European Bank
for Reconstruction and Development

The EBRD Community Special Fund

Annual Financial Report
31 December 2022

The EBRD Community Special Fund

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The EBRD Community Special Fund

Statement of comprehensive income

For the year ended 31 December 2022

	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Gift income	1	-
Interest expense	(1)	(5)
Donations	(896)	(765)
Management fees	(90)	-
Net loss and comprehensive expense for the year	(986)	(770)
Attributable to:		
Contributors	(986)	(770)

Balance sheet

At 31 December 2022

	Note	31 December 2022 € 000	31 December 2021 € 000
Assets			
Placements with credit institutions		372	493
Prepaid expenses		8	10
Contributions receivable		2,250	-
Total assets		2,630	503
Liabilities and contributors' resources			
Accrued expenses	3	176	63
Total liabilities		176	63
Contributions	4	6,000	3,000
Reserves and accumulated loss		(3,546)	(2,560)
Total contributors' resources		2,454	440
Total liabilities and contributors' resources		2,630	503

The EBRD Community Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Contributions € 000	Accumulated loss € 000	Total € 000
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
Contributions received and receivable	3,000	-	3,000
Net loss and total comprehensive expense for the year	-	(986)	(986)
At 31 December 2022	**6,000**	**(3,546)**	**2,454**

Statement of cash flows

For the year ended 31 December 2022

	€ 000	Year to 31 December 2022 € 000	€ 000	Year to 31 December 2021 € 000
Cash flows used in operating activities				
Net loss for the year	(986)		(770)	
Adjustment to reconcile net loss to net cash flows:				
Working capital adjustment				
Movement in prepaid expenses	2		(10)	
Movement in accrued expenses	113		(67)	
Net cash used in operating activities		(871)		(847)
Cash flows from financing activities				
Contributions received	750		-	
Net cash from financing activities		750		-
Net decrease in cash and cash equivalents		(121)		(847)
Cash and cash equivalents at the beginning of the year		493		1,340
Cash and cash equivalents at 31 December		372		493

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

Gordon Jones Director, Financial Control
Date: 5 April 2023

Fund purpose

The EBRD Community Special Fund ("the Fund") was established to support staff engagement in philanthropic, social and cultural activities relating to countries 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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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	The Fund anticipates no material impact as a result of adopting the changes to the standards.

Pronouncement	Nature of change	Potential impact
	• 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.	
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 anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

The classification of the 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 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.

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

Contributors' resources

The Fund recognises contributions received and receivable 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.

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.

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 up to two times the amount 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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. 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.

C. Significant Accounting estimates and critical judgements

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 countries in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The Fund does not have any significant accounting estimates for the years presented.

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 to be 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.

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 and Risk 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 2022 and 31 December 2021.

B. Market risk

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

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 2022 € 000	British pound 2022 € 000	Total 2022 € 000
Total assets	372	8	380
Total liabilities	(176)	-	(176)
Net currency position as at 31 December	196	8	204

	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	438	2	440

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 (2021: nil).

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.

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 5 Bank St, London E14 4BG.

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. None of these conditions have occurred, or are expected to occur in the foreseeable future, as at the date of issuance of this report.

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. Accrued expenses

This represents unpaid amounts that are eligible to be disbursed by the Fund to charitable organisations and a management fee payable to the Bank.

	31 December 2022	31 December 2021
	€ 000	€ 000
Donations payable	**108**	63
Accrued Management Fees	**68**	-
Total Accrued expenses	**176**	63

4. Contributions

A contribution of EUR 750,000 was received in 2022 (2021: nil). A contribution of EUR 2,250,000 was receivable as at 31 December 2022 (2021: nil).

5. Fair value of financial assets and liabilities

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

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

All assets and liabilities presented on the balance sheet are classified as current for 2021 and 2022.

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 2022.

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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

8. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions 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 EUR 90,000 was charged during the year (2021: nil). There was an accrued management fees payable of EUR 67,500 by the Fund to the Bank at 31 December 2022 (2021: nil).

External auditors' remuneration of €19,100 is payable by the Bank from the management fee (2021: €18,200). 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

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's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

EBRD-EU Special Fund

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31 December 2022

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EBRD-EU Special Fund

Statement of comprehensive income

For the year ended 31 December 2022	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest income			
From loans		1,374	2
From credit institutions		141	8
Total Interest		1,515	10
Technical cooperation expenses	3	(186)	(156)
Net gains from share investments	8	1,248	1,252
Foreign exchange movements		546	773
Other operating expenses	4	(4,528)	(394)
Impairment (charge)/release on loans	5	(267)	16
Impairment charge on placements with credit institutions		(192)	-
Concessional loan discounts	6	(15,239)	(898)
Net (loss)/gains and comprehensive (expense)/income for the year		(17,103)	603
Attributable to:			
Contributors		(17,103)	603

Balance sheet

At 31 December 2022	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions					
Placements with credit institutions		133,304		37,318	
Less: Provisions for impairment	7	(192)		-	
			133,112		37,318
Share investments	8		7,689		5,053
Deferred management fees			258		291
Loan investments					
Loans		89,968		776	
Less: Provisions for impairment	5	(297)		(30)	
			89,671		746
Other financial assets	9		391		-
Contributions receivable	10		-		100,000
Total assets			231,121		143,408
Liabilities					
Other liabilities	11		545		495
Concessional loan discounts	6		2,451		2,685
Contributors' resources			228,125		140,228
Total liabilities			231,121		143,408
Memorandum items					
Undrawn commitments	12		21,177		22,867

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Contributions € 000	Accumulated losses € 000	Total € 000
At 31 December 2020	45,260	(5,635)	39,625
Contributions receivable	100,000	-	100,000
Net gain and total comprehensive income for the year	-	603	603
At 31 December 2021	145,260	(5,032)	140,228
Contributions received	105,000	-	105,000
Net loss and total comprehensive expense for the year	-	(17,103)	(17,103)
At 31 December 2022	**250,260**	**(22,135)**	**228,125**

Statement of cash flows

For the year ended 31 December 2022	Year to 31 December 2022 € 000	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000	Year to 31 December 2021 € 000
Cash flows used in operating activities				
Net (loss)/gain for the year	(17,103)		603	
Non-cash items in the income statement				
Net gains from share investments	(1,248)		(1,252)	
Movement in effective interest rate adjustment[1]	(1,005)		(2)	
Foreign exchange movement	546		773	
Concessional loan discount	15,239		898	
Impairment charge on placements with credit institutions	192		-	
Impairment charge/(release) on loans	267		(16)	
	(3,112)		1,004	
Cash flows from the sale and purchase of operating assets				
Proceeds from return of capital on share investments	217		70	
Funds advanced for share investments	(1,607)		(1,668)	
Funds advanced for loans	(103,660)		(1,027)	
Working capital adjustment				
Deferred management fee	34		(291)	
Movement in interest income	(391)		-	
Other liabilities	50		(108)	
Net cash used in operating activities		(108,469)		(2,020)
Cash flows from financing activities				
Contributions received	205,000		-	
Net cash generated from financing activities		205,000		-
Net increase/(decrease) in cash and cash equivalents		96,531		(2,020)
Cash and cash equivalents at the beginning of the year		37,318		40,112
Effect of foreign exchange rate changes		(545)		(774)
Cash and cash equivalents at 31 December		133,304		37,318

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €985,000. This with loan interest income, make up the interest income from loans figure in the Statement of comprehensive income.

