance which involves the provision of project preparation and implementation in support of lending, guarantee or investment operational activities or other types of technical assistance; and
- Non-technical assistance initiatives which are principally used to provide incentive fees or to pay for goods and works contracts in support of a lending, guarantee or investment operational activities in the WB&G; and
- Investment activities which may include guarantees, equity or debt financing.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The financial statements have been prepared on a going concern basis. On the basis of the assessment of the Fund’s financial position and resources, the President believes that the Fund is well placed to manage its business risks and the going concern assessment was confirmed by the European Bank for Reconstruction and Development (“the Bank”) 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 policies of the Fund. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in “Significant accounting policies and judgements” and “Critical accounting estimates” within the section for Accounting Policies.

New and amended *IFRS mandatorily effective for the current reporting period*
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 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 Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 3: Business Combinations	Updates an outdated reference in IFRS 3 without significantly changing its requirements. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Amends the standard regarding costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
Amendments to: IAS 16: Property, Plant and Equipment	Updates the standard regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Effective for annual reporting periods beginning on or after 1 January 2022.	The Fund considers that this standard is not applicable to its operations.

Pronouncement	Nature of change	Potential impact
IFRS 17: Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund has yet to assess the impact of this standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to these standards.
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 Fund has yet to assess the impact of adopting the changes to this standard.
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 Fund anticipates no material impact as a result of adopting the changes to these 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 Fund considers that this standard is not applicable to its operations.

B. Significant accounting policies and judgements

Financial assets - Classification and measurement

The classification of the Fund's financial assets depends on both the contractual characteristics of the assets and the business model adopted for their management. Based on this, financial assets are classified in one of three categories: those measured at amortised cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.

Financial assets at amortised cost

An investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value through other comprehensive income

An investment is classified as "fair value through other comprehensive income" only if both of the following criteria are met: the objective of the Fund's business model is achieved by both holding the asset to collect the contractual cash flows and selling the asset; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

The Fund does not currently have any such assets in this category.

Financial assets at fair value through profit or loss

If neither of the two classifications above apply, the financial asset is classified as 'fair value through profit or loss'.

The share investment and one loan investment held by the Fund is measured at fair value through profit or loss.

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are multiples applied to net asset value and earnings-based valuations to which a multiple is applied based on information from comparable companies and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

The Fund's share investment is recognised on a trade date basis.

At initial recognition, the Fund measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:

i. substantially all the risks and rewards of the asset; or
ii. significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities

The Fund does not designate any financial liabilities at fair value through profit or loss. All are measured at amortised cost.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Fund is exposed have undergone reform. The reforms are intended to create a more transparent system that minimises reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, non-US dollar LIBORs (i.e. all GBP, EUR, CHF and JPY LIBOR settings) and the one-week and two-month USD LIBORs have ceased to be published. The remaining USD LIBOR settings (the overnight, one-month, three-months, six-months, and 12 months USD LIBOR) will cease to 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. However, market participants are encouraged to amend or close out existing IBOR contracts before then, rather than waiting to use the fallback mechanism.

In August 2020, the IASB issued "Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16", which includes a number of reliefs that apply upon transition of a financial instrument from an interest rate benchmark to an alternative benchmark rate, if this transition takes place on an economically equivalent basis, and as a direct consequence of the interest rate benchmark reforms. These reliefs include:

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.

The Fund's exposure to significant benchmark interest rates subject to reform that have yet to transition is limited to non-derivative financial assets of €23.3 million (USD LIBOR). These exposures will remain outstanding until the benchmark interest rate ceases and will therefore transition in future. This excludes exposures to benchmark interest rates that will expire before transition is required

Impairment of financial assets

Financial assets at amortised cost – performing assets (Stages 1 and 2)
Under IFRS 9 the Fund's methodology is to calculate impairment on an expected credit loss basis. Provisions for impairment for assets that are not individually identified as credit-impaired are calculated on a portfolio basis.

A "three-stage" model for impairment is applied based on changes in credit quality since origination[2], with the stage allocation being based on the financial asset's probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of credit-impairment is identified, the asset is reallocated to Stage 3 as described below.

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.

The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.

Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment
In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2 is required, a combination of quantitative and qualitative risk metrics are employed. The determination of what constitutes a significant increase in credit risk is a critical judgement. All loans with at least a three-notch downgrade in PD on the Bank's internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 89 days inclusive, as well as all loans placed on the "watch list" are transitioned to Stage 2.[3]

Financial assets at amortised cost – nonperforming assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:

- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the income statement. After initial impairment, subsequent adjustments include firstly the continued recognition of interest income, using the effective interest rate methodology at the original rate of the loan, based on the remaining net book value, and secondly any adjustments required in respect of a reassessment of the initial impairment.

The carrying amount of the asset is reduced directly only through repayment or upon write-off. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the income statement.

Loans and advances may be renegotiated in response to an adverse change in the circumstances of the borrower. Where the original loan is amended it will continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained any changes in present value attributable to the modification will be recognised as an adjustment to the carrying value of the asset with the associated gains or losses on modification recognised in the income statement.

Financial guarantees

The Fund currently provides guarantees to international commercial banks to cover the political and commercial payment risk of the transaction undertaken by participating banks in The West Bank and Gaza in relation to the trade facilitation programme.

When a guarantee is issued, it is initially recognised at its fair value. As the Fund charges the Bank a fee for these guarantees, the initial fair value is estimated based on the present value of fees the Fund is expected to receive over the period of the financial guarantee and recognised within other financial assets and other financial liabilities.

Subsequently the guarantee liabilities are measured at the higher of the initial fair value less cumulative amortisation and the expected credit loss (ECL) at the balance sheet date. The guarantee assets represent the discounted value of the guarantee income.
Financial guarantees are recognised within other financial assets and other financial liabilities.

[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

Foreign currencies

The functional currency of the Fund is the euro (€) as this reflects the transactions, events and conditions under which the Fund conducts its business. The Fund's reporting currency for the presentation of its financial statements is also the euro.

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and are subject to insignificant risk of changes in value.

Technical cooperation expenses

Technical cooperation expenses, which represents payments for services provided to beneficiaries on behalf of the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Interest and fees

Interest recorded using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future payments or receipts to the gross carrying amount of the financial instrument. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating the instrument are also recognised as interest income or expense over the life of the instrument.

Interest is recognised on impaired loans through unwinding the discount used in deriving the present value of expected future cash flows.

Negative interest is incurred on euro placements due to the prevailing negative rates set by the European Central Bank. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

Fees earned in respect of services provided over a period of time, including loan commitment fees are recognised as income as the services are provided.

Office equipment

Office equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over the estimated life as follows:

Office equipment	Ten years
Leasehold improvements	Lease term

All leasehold improvements were fully depreciated as at 31 December 2021.

Management fees and general administrative expenses

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received.

The Bank is also entitled to recover direct costs associated with the implementation of the operations of the Fund, these are recognised in the period the service is provided as 'general administrative expenses'.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes. Taxes and duties levied on goods or services, are likewise exempted or reimbursable except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Judgements not involving estimation

In the process of applying its accounting policies the Fund makes various judgements. The judgements that the Fund has made that have had a significant impact on its financial statements are disclosed alongside the related accounting policies above. Judgements applied in the course of making accounting estimates are described in the Critical accounting estimates section below, the Fund has deemed the following accounting policies critical as they involve a judgements 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 Fund's expected credit losses.
- Classification of contributors' resources: The classification of contributors' resources as liability or equity uses critical judgement to determine the substance of the contractual arrangement according to the Rules and Guidelines of the Fund.

There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

C. Critical accounting estimates

Preparing financial statements in conformity with IFRS requires the Fund to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the economies in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The Fund's critical accounting estimates are outlined below.

Financial guarantees
The Fund's method for determining the fair value of financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained under credit risk within the risk management section of the report.

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section, credit risk is managed by the Bank. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.
In accordance with IFRS 9, ECL represents the average credit losses weighted by the PD whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

In 2020, in addition to the modelled ECL thus calculated, the Bank further added an additional post-model adjustment increasing the provision for impairment of amortised cost loan investments by €599,000 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 becoming 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 calculations 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[4]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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%

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 into 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 macro-economic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one year probability of growth was 84 per cent at the end of 2021 (2020: 85 per cent). 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 significantly correlating with historic loss experience, and therefore GDP growth is

[4] The Bank's internal PD rating scale is explained in detail on page 12 of the Risk Management section.