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 six 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;
- 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; and
- Enterprise Expansion Fund II under the Western Balkans Enterprise Development and Innovation Facility to boost the socio-economic, sustainable and smart development of the Western Balkans*

*A sixth agreement Enterprise Expansion Fund II under the Western Balkans Enterprise Development and Innovation Facility, was signed 8 December 2022.

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for accounting policies.

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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

Pronouncement	Nature of change	Potential impact
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.	The Fund anticipates no material impact as a result of adopting the standard.

Pronouncement	Nature of change	Potential impact
	Effective for annual reporting periods beginning on or after 1 January 2023.	
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 the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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 the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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.

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 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

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 the 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

[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.

losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of credit-impairment is identified, the asset is reallocated to Stage 3 as described below.

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

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

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

Stage assessment

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

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 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 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 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 original carrying value of the asset with the associated gains or losses on modification recognised in the statement of comprehensive income.

[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 a liability on the basis that, should a contributor choose to withdraw from a window[4] 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 reporting currency for the presentation of its financial statements is the euro, the functional currency of the Fund.

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 using the effective interest rate method. Interest income is recognised within 'interest income' in the statement of comprehensive income.

Negative interest was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. Negative interest rate expense is recognised in 'operating expenses' in the statement of comprehensive income.

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 of the contractual arrangement.

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 statement of comprehensive income 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.

[4] 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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant 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.

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.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 PD rating[5]	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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

Sustainable Infrastructure

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

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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%

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 2022 (2021: 84 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.

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 2022 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2022 €000	Change in provision 2022 €000	Change in provision 2022 %	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %
2022 portfolio provision (Stages 1 and 2)	297			30		
Staging						
All loans in Stage 1	297	-	-	30	-	-
All loans in Stage 2	3,931	3,634	1,224%	386	356	1,195%
PD Ratings						
All loans upgraded 1 notch	234	(63)	(21)%	17	13	(42)%
All loans downgraded 1 notch	410	113	38%	61	31	105%
All loans upgraded 3 notches	109	(188)	(63)%	13	(17)	(56)%
All loans downgraded 3 notches	5,835	5,538	1,865%	2,212	2,182	7,313%
Projected GDP						
Projected GDP increased by 1%	277	(20)	(7)%	29	(1)	(4)%
Projected GDP decreased by 1%	320	23	8%	31	1	5%
Projected GDP increased by 5%	233	(64)	(22)%	26	(4)	(14)%
Projected GDP decreased by 5%	411	114	38%	39	9	31%
LGD						
All loans decreased by 10%	231	(66)	(22)%	23	(7)	(22)%
All loans increased by 10%	363	66	22%	36	6	22%
EAD						
All undrawn commitments cancelled	256	(41)	(14)%	-	(30)	(100)%
All undrawn commitments disbursed within one month	324	27	9%	116	86	288%

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve a judgement which could have a material impact on the financial statements:

- Impairment of financial assets held at amortised cost – stage assessment: The determination of what constitutes a significant increase in credit risk is a critical judgement given the subjectivity involved in assessing whether an increase should be deemed "significant" and the potential impact this decision has on the measurement of the Fund's expected credit losses.

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

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[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 and Risk 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 12).

[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 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 and Risk 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	

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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant 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.

Impairment 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.

Risk rating category	Carrying value € 000	Impairment € 000	Total net of impairment € 000
2: Very strong	8,297	-	8,297
3: Strong	30,273	-	30,273
5: Weak	94,734	(192)	94,542
At 31 December 2022	133,304	(192)	133,112

Risk rating category	Carrying value € 000	Impairment € 000	Total net of impairment € 000
2: Very strong	9,059	-	9,059
3: Strong	28,259	-	28,259
5: Weak	-	-	-
At 31 December 2021	37,318	-	37,318

A 1 notch PD upgrade or downgrade on the credit institution risk rated 5 would decrease the impairment by €29,000, or increase the impairment by €28,000.

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 %
5: Fair	79,971	79,971	88.9%	(208)	79,763	0.3%
6: Weak	9,228	9,228	10.3%	(47)	9,181	0.5%
7: Special Attention	769	769	0.8%	(42)	727	5.5%
At 31 December 2022	**89,968**	**89,968**	**100.0%**	**(297)**	**89,671**	

	Amortised cost carrying value		Impairment	Total net of impairment	
Risk rating category	Stage 1 € 000	Total %	Stage 1 € 000	Total net of impairment € 000	Impairment provisions coverage %
5: Fair	405	52.2%	(2)	403	0.5%
6: Weak	371	47.8%	(28)	343	7.5%
At 31 December 2021	776	100.0%	(30)	746	

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.

	Undrawn loan commitments		Undrawn loan commitments	
Risk rating category	Stage 1 2022 € 000	Total 2022 € 000	Stage 1 2021 € 000	Total 2021 € 000
5: Fair	-	-	2,324	2,324
6: Weak	11,548	11,548	11,499	11,499
7: Special Attention	1,714	1,714	-	-
At 31 December	13,262	13,262	13,823	13,823

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 the carrying amount by country.

	Undrawn loan commitments 2022 € 000	Loans 2022 € 000	Undrawn loan commitments 2021 € 000	Loans 2021 € 000
Bulgaria	11,402	2,908	13,823	776
Greece	1,860	87,060	-	-
At 31 December	13,262	89,968	13,823	776

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

	Undrawn loan commitments 2022 € 000	Loans 2022 € 000	Undrawn loan commitments 2021 € 000	Loans 2021 € 000
Municipal and environmental infrastructure	11,402	2,908	13,823	776
Telecommunications, media and technology	-	79,982	-	-
Manufacturing and services	1,860	7,088	-	-
At 31 December	13,262	89,978	13,823	776

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 2022 € 000	Egyptian Pound 2022 € 000	Euro 2022 € 000	Polish Zloty 2022 € 000	United States Dollar 2022 € 000	Total 2022 € 000
Total assets	-	7,691	214,631	694	8,297	231,313
Total liabilities	-	-	(231,032)	(281)	-	(231,313)
Net currency position at 31 December	-	7,691	(16,401)	413	8,297	-

	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	139	4,914	(14,562)	450	9,059	-

The overall potential impact on the Fund’s net loss is €2,017,000 (2021: €1,677,000) based on the average five year absolute rolling average movement in the below currencies:

- No impact (2021: 8 per cent) strengthening or weakening in the Armenian dram to euro exchange rate;
- 24 per cent (2021: 27 per cent) strengthening or weakening in the Egyptian pound to euro exchange rate;
- 3 per cent (2021: 3 per cent) strengthening or weakening in the Polish zloty to euro exchange rate;
- 7 per cent (2021: 8 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.

	2022 € 000	2021 € 000
Armenia	-	139
Egypt	7,691	4,914
At 31 December	7,691	5,053

The overall potential impact on the Fund’s fair value of share investments is €1,153,000 (2021: €732,000) based on the average five year absolute rolling average movement in equity prices in the following indexes:

- 15 per cent (2021: 15 per cent) movement in Egyptian Stock Market EGX 30 Equity index
- No impact (2021: 17 per cent) movement in benchmark indices of regional countries[7].

C. Liquidity risk

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

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

D. Fair value of financial assets and liabilities

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

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

- 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 2022, 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 2022 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net loss in 2022	
	Carrying amount	Favourable change	Unfavourable change
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments	7,689	783	(1,016)
At 31 December 2022			

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

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 16 July 2018 and is administered, inter alia, in accordance with the AEB and under the terms of the Rules of the Fund. The Fund was established to receive, administer and manage Funds under certain EU and EU member states Contribution Agreements. As at 31 December 2022 there were four Agreements in place.

The Fund's principal office is located in London at 5 Bank St, E14 4BG.

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.

None of these conditions have occurred, or are expected to occur in the foreseeable future, as at the date of issuance of this report.

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 2021	862	(688)	174
Movement in the year	142	(186)	(44)
As at 31 December 2022	**1,004**	**(874)**	**130**

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.

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

4. Other operating expenses

	2022	2021
	€ 000	€ 000
Management fees	4,343	181
Negative interest expense on placements	185	213
At 31 December	**4,528**	394

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.

5. Provisions for impairment of loan commitments

	2022	2021
(Charge)/release for the year	€ 000	€ 000
Impairment of loan investments at amortised cost in stages 1 and 2	(267)	16
Provisions for impairment of loan commitments	(267)	16

Movement in provisions		
At 1 January	(30)	(46)
(Charge)/release for the year to the income statement	(267)	16
At 31 December	(297)	(30)

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 2022, all loan commitments are in Stage 1 (2021: all Stage 1).

	12 month ECL	
	Stage 1 and total	
	2022	2021
Movement in provisions	€ 000	€ 000
As at 1 January	(30)	(46)
New loan commitments	(234)	(3)
Changes in model or risk parameters	(33)	19
As at 31 December	(297)	(30)

	12 month ECL	
	Stage 1 and total	
	2022	2021
Movement in loans amortised cost	€ 000	€ 000
As at 1 January	776	-
Disbursements	103,660	1,027
Day one fair value adjustment	(15,473)	(254)
Movement in effective interest rate adjustment	1,005	3
As at 31 December	89,968	776

6. Concessional loan discounts

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

	2022 € 000	2021 € 000
At 1 January	(2,685)	(2,041)
Day one fair value adjustment	(15,239)	(898)
Derecognition of liability on loan disbursement	15,473	254
At 31 December	(2,451)	(2,685)

The change in concessional loan discount recognised in the statement of comprehensive income is comprised of the day one fair value adjustment above.

7. Provisions for impairment of placements with credit institutions

Charge for the year	2022 € 000	2021 € 000
Impairment of placements with credit institutions	(192)	-
Provisions for impairment of placements with credit institutions	(192)	-

Movement in provisions		
At 1 January	-	-
Charge for the year to the income statement	(192)	-
At 31 December	(192)	-

8. Share investments

	2022 € 000	2021 € 000
Outstanding disbursements		
At 1 January	5,237	3,639
Disbursements	1,605	1,668
Return of capital	(217)	(70)
At 31 December	6,625	5,237
Fair value adjustment		
At 1 January	(184)	(1,436)
Movement in fair value revaluation	1,248	1,252
At 31 December	1,064	(184)
Fair value at 31 December	7,689	5,053

9. Other financial assets

	2022 € 000	2021 € 000
Loan interest receivable	356	14
Placements with credit institutions interest receivable	35	-
At 31 December	391	14

10. 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
Enterprise Expansion Fund II under the Western Balkans Enterprise Development and Innovation Facility	EU	5,000	-	5,000
Hellenic Republic Deployment of Financing Under the Corporate Lending Facility	Hellenic Republic	200,000	-	200,000
Total contributions 31 December 2022		**250,260**	**-**	**250,260**

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
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

11. Other liabilities

	2022 € 000	2021 € 000
Accrued expenses	31	36
Technical cooperation expenses	283	384
Management fee payable	231	75
At 31 December	**545**	495

12. Undrawn commitments

	2022 € 000	2021 € 000
Undrawn share commitments	7,786	8,870
Loan commitments	13,262	13,823
Technical cooperation expenses	129	174
Undrawn commitments at 31 December	**21,177**	22,867

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

13. 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 2022 € 000	Non-current 2022 € 000	Total 2022 € 000
Placements with credit institutions	133,304	-	133,304
Share investments	-	7,689	7,689
Deferred management fee	34	224	258
Loan investments	-	89,968	89,968
Provisions for impairment of loan commitments	-	(297)	(297)
Interest receivable	391	-	391
Total assets	**133,729**	**97,584**	**231,313**

Liabilities			
Other liabilities	737	-	737
Concessional loan discounts	2,451	-	2,451
Contributors' resources	130,541	97,584	228,125
Total liabilities	**133,729**	**97,584**	**231,313**

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	134,172	6,056	140,228
Total liabilities	137,352	6,056	143,408

14. 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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

15. Related parties

The Fund's related parties are the Bank and the 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 statement of comprehensive income 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 €34,900 is payable by the Bank from the management fee (2021: €32,700). The external auditors are appointed by the Board of Directors, on the recommendation of the President. The external auditors may be appointed for terms of five years with a maximum of two consecutive terms. In 2019, the Board approved the appointment of PricewaterhouseCoopers LLP in their first term as the Bank's external auditors for the five-year period 2020-24.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The Balkan Region Special Fund

Annual Financial Report
31 December 2022

The Balkan Region Special Fund

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The Balkan Region Special Fund

Statement of comprehensive income

For the year ended 31 December 2022

	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Fee income		25	22
Other operating expenses	3	(42)	(58)
Financial guarantees movement		(33)	93
Net (loss)/profit and comprehensive (expense)/ income for the year		(50)	57
Attributable to:			
Contributors		(50)	57