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

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-internal ratings based approach under the Basel Accord, and rates for covered bonds are in line with the guidance provided by the European Banking Authority. The resulting average LGD rate for the portfolio is consistent with the Bank's long-term recovery experience.

LGD rates assigned by the Bank do not vary with economic conditions or scenarios, reflecting the relatively long recovery periods at the EBRD as well as the evidence from the Bank's experience that there is no correlation between the level of recoveries made and macro-financial information. As a result, these LGD rates are deemed to reflect all forward-looking information available at the reporting date.

Exposure at default

EAD estimates the outstanding balance at the point of default. EAD is modelled at an individual loan level, with all future expected contractual cash flows including disbursements, cancellations, prepayments and interest being considered. The Funds EAD combines actual and contractual cash flows and models future disbursements and repayments based on the Bank's own experience.

Sensitivity analysis

The sensitivity of portfolio provisions to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %	Recalculated provision 2020 €000	Change in provision 2020 €000	Change in provision 2020 %
2021 portfolio provision (Stages 1 and 2)	557			1,569		
Staging						
All loans in Stage 1	557	-	-	1,569	-	0%
All loans in Stage 2	786	229	41%	1,705	136	9%
PD Ratings						
All loans upgraded 1 notch	387	(171)	(31)%	1,269	(300)	(19)%
All loans downgraded 1 notch	574	17	3%	1,609	40	3%
All loans upgraded 3 notches	116	(441)	(79)%	863	(706)	(45)%
All loans downgraded 3 notches	635	78	14%	1,817	248	16%
Projected GDP						
Projected GDP increased by 1%	541	(16)	(3)%	1,537	(32)	(2)%
Projected GDP decreased by 1%	575	18	3%	1,604	35	2%
Projected GDP increased by 5%	491	(66)	(12)%	1,446	(123)	(8)%
Projected GDP decreased by 5%	656	98	18%	1,779	210	13%
LGD						
All loans decreased by 10%	433	(124)	(22)%	1,353	(216)	(14)%
All loans increased by 10%	681	124	22%	1,784	215	14%
EAD						
All undrawn commitments cancelled	557	-	0%	970	(599)	38%
All undrawn commitments disbursed within one month	557	-	0%	1,569	-	0%

Risk management

Not all financial risks are actively managed by the Fund. Credit risk is managed in line with Bank policies. The Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

Risk governance

The Fund is subject to the Bank's risk governance procedures as below:

The Bank's overall framework for identification and management of risks is underpinned by independent second line of defence[5] control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environment and Sustainability Department, Finance Department, Evaluation Department and other relevant units. The Vice President, Risk and Compliance and Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is chaired by the Vice President Risk and Compliance, CRO. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Managing Director, Risk Management reports to the Vice President Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identification and management of operational risks across the Bank. It develops and maintains the risk management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied
- support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision-making.

The Internal Audit Department, as a third line of defence and, in accordance with the Institute of Internal Auditors' International Professional Practices Framework, is responsible for providing independent and objective assurance to executive management and the Board of Directors on the adequacy and effectiveness of internal controls, governance and risk management processes to mitigate the Bank's key risks.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from either the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become credit-impaired.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet.

Credit risk management and measurement

The Fund participates in the financing of investments in WB&G. It benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

[5] With the Banking Vice-Presidency being the first line of defence in identifying and managing risks related to Banking debt and equity operations.

Individual projects
The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board.

All Banking projects in WB&G (both debt and equity transactions) are reviewed by the Operations Committee prior to their submission for Board approval. The Committee is chaired by the First Vice President and Head of Client Services Group and its membership comprises senior managers of the Bank, including the Vice President Risk and Compliance, CRO and the Managing Director, Risk Management. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionally. It operates within the authority delegated by the Board, via the President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee. Risk Management is represented at both the Equity Committee and the Small Business Investment Committee.