Balance sheet

At 31 December 2022

	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			7,835		7,852
Other financial assets	4		8		12
Total assets			7,843		7,864
Liabilities					
Other financial liabilities	5		50		21
Contributors' resources					
Contributions	6	9,779		9,779	
Reserves and accumulated losses		(1,986)		(1,936)	
Total contributors' resources			7,793		7,843
Total liabilities			7,843		7,864
Memorandum items					
Guarantees*			7,645		7,661

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

The Balkan Region Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Contributions	Reserves and accumulated losses	Total
	€ 000	€ 000	€ 000
At 31 December 2020	9,779	(1,993)	7,786
Net profit and total comprehensive income for the year	-	57	57
At 31 December 2021	9,779	(1,936)	7,843
Net loss and total comprehensive expense for the year	-	(50)	(50)
At 31 December 2022	**9,779**	**(1,986)**	**7,793**

Statement of cash flows

For the year ended 31 December 2022

		Year to 31 December 2022		Year to 31 December 2021
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(50)		57	
Adjustment to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Financial guarantees movement	33		(93)	
Financial liabilities movement	(3)		-	
	(20)		(36)	
Working capital adjustment				
Movement in fee income	3		(3)	
Net cash used in operating activities		(17)		(39)
Net decrease in cash and cash equivalents		(17)		(39)
Cash and cash equivalents at beginning of year		7,852		7,891
Cash and cash equivalents at 31 December		7,835		7,852

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

Gordon Jones Director, Financial Control
Date: 5 April 2023

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 “Accounting policies and judgements” and “Significant accounting estimates” within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There were a number of amendments to existing standards, effective for the current reporting period, which have negligible or no impact on the Fund’s financial statements, namely:
- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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

Pronouncement	**Nature of change**	**Potential impact**
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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 the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations.	The Fund anticipates no impact as a result

Pronouncement	Nature of change	Potential impact
	Effective for annual reporting periods beginning on or after 1 January 2023.	of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. Significant accounting policies and judgements

Financial assets - classification and measurement

The classification of the 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 have been reformed. 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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. 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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant accounting estimates are 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.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions						
2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness						
2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

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

Sustainable Infrastructure						
2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions						
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%	0.02%	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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one-year probability of growth was 84 per cent at the end of 2022 (2021: 84 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 as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. Forward-looking country-specific probabilities of macroeconomic growth and recession using a three year GDP horizon are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-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 decrease the financial guarantee liability by €17,000 (2021: €8,000), or increase the financial guarantee liability by €373,000 (2021: €66,000).

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 are described in the significant accounting estimates section below, the Fund has deemed the following accounting policies to be critical as they involve a judgement 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.

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 and Risk 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 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 jointly with the Bank in the financing of investments in the countries 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 and Risk 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	BB+ BB	Fair	Risk range 5

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
	5.3	BB-		
6	5.7 6.0 6.3	B+ B B-	Weak	Risk range 6
7	6.7 7.0 7.3	CCC+ CCC CCC-/CC/C	Special attention	Risk range 7
8	8.0	D	Non-performing	NPL/Credit-impaired assets

Loss given default
The Bank assigns loss given default percentages on a scale of 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant 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.

Impairment 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 2022, 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 2022, the Fund's maximum exposure under such guarantees was €7.6 million (2021: €7.7 million).

No amounts are currently recognised as required to settle a guarantee commitment (2021: 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 2022, 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.

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 5 Bank St, E14 4BG.

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. None of these conditions have occurred, or are expected to occur in the foreseeable future, as at the date of issuance of this report

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:

	2022 € 000	2021 € 000
Audit fees	19	18
Negative interest expense	23	40
Year to 31 December	**42**	58

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditors' remuneration of €19,100 (2021: €18,200). The Bank pays the auditors' remuneration on behalf of the Fund, who in turn reimburses the Bank in full. At 31 December 2022 no fee is payable to the Bank in relation to the 2022 external audit (2021: nil).

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 in their first term as the Bank's external auditors for the five-year period 2020-24.

4. Other financial assets

	2022 € 000	2021 € 000
Fee income receivable from financial guarantees	5	8
Unamortised inception value of TFP financial guarantees	3	4
At 31 December	**8**	12

5. Other financial liabilities

	2022 € 000	2021 € 000
Financial guarantee liability	50	18
Negative interest expense payable	-	3
At 31 December	50	21

6. Contributions

Contributions received are set out below.

Cumulative contributions received	2022 € 000	2022 %	2021 € 000	2021 %
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 2022 € 000	Non-current 2022 € 000	Total 2022 € 000	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000
Placements with credit institutions	7,835	-	7,835	7,852	-	7,852
Other financial assets	8	-	8	11	1	12
Total assets	7,843	-	7,843	7,863	1	7,864
Liabilities						
Other financial liabilities	(50)	-	(50)	(21)	-	(21)
Total contributors' resources	(7,793)	-	(7,793)	(7,842)	(1)	(7,843)
Total liabilities	(7,843)	-	(7,843)	(7,863)	(1)	(7,864)

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 2022.

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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 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 2022, there were no management fees paid by the Fund to the Bank (2021: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2022 (2021: nil). Also during 2022, the Fund earned fees from the Bank in relation to TFP guarantees of €25,000 (2021: €19,000), of which €5,100 are receivable as at 31 December 2022 (2021: €8,300).

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

Contributions received from the contributors are outlined in note 6.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The Baltic Investment Special Fund

Annual Financial Report
31 December 2022

The Baltic Investment Special Fund

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Statement of comprehensive income

For the year ended 31 December 2022	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Net unrealised gains/(losses) from share investments		109	(1)
Other operating expenses	3	(19)	(18)
Net profit/(loss) and comprehensive income/(expense) for the year		90	(19)
Attributable to:			
Contributors		90	(19)

Balance sheet

At 31 December 2022	Note	31 December 2022 € 000	31 December 2021 € 000
Assets			
Placements with credit institutions		3	22
Share investments	4	686	577
Total assets		689	599
Liabilities and contributors' resources			
Contributors' resources			
Contributions	5	27	27
Reserves and retained earnings	6	662	572
Total contributors' resources		689	599
Total liabilities and contributors' resources		689	599

Statement of changes in contributors' resources

For the year ended 31 December 2022	Contributions € 000	Special reserve € 000	Retained earnings € 000	Total € 000
At 31 December 2020	27	173	418	618
Net loss and total comprehensive expense for the year	-	-	(19)	(19)
At 31 December 2021	27	173	399	599
Net profit and total comprehensive income for the year	-	-	90	90
At 31 December 2022	**27**	**173**	**489**	**689**

Statement of cash flows

For the year ended 31 December 2022	Year to 31 December 2022 € 000	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000	Year to 31 December 2021 € 000
Cash flows from operating activities				
Net profit/(loss) for the year	90		(19)	
Adjustment to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the Statement of Comprehensive Income				
Net unrealised (gains)/losses from share investments	(109)		1	
	(19)		(18)	
Net cash used in operating activities		(19)		(18)
Net decrease in cash and cash equivalents		(19)		(18)
Cash and cash equivalents at the beginning of the year		22		40
Cash and cash equivalents at 31 December		3		22

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

Gordon Jones Director, Financial Control
Date: 5 April 2023

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 "Significant accounting estimates" within the section for accounting policies.

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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	The Fund anticipates no material impact as a result of adopting the changes to the standards.

Pronouncement	Nature of change	Potential impact
	• 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.	
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 anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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 statement of comprehensive income.

Negative interest was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. 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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant 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 4. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

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 judgements applied in making accounting estimates are described in the Significant accounting estimates section above. There are no other judgements that have had a significant effect on the amounts recognised in the financial statements.

Risk management

Risk governance

The Fund is subject to the 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 and Risk 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. The rating of the financial institution 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 2022 and 31 December 2021.

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 inter est 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 2022 € 000	Equities 2021 € 000
Estonia	-	98
Latvia	686	306
Lithuania	-	173
At 31 December	686	577

The Fund is exposed to equity price risk in respect of its share investments in that its portfolio will be impacted by general volatility in equity markets reflective of its investments. Based on the absolute five year average movement in the OMX Riga Index, a movement in equity prices of 10 per cent (2021: 15 per cent[1]) would have an impact on the Fund’s net gain of +/- €68,000 (2021: +/- €89,000).

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.

At 31 December 2022 the Fund is exposed to liquidity risk as it has few liquid resources ($3,000) with which to pay its ongoing operational expenses. The Fund is currently in the process of liquidating its share investment and as a result it is not anticipated to suffer liquidity problems.

[1] 2021 movement was 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

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 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2022	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments and associated derivatives	686	146	(19)
At 31 December 2022	686	146	(19)

		Impact on net loss 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)

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 5 Bank Street, E14 4BG.

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:

	2022 € 000	2021 € 000
Audit fees	19	18
Year to 31 December	**19**	18

Other operating expenses comprise of external auditors' remuneration of €19,100 (2021: €18,200). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2022 no fee (2021: €nil) is payable to the Bank in relation to the 2022 external audit.

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 in their first term as the Bank's external auditors for the five-year period 2020-24.

4. Share investments

	2022	2021
	€ 000	€ 000
Outstanding disbursements		
At 1 January	536	536
Disbursements	-	-
At 31 December	536	536
Fair value adjustment		
At 1 January	41	42
Movement in fair value revaluation	109	(1)
At 31 December	150	41
Fair value at 31 December	686	577

5. Contributions

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

	Contributions	Share of reserves	Contributions	Share of reserves
	2022	2022	2021	2021
Cumulative contributions and share of reserves	€ 000	€ 000	€ 000	€ 000
Denmark	-	140	-	121
Finland	-	136	-	117
Iceland	27	17	27	16
Norway	-	122	-	105
Sweden	-	247	-	213
At 31 December	27	662	27	572

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 2022 and 2021 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 2022 (2021: 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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to 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 2022 the Fund paid the Bank no management fee for operating the Fund (2021: nil) and there was no accrued management fee payable by the Fund as at 31 December 2022 (2021: nil).

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

Contributions received from the contributors are outlined in note 5.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022 ;
- 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 Going concern section on page 3 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 auditors' 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The Central Asia Risk Sharing Special Fund

Annual Financial Report
31 December 2022

The Central Asia Risk Sharing Special Fund

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The Central Asia Risk Sharing Special Fund

Statement of comprehensive income

For the year ended 31 December 2022

	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest income		3	-
Fee income		8	4
Financial guarantees movement		4	(8)
Foreign exchange movement		24	31
Other operating expenses	3	(38)	(52)
Net gain/(loss) and comprehensive income/(expense) for the year		1	(25)
Attributable to:			
Contributors		1	(25)

Balance sheet

As at 31 December 2022

	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			7,098		7,105
Other financial assets	4		5		5
Total assets			7,103		7,110
Liabilities and contributors' resources					
Other financial liabilities	5		11		19
Contributors' resources					
Contributions	6	5,553		5,553	
Reserves and retained earnings		1,539		1,538	
Total contributors' resources			7,092		7,091
Total liabilities and contributors' resources			7,103		7,110
Memorandum items					
Guarantees*			808		1,476

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

The Central Asia Risk Sharing Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2022

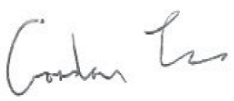
	Contributions € 000	Retained earnings € 000	Total € 000
At 31 December 2020	5,553	1,563	7,116
Net loss and total comprehensive expense for the year	-	(25)	(25)
At 31 December 2021	5,553	1,538	7,091
Net gain and total comprehensive income for the year	-	1	1
At 31 December 2022	**5,553**	**1,539**	**7,092**

Statement of cash flows

For the year ended 31 December 2022

	Year to 31 December 2022		Year to 31 December 2021	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit/(loss) for the year	1		(25)	
Adjustment to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Financial guarantees movement	(4)		8	
Foreign exchange movement	(24)		(31)	
	(27)		(48)	
Working capital adjustment				
Movement in fee income	-		2	
Movement in other payables	(3)		-	
Net cash used in operating activities		(30)		(46)
Net decrease in cash and cash equivalents		(30)		(46)
Cash and cash equivalents at the beginning of the year		7,105		7,119
Effect of foreign exchange rate changes		23		32
Cash and cash equivalents at 31 December		7,098		7,105

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



Gordon Jones Director, Financial Control
Date: 5 April 2023

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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.	The Fund anticipates no material impact as a result of adopting the changes to the standards.

Pronouncement	Nature of change	Potential impact
	Effective for annual reporting periods beginning on or after 1 January 2023.	
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 anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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 have been reformed. 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 2022 or 2021. The Fund's guarantees are provided on a first-loss basis.

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

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

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

Contributors' resources

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

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro, the functional currency of the Fund.

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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. 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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant accounting estimates are 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.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

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

Sustainable Infrastructure						
2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions						
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%	0.02%	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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one-year probability of growth was 84 per cent at the end of 2022 (2021: 84 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 as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. Forward-looking country-specific probabilities of macroeconomic growth and recession using a three year GDP horizon are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-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 decrease the financial guarantee liability by €8,000 (2021: €12,000), or increase the financial guarantee liability by €14,000 (2021: €18,000).