Risk Management conducts reviews of all exposures within the Banking portfolio at least on an annual basis. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. It also reviews the fair value of equity investments and loans held at fair value.

Portfolio level reporting
Management provides the Board with quarterly updates on activities in WB&G. These updates form a part of wider reports on the development of the Bank's portfolio, which are discussed at the Audit Committee of the Board. The reports include a summary of key factors affecting the portfolio and provide analysis and commentary on trends within the portfolio and various sub-portfolios. They also include reporting on compliance with portfolio risk limits including an explanation of any limit breaches.

In addition, on an annual basis, Management provides the Board with narrative and financial reports in respect of the operational activities financed with, and the utilisation of, the resources of the Fund, including information on the current status of the approved, committed and disbursed resources.

EBRD internal ratings

Probability of default ratings (PD ratings)
The Bank assigns internal risk ratings to all counterparties in the portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. For operations in WB&G, probability of default ratings are normally capped by the rating of the territory's government, except where the Bank has recourse to a guarantor from outside the territory which may have a better rating.

The table below shows the Bank's internal probability of default rating scale from 1.0 (lowest risk) to 8.0 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P). References to risk rating through this text relate to probability of default ratings unless otherwise specified.

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment grade
2	1.7 2.0 2.3/2.5	AA+ AA AA-	Very strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	
5	4.7 5.0 5.3	BB+ BB BB-	Fair	Risk range 5
6	5.7 6.0 6.3	B+ B B-	Weak	Risk range 6
7	6.7 7.0 7.3	CCC+ CCC CCC-/CC/C	Special attention	Risk range 7

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
8	8.0	D	Non-performing	NPL/Credit-impaired assets

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 3 to 100 determined by the seniority of the instrument in which the Bank invested. 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 10.

Non-performing loans (NPL)

NPL definition
An asset is designated as non-performing when a client is deemed to be in default. For the purpose of financial reporting, the Bank defines default as when either the borrower is past due on payment to any material creditor for 90 days or more, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provision represents the amount of anticipated loss, based on multiple probability-weighted scenarios, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For NPL held at fair value through either profit and loss or other comprehensive income, the fair value of the loan equates to the expected recovery amount thus calculated.

Stage 1 and 2 provisions
In the performing amortised cost portfolio, provisions are held against expected credit losses. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority, the effective interest rate of the loan and the exposure at default.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified at the internal risk rating range of 3 (approximately A+ to A- in terms of S&P equivalent).

Loan investments at amortised cost
For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12 month horizon.

Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.

Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the loan investments and the associated impairment provisions for each of the Bank's internal risk rating categories.

	Amortised cost carrying value			Impairment	Total net of impairment	
Risk rating category	Stage 1 € 000	Total € 000	Total %	Stage 1 € 000	Total net of impairment € 000	Impairment provisions coverage %
6: Weak	3,209	3,209	13.2%	(13)	3,196	0.4%
7: Special Attention	21,071	21,071	86.8%	(544)	20,527	2.6%
At 31 December 2021	24,280	24,280	100.0%	(557)	23,723	

	Amortised cost carrying value			Impairment	Total net of impairment	
					Total net of	Impairment provisions
	Stage 1	Total	Total	Stage 1	impairment	coverage
Risk rating category	€ 000	€ 000	%	€ 000	€ 000	%
6: Weak	4,588	4,588	27.7%	(41)	4,547	0.9%
7: Special Attention	11,991	11,991	72.3%	(1,528)	10,463	12.7%
At 31 December 2020	16,579	16,579	100.0%	(1,569)	15,010	

At 31 December 2021 the Fund had security arrangements in place for €1.4 million of its disbursed loan investments (2020: €1.8 million). 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 Fund with rights and negotiating leverage that help mitigate the overall credit risk.

Loan investments at fair value through profit or loss
Set out below is an analysis of the loan investments for each of the Bank's internal risk rating categories.

	Fair value 2021	Fair value 2020
	€ 000	€ 000
7: Special Attention	292	282
At 31 December	292	282

Undrawn commitments and guarantees
Set out below is an analysis of the Bank's undrawn loan commitments and guarantees for each of the Bank's relevant internal risk rating categories.