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve a judgement 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.

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 and Risk 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 countries 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 and Risk 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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant 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 materia l 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.

Impairment 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 2022, 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 2022, the Fund's maximum exposure under such guarantees was €808,000 (2021: €1,476,000).

There is no other guarantee exposure at 31 December 2022 (2021: nil).

No amounts are currently recognised as required to settle a guarantee commitment (2021: 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 2022 € 000	United States dollars 2022 € 000	Total € 000
Total assets	6,673	430	7,103
Total liabilities	(7,103)	-	(7,103)
Net currency position at 31 December	(430)	430	-

	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	(403)	403	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the funds net loss from a 7 per cent strengthening or weakening (2021: 8 per cent) is €30,000 (2021: €28,000).

C. Liquidity risk

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

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

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board at its meeting of 26 June 2002 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations ("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 5 Bank St, London E14 4BG.

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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report.

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:

	2022 € 000	2021 € 000
Audit fees	19	18
Negative interest rate expense	19	34
Year to 31 December	**38**	52

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditors' remuneration of €19,100 (2021: €18,200). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2022 no fee was payable in relation to the 2022 external audit (2021: nil).

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 in their first term as the Bank's external auditors for the five-year period 2020-24.

4. Other financial assets

	2022 € 000	2021 € 000
Fee income receivable from financial guarantees	1	1
Unamortised fair value of TFP financial guarantees	4	4
At 31 December	**5**	5

5. Other financial liabilities

	2022	2021
	€ 000	€ 000
Financial guarantee liability	11	16
Negative interest rate expense payable	-	3
At 31 December	11	19

6. Contributions

Contributions received are set out below.

	TFP	Total	Total
Cumulative contributions received	€ 000	€ 000	%
Germany	2,389	2,389	43.0
Switzerland	3,164	3,164	57.0
At 31 December 2022	5,553	5,553	100.0

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

No contributions were transferred during 2022 (2021: nil).

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 2022 and 2021.

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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 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 2022 (2021: nil), no management fees were paid by the Fund to the Bank (2021: nil). There was no accrued management fee payable by the Fund to the Bank at 31 December 2022 (2021: nil). Also during 2022, the Fund earned fees from the Bank in relation to TFP guarantees of €8,000 (2021: €4,000), of which €1,400 are receivable as at 31 December 2022 (2021: €600).

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

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

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The EBRD CIF Special Fund

Annual Financial Report
31 December 2022

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The EBRD CIF Special Fund

Income statement
For the year ended 31 December 2022

	Note	Year to 31 December 2022 € million	Year to 31 December 2021 € million
Interest income from loans		7	6
Technical cooperation expenses		(3)	(1)
Impairment (charge)/release on loan investments	6	(20)	3
Change in concessional loan discount	7	-	3
Foreign exchange movement		(2)	(4)
General administration expenses		(1)	(1)
Net (loss)/gain for the year		(19)	6
Attributable to:			
Contributors		(19)	6

Statement of comprehensive income
For the year ended 31 December 2022

	Year to 31 December 2022 € million	Year to 31 December 2021 € million
Net (loss)/gain for the year	(19)	6
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	10	13
Total comprehensive (expense)/income	(9)	19
Attributable to:		
Contributors	(9)	19

Balance sheet
At 31 December 2022

	Note	€ million	31 December 2022 € million	€ million	Restated* 31 December 2021 € million
Assets					
Placements with credit institutions			92		72
Contributions receivable	4		28		3
Loan investments					
Loans	5	133		136	
Less: Provisions for impairment	6	(32)		(12)	
			101		124
Total assets			221		199
Liabilities					
Other financial liabilities	8		1		-
Concessional loan discount	7		12		12
Contributors' resources			208		187
Total Liabilities			221		199
Memorandum items					
Undrawn commitments	10		39		33

*Refer to note 3

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Restated* Contributed Resources € million	General reserve € million	Restated* Total € million
At 31 December 2020	176	8	184
Net gain for the year	6	-	6
Other comprehensive income in the period	-	13	13
Contributors' resource transactions			
Contributions receivable	3	-	3
Distribution of funds to contributors	(19)	-	(19)
At 31 December 2021	166	21	187
Net loss for the year	(19)	-	(19)
Other comprehensive income in the period	-	10	10
Contributors' resource transactions			
Contributions received/receivable	49	-	49
Distribution of funds to contributors	(19)	-	(19)
At 31 December 2022	**177**	**31**	**208**

*Refer to note 3

Statement of cash flows

For the year ended 31 December 2022

	€ million	Year to 31 December 2022 € million	€ million	Year to 31 December 2021 € million
Cash flows from operating activities				
Net (loss)/gain for the year	(19)		6	
Adjustments to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	(5)		(4)	
Change in concessional loan discount	-		(3)	
Foreign exchange movement	2		4	
Impairment release/(charge) on loan investments	20		(3)	
	(2)		-	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	16		15	
Funds advanced for loans	(4)		(6)	
	12		9	
Movement in working capital				
Other financial liabilities	1		-	
Net cash generated from operating activities		11		9
Cash flows from financing activities				
Contributions received	24		8	
Distribution of funds to contributors	(19)		(19)	
Net cash generated from/(used in) financing activities		5		(11)
Net increase/(decrease) in cash and cash equivalents		16		(2)
Cash and cash equivalents at the beginning of the period		72		72
Effect of foreign exchange rate changes		4		2
Cash and cash equivalents at 31 December		92		72

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

Gordon Jones

Gordon Jones Director, Financial Control
Date: 5 April 2023

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €5 million. This, with loan interest income, make up the interest income from loans figure in the Income 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 suppo rt 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 p laced to manage its business risks and the going concern assessment was confirmed by the Bank on 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

There were three amendments to existing standards, effective for the current reporting period, which had no impact on the Bank's financial statements, namely:

- Amendments to IFRS 16: Leases
- Amendments to IFRS: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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
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 anticipates no material impact as a result of adopting the changes to these standards.
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 anticipates no material impact as a result of adopting the changes to these standards.
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.

Pronouncement	Nature of change	Potential impact
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.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standards.

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

The International Swaps and Derivatives Association (ISDA) published its IBOR fallback protocols, which are designed to address the transition for those derivative contracts that are still yet to transition to the new benchmarks, on 25 January 2021. However, market participants are encouraged to amend or close out existing IBOR contracts 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 has no exposure to significant benchmark interest rates subject to reform that have yet to transition (2021: €2.1 million) (USD LIBOR).

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

[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.

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 (€), the functional currency of the Bank.

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 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.

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 of the contractual arrangement.

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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant accounting estimates are outlined below.