	Undrawn loan commitments 2021	Guarantees 2021	Undrawn loan commitments 2020	Guarantees 2020
Risk category	€ 000	€ 000	€ 000	€ 000
6: Weak	-	2,650	-	2,444
7: Special attention	131	8,495	8,268	295
At 31 December	131	11,145	8,268	2,739

Concentration of credit risk exposure on loan investments
The following table breaks down the main credit risk exposures at the carrying amount by geographical region.

	Undrawn loan commitments and guarantees 2021	Loans 2021	Undrawn loan commitments and guarantees 2020	Loans 2020
	€ 000	€ 000	€ 000	€ 000
Egypt*	2,650	-	2,444	-
Jordan*	-	1,376	-	1,749
West Bank and Gaza	8,626	23,196	8,563	15,112
At 31 December	11,276	24,572	11,007	16,861

*These loans and guarantees are issued to companies headquartered in Egypt and Jordan, but will be used for projects benefiting the West Bank and Gaza.

The following table breaks down the main credit risk exposures at the carrying amount by industry.

	Undrawn loan commitments and guarantees 2021	Loans 2021	Undrawn loan commitments and guarantees 2020	Loans 2020
	€ 000	€ 000	€ 000	€ 000
Depository credit (banks)	11,145	21,135	10,886	13,628
Educational services	131	292	121	282
Health care and social assistance	-	1,376	-	1,749
Non-depository Credit (non-bank)	-	1,769	-	1,202
At 31 December	11,276	24,572	11,007	16,861

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The driver of market risk for the Fund is interest rate risk, foreign exchange risk and equity risk.

Market risk management and measurement

As discussed at the beginning of the risk management section, the Fund does not actively monitor or hedge against market risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The Fund's placements and floating rate loan investments are repriced to market interest rates within one and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

The Fund also has a fixed rate loan investment. Based on a reasonable basis point change in the underlying interest rates, the potential impact to the Fund's net profit is considered to be minimal.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's net exposure to foreign exchange risk is outlined in the table below.

	Euro 2021 € 000	United States dollars 2021 € 000	Israeli new shekel 2021 € 000	Total 2021 € 000
Total financial assets	39,016	58,184	28	97,228
Total financial liabilities	(865)	(29)	(136)	(1,030)
Net currency position at 31 December 2021	38,151	58,155	(108)	96,198

	Euro 2020 € 000	United States dollars 2020 € 000	Israeli new shekel 2020 € 000	Total 2020 € 000
Total financial assets	40,006	37,476	12	77,494
Total financial liabilities	(672)	(22)	(116)	(810)
Net currency position at 31 December 2020	39,334	37,454	(104)	76,684

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net loss, from a 8 per cent strengthening or weakening of the USD (2020: 7 per cent) is +/- €4.1 million (2020: €2.6 million).

Based on the average five year absolute rolling average movement in the ILS to euro exchange rate, the potential impact on the Fund's net profit, from a 5 per cent strengthening or weakening of the ILS is nil.

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, the potential impact to the Fund's net profit is considered to be minimal.

Interest rate benchmark reforms
In 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 (i.e. the overnight, one-month, three-month, six-month and 12-month settings) will cease to 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 in all new LIBOR loan signings fall-back language that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. Planned amendments to legacy LIBOR based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol which took effect 25 January 2021. For the loan portfolio, the Bank is commencing negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate. 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.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Rules and Regulations require that operations are financed from the resources of the Fund, which comprise of contributions received.
Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund also recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

Notes to the financial statements

1. Creation of the Trust Fund

The creation of the Fund was approved by the Board of Governors ("the Board") on 10 May 2017 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Guidelines ("the Rules") of the Fund. The Fund became effective after the Governors of the Bank adopted Resolution No. 203 *2016 Net Income Allocation* and Resolution No. 204 *EBRD's Engagement in the West Bank and Gaza* during its Annual Meeting on 10 May 2017.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

The Fund was established in accordance with Article 20.1 (vii) of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but the privileges and immunities available to the Bank are extended to the Fund.

The Rules allows the Board to terminate the Fund at any time.