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 2022, in addition to the modelled ECL, the Fund further included a post model adjustment (PMA) increasing the provision for impairments of amortised cost loan investments by €7.0 million at year end. The purpose of the adjustment was to cater for the uncertainties related to the war on Ukraine where the inputs for the ECL model are unable to appropriately reflect the impact and expectations of deterioration within affected portfolios. The PMA is scenario based, centralising on the assumption of a prolonged war. The loss assumptions in the different scenarios are heuristic in the absence of data.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

Sustainable Infrastructure

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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%

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

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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one-year probability of growth was 84 per cent at the end of 2022 (2021: 84 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 as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. Forward-looking country-specific probabilities of macroeconomic growth and recession using a three year GDP horizon are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

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.

Aside from through a post model adjustment, 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 2022 € million	Change in provision 2022 € million	Change in provision 2022 %	Recalculated provision 2021 € million	Change in provision 2021 € million	Change in provision 2021 %
2022 portfolio provision (Stages 1 and 2)	12	-	-	4	-	-
Staging						
All loans in Stage 1	9	(3)	(25)%	2	(2)	(50)%
All loans in Stage 2	15	3	25%	8	4	100%
PD Ratings						
All loans upgraded 1 notch	10	(2)	(17)%	2	(2)	(50)%
All loans downgraded 1 notch	14	2	17%	7	3	75%
All loans upgraded 3 notches	9	(3)	(25)%	1	(3)	(75)%
All loans downgraded 3 notches	19	7	58%	13	9	225%
Projected GDP						
Projected GDP increased by 1%	11	(1)	(8)%	3	(1)	(25)%
Projected GDP decreased by 1%	12	-	-	4	-	-
Projected GDP increased by 5%	11	(1)	(8)%	3	(1)	(25)%
Projected GDP decreased by 5%	13	1	8%	5	1	25%
LGD						
All loans decreased by 10%	11	(1)	(8)%	3	(1)	(25)%
All loans increased by 10%	13	1	8%	5	1	25%
EAD						
All undrawn commitments cancelled	11	(1)	(8)%	3	(1)	(25)%
All undrawn commitments disbursed within one month	12	-	-	4	-	-

With respect to Stage 3 provisions, a decrease of 10 percentage points on the current provision cover level would have an impact of €2.0 million (2021: €0.8 million).

With respect to the PMA due to the war in Ukraine, reasonable plausible alternative scenarios for the outcome of the war on Ukraine were modelled. Increased weighting towards a stressed scenario with an emphasis on significant deterioration in affected portfolios would have increased the PMA by €2.0 million whilst a higher emphasis on a prolonged, but less severe outcome would have decreased it by €1.5 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.

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 described in the Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve a judgement which could have a material impact on the financial statements:

- Impairment of financial assets held at amortised cost – stage assessment: The determination of what constitutes a significant increase in credit risk is a critical judgement given the subjectivity involved in assessing whether an increase should be deemed "significant" and the potential impact this decision has on the measurement of the 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.

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 and Risk 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 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.

[4] 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 and Risk 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 and Risk 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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant accounting estimates and critical judgements" 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 Ban k to actions such as realising security, if held.

Impairment methodology
A specific provision is raised on all NPL accounted for at amortised cost. The provisio n 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.

As a deviation from this approach, for those NPLs based in Ukraine, in the absence of reasonable exit scenarios and where there is no clear evidence or information about the current or future state of the business, the Bank has applied a collective impa irment approach. Fixed percentage ECLs have been applied depending on the sector of the business and the geographical l ocation of and known level of damage to its assets. The ECL rates applied using this methodology range from 40 per cent to 100 per cent. The methodology as well as the percentages are reviewed on a quarterly basis.

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 (approx imately 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	2022 € million	2021 € million
2: Very strong	91	71
7: Special attention	1	1
At 31 December	**92**	**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 perfo rming loans are grouped in Stage 2. In this stage impairment is calculated on a portfolio basis and equates to the full life expected cre dit loss from these assets.

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

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

	Amortised cost carrying value					Impairment			Total net of impairment	
			Credit impaired					Credit impaired	Total net of	Impairment provisions
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	impairment	coverage
Risk rating category	€ million	€ million	€ million	€ million	Total %	€ million	€ million	€ million	€ million	%
5: Fair	-	12	-	12	9.0%	-	-	-	12	-
6: Weak	40	26	-	66	49.6%	-	(1)	-	65	1.5%
7: Special Attention	9	21	-	30	22.6%	(1)	(10)	-	19	36.7%
8: Non-performing	-	-	25	25	18.8%	-	-	(20)	5	80.0%
At 31 December 2022	49	59	25	133	100.0%	(1)	(11)	(20)	101	

	Amortised cost carrying value					Impairment			Total net of impairment	
			Credit impaired					Credit impaired	Total net of	Impairment provisions
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	impairment	coverage
Risk rating category	€ 000	€ 000	€ 000	€ 000	Total %	€ 000	€ 000	€ 000	€ 000	%
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	

At 31 December 2022 the Fund had security arrangements in place for €68.0 million of its disbursed loan investments (2021: €70.1 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 2022 there were distressed restructured loans[5] with a disbursed value of €13.0 million (2021: €20.0 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.

	Undrawn loan commitments				Undrawn loan commitments		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Total
	2022	2022	2022	2022	2021	2021	2021
Risk rating category	€ million	€ million	€ million	€ million	€ million	€ million	€ million
6: Weak	5	-	-	5	1	-	1
7: Special Attention	11	15	-	26	28	1	29
8: Non-performing	-	-	4	4	-	-	-
At 31 December	16	15	4	35	29	1	30

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

[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.

Concentration of credit risk exposure

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

	Undrawn loan commitments 2022 € million	Loans 2022 € million	Undrawn loan commitments 2021 € million	Loans 2021 € million
Kazakhstan	1	33	1	32
Morocco	5	7	-	6
Tajikistan	9	-	9	-
Türkiye	-	62	-	61
Ukraine	20	31	20	37
At 31 December	35	133	30	136

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

	Undrawn loan commitments 2022 € million	Loans 2022 € million	Undrawn loan commitments 2021 € million	Loans 2021 € million
Agribusiness	-	11	-	11
Depository credit (banks)	-	43	-	43
Manufacturing and Services	5	21	-	19
Municipal and environmental infrastructure	13	14	13	13
Power and energy	15	34	16	39
Transport	2	10	1	11
At 31 December	35	133	30	136

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 2022, the Fund has fixed rate loan investments of €109.0 million (2021: €119.3 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 2022 € million	United States dollars 2022 € million	Tajikistani Somoni 2022 € million	Total € million
Total assets	55	165	1	221
Total liabilities	(126)	(95)	-	(221)
Net currency position at 31 December	(71)	70	1	-

	Euro 2021 € million	*Restated United States dollars 2021 € million	Tajikistani Somoni 2021 € million	*Restated Total 2021 € million
Total assets	64	135	-	199
Total current liabilities	(120)	(79)	-	(199)
Net currency position at 31 December	(56)	56	-	-

*Refer to note 3

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentation currency movement, from a 7 per cent strengthening or weakening (2021: 8 per cent) is €4.0 million (2021: €4.0 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 (that is the overnight, one-month, three-month, six-month and 12-month settings) will no longer be published after 30 June 2023.