2. Statement of Bank's responsibilities

The Bank is responsible for preparing the non-statutory financial statements in accordance with the basis of preparation and accounting policies on page 3.

The Bank must not approve the non-statutory financial statements unless it is satisfied that the non-statutory financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies on page 3. In preparing the non-statutory financial statements, the Bank is responsible for:

- safeguarding the assets of the Fund and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures;
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund;
- such internal control determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements in accordance with the accounting policies.

The Bank is responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund.

3. General administrative expenses and depreciation

The Fund bears the administrative expenses of the Bank in relation to the operations of the Fund and the direct costs associated with the origination and implementation of investment operations through the Fund.

	2021 € 000	2020 € 000
General administrative expenses	333	406
Depreciation charge	1	2
Year to 31 December	**334**	408

4. Technical cooperation expenses[6]

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
At 31 December 2019	961	(467)	494
Movement in the period	333	(525)	(192)
At 31 December 2020	1,294	(992)	302
Movement in the period	697	(458)	239
At 31 December 2021	**1,991**	**(1,450)**	**541**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December.

[6] Total technical cooperation expenses includes amounts accrued on the balance sheet.

5. Provisions for impairment of loan investments

Release/(charge) for the year	2021 € 000	2020 € 000
Impairment of loan investments at amortised cost in stage 1	1,122	(1,442)
Provisions for impairment of loan investments	**1,122**	**(1,442)**

Movement in provisions	2021 € 000	2020 € 000
At 1 January	(1,569)	(213)
Release/(charge) for the year to the income statement	1,122	(1,442)
Foreign exchange adjustments	(110)	86
At 31 December	**(557)**	**(1,569)**
Representing:		
Stage 1 provisions for loan investments at amortised cost	(557)	(1,569)
At 31 December	**(557)**	**(1,569)**

For the purpose of calculating impairment in accordance with IFRS 9, loans at amortised cost are grouped in three stages.

- Stage 1: Loans are originated in Stage 1. In this stage impairment is calculated on a portfolio basis and equates to the expected credit loss from these assets over a 12-month horizon.
- Stage 2: Loans for which there has been a significant increase in credit risk since inception, but which are still performing loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected credit loss from these assets.
- Stage 3: Loans for which there is specific evidence of impairment are grouped in Stage 3. In this stage the lifetime expected credit loss is specifically calculated for each individual asset.

Set out below is an analysis of the movements in loan investments and the associated impairment provisions for each of the stages of impairment. As at 31 December 2021, the Fund has no loan investments or undrawn commitments in Stage 2 or Stage 3 (2020: none).

Movement in provisions	12-month ECL Stage 1 and total 2021 € 000	12-month ECL Stage 1 and total 2020 € 000
At 1 January	(1,569)	(213)
New loans originated	(131)	(1,338)
Changes in model or risk parameters	1,253	(104)
Foreign exchange and other movements	(110)	86
At 31 December	**(557)**	**(1,569)**

Movement in loans at amortised cost	Loans Stage 1 and total 2021 € 000	Loans Stage 1 and total 2020 € 000
At 1 January	16,579	9,869
New banking loans originated	15,047	10,404
Repayments and prepayments	(9,197)	(2,420)
Movement in effective interest rate adjustment	(75)	(109)
Foreign exchange movements	1,926	(1,165)
At 31 December	**24,280**	**16,579**

6. Related parties

The Fund's only related party is the Bank.

The Bank is entitled to charge the Fund a management fee, as determined by the Board of Directors, each time a contribution is made to the Fund. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. Management fees of €450,000 (2020: €450,000) were paid during the period and there were no accrued management fees payable by the Fund to the Bank at period end. During the period the Bank incurred €333,000 (2020: €406,000) of general administrative expenses on behalf of the Fund, of which €124,000 (2020: €89,000) remains payable to the Bank at period end (note 3 and note 10).

External auditors' remuneration of €18,200 (2020: €8,600) is payable by the Bank from the management fee. The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP as the Bank's external auditors for the five-year period 2020-24 following the completion of Deloitte's second consecutive term in 2019. As part of the wider services provided to the Bank, the auditors have also performed non audit services in relation to the activities under the Fund.

7. Loan investments at fair value through profit and loss

	2021 € 000	2020 € 000
Carrying amount as at 1 January	282	-
Disbursements	-	308
Movement in fair value revaluation	(14)	-
Foreign exchange movement	24	(26)
Carrying amount as at 31 December	292	282

8. Loan investments at amortised cost

Operating assets	2021 € 000	2020 € 000
At 1 January	16,579	9,869
Disbursements	15,047	10,404
Repayments	(9,197)	(2,420)
Movement in effective interest rate adjustment	(75)	(109)
Foreign exchange movements	1,926	(1,165)
At 31 December	24,280	16,579
Impairment at 31 December	(557)	(1,569)
Total loan investments net of impairment at 31 December	23,723	15,010

9. Office equipment

Cost	Office equipment 2021 € 000	Leasehold improvements 2021 € 000	Total 2021 € 000
At 1 January	11	20	31
At 31 December	11	20	31
Depreciation			
At 1 January	(4)	(20)	(24)
Charge	(1)	-	(1)
At 31 December	(5)	(20)	(25)
Net book value at 31 December	6	-	6

Cost	Office equipment 2020 € 000	Leasehold improvements 2020 € 000	Total 2020 € 000
At 1 January	11	20	31
At 31 December	11	20	31
Depreciation			
At 1 January	(2)	(20)	(22)
Charge	(2)	-	(2)
At 31 December	(4)	(20)	(24)
Net book value at 31 December	7	-	7

10. Other financial liabilities

	2021 € 000	2020 € 000
General administrative expense payable	124	89
Accrued technical cooperation expense	693	582
Accrued negative interest rate expense	77	23
At 31 December	894	694

11. Undrawn commitments

Analysis by instrument	2021 € 000	2020 € 000
Undrawn commitments		
Loan investments at amortised cost	-	8,147
Loan investments at fair value through profit and loss	131	121
Technical cooperation expenses	302	302
At 31 December	433	8,570
Guarantees		
Trade finance guarantees	11,009	2,623
At 31 December	11,009	2,623
Undrawn commitments and guarantees at 31 December	11,442	11,193

12. Analysis of current and non-current assets and liabilities

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

Assets	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000	Current 2020 € 000	Non-current 2020 € 000	Total 2020 € 000
Placements with credit institutions	73,028	-	73,028	62,118	-	62,118
Interest receivable	152	-	152	68	-	68
Share investments	-	5	5	-	4	4
Trade finance guarantees	28	-	28	12	-	12
Loan investments at fair value through profit and los	292	-	292	282	-	282
Loan investments at amortised cost	12,009	12,271	24,280	8,381	8,198	16,579
Provisions for impairment	(276)	(281)	(557)	(793)	(776)	(1,569)
Office equipment	-	6	6	-	7	7
Total assets	85,233	12,001	97,234	70,068	7,433	77,501
Liabilities						
Accrued expenses	(894)	-	(894)	(694)	-	(694)
Trade finance guarantees	(136)	-	(136)	(116)	-	(116)
Total liabilities	(1,030)	-	(1,030)	(810)	-	(810)

13. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that 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 Fund has no direct assets in these economies. Any losses potentially associated with these developments will be recognised in the 2022 financial statements.

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.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The Trust Fund for the West Bank and Gaza

Report on the audit of the financial statements

Opinion

In our opinion, The Trust Fund for the West Bank and Gaza's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, which includes the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

As explained more fully in the Statement of Bank's Responsibilities in respect of the financial statements, the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable framework. The Bank is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

The Bank is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our responsibilities as auditors are limited to the assessment of the preparation of the financial statements in accordance with the basis set out in the notes to the financial statements, and which reflect disbursement of funds to initial recipients only. Consideration of disbursements (or the application or use thereof) beyond that point, and consideration regarding whether the disbursements are required for or will satisfy achievement of the Fund or donor's objectives, are the responsibility of the Bank and the donor and are beyond the scope of the financial statements and our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This report, including the opinion, has been addressed to the Governors and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 10 March 2017, and as set out in our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021 and 21 December 2021, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2022