To date the Bank has successfully incorporated fall-back language in all new LIBOR loan signings that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. In addition, from January 2022, the Bank has not signed any new loans linked to LIBOR. Planned amendments to legacy LIBOR-based contracts have also been formulated. For the loan portfolio, the Bank has commenced negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate and IT system changes required to accurately capture the new replacement reference rates were completed during 2021. During 2022 many of the affected transactions have been migrated and rebooked, with the remaining transactions expected to be fully transitioned by 30 June 2023.

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 5 Bank Street, E14 4BG.

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.

None of these conditions have occurred, or are expected to occur in the foreseeable future, as at the date of issuance of this report.

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. Restatement

The Fund records contributions as a receivable and a liability on the balance sheet on the date of project approval by Board Board of the Bank following receipt of a letter of commitment from the Contributor. In 2020 and 2021 the presentation of amounts receivable were misstated as a result of an error.

In the restated 2021 Balance Sheet, contributions receivable reflect a reduction of EUR 29 million to EUR 3 million compared to what was previously reported, with a corresponding reduction in contributors resources in the Statement of Contributors Resources in 2020 and 2021.

	Previous 2020 € million	Previous 2021 € million	Adjustment 2020 € million	Adjustment 2021 € million	Restated 2020 € million	Restated 2021 € million
Contributions receivable	36	32	(28)	(29)	8	3
Contributors' resources	212	216	(28)	(29)	184	187

4. Contributions

	2022 € million	2022 $ million	*Restated 2021 € million	*Restated 2021 $ million
Cumulative contributions received				
Clean Technology Fund	344	456	309	436
Strategic Climate Fund	40	43	33	37
Contributions received at 31 December	384	499	342	473
Contributions receivable				
Clean Technology Fund	27	28	3	4
Strategic Climate Fund	1	1	-	-
Contributions receivable at 31 December	28	29	3	4
Total contributions				
Clean Technology Fund	371	484	312	440
Strategic Climate Fund	41	44	33	37
Total contributions at 31 December	412	528	345	477

*Refer to note 3

During 2022, €19 million was distributed to contributors (2021: €19 million).

5. Loan investments

	2022 € million	2021 € million
At 1 January	136	135
Disbursements	4	6
Day one fair value adjustment	-	(2)
Movement in effective interest rate adjustment	5	4
Repayments	(16)	(15)
Write offs	(2)	0
Foreign exchange movements	6	8
At 31 December	133	136
Impairment at 31 December	(32)	(12)
Total loan investments net of impairment at 31 December	101	124

6. Provision for impairment of loan investments

(Charge)/release for the year	2022 € million	2021 € million
Impairment of loan investments at amortised cost in stages 1 and 2	(6)	1
Impairment of loan investments at amortised cost in stage 3	(14)	2
Provisions for impairment of loan investments	(20)	3
Movement in provisions		
At 1 January	(12)	(15)
(Charge)/release for the year to the income statement	(20)	3
At 31 December	(32)	(12)
Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	(12)	(4)
Stage 3 provisions for loan investments at amortised cost	(20)	(8)
At 31 December	(32)	(12)

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.

	12-month ECL	Lifetime ECL	Lifetime ECL	
	(Stage 1)	(Stage 2)	(Stage 3)	Total
	2022	2022	2022	2022
Movement in provisions	**€ million**	**€ million**	**€ million**	**€ million**
As at 1 January	(1)	(3)	(8)	(12)
Transfer to stage 2 - significant increase in credit risk	-	(17)	-	(17)
Transfer to stage 3 - credit impaired	-	8	(7)	1
ECL release - write offs	-	-	2	2
Changes in model or risk parameters	-	1	(7)	(6)
As at 31 December	(1)	(11)	(20)	(32)

	12-month ECL	Lifetime ECL	Lifetime ECL	
	(Stage 1)	(Stage 2)	(Stage 3)	Total
	2021	2021	2021	2021
Movement in provisions	€ million	€ million	€ million	€ million
As at 1 January	(2)	(3)	(10)	(15)
Transfer to stage 2 - significant increase in credit risk	-	(1)	-	(1)
Transfer to stage 3 - credit impaired	-	1	-	1
Changes in model or risk parameters	1	-	3	4
As at 31 December	(1)	(3)	(8)	(12)

	Loans	Loans	Loans	
	Stage 1	Stage 2	Stage 3	Total
	2022	2022	2022	2022
Movement in loans at amortised cost	**€ million**	**€ million**	**€ million**	**€ million**
As at 1 January	54	67	15	136
New banking loans originated	4	-	-	4
Transfer to stage 1	8	(8)	-	-
Transfer to stage 2 - significant increase in credit risk	(7)	7	-	-
Transfer to stage 3 - credit impaired	(10)	(5)	15	-
Repayments	(3)	(9)	(4)	(16)
Write offs	-	-	(2)	(2)
Movement in effective interest rate adjustment	2	2	1	5
Foreign exchange and other movements	1	5	-	6
As at 31 December	49	59	25	133

Movement in loans at amortised cost	Loans Stage 1 2021 € million	Loans Stage 2 2021 € million	Loans Stage 3 2021 € million	Total 2021 € million
As at 1 January	92	20	23	135
New banking loans originated	5	1	-	6
Transfer to stage 2 - significant increase in credit risk	(41)	41	-	-
Transfer to stage 3 - credit impaired	-	3	(3)	-
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 movements	4	4	-	8
As at 31 December 2021	54	67	15	136

7. Concessional loan discount

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

	2022 € million	2021 € million
Day one fair value	-	(1)
Release of discount on loan cancellation	-	4
Change in concessional loan discount	-	3

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

	2022 € million	2021 € million
At 1 January	12	16
Day one fair value adjustment	-	(3)
Derecognition of liability on loan disbursement	-	(2)
Foreign exchange movements	-	1
At 31 December	12	12

8. Other financial liabilities

	2022 € million	2021 € million
Technical cooperation expenses payable	1	-
At 31 December	1	-

9. 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 2022 € million**	**Non-current 2022 € million**	**Total 2022 € million**	Restated* Current 2021 € million	Restated* Non-current 2021 € million	Restated* Total 2021 € million
Placements with credit institutions	92	-	92	72	-	72
Contributions receivable	23	5	28	3	-	3
Loans	9	124	133	4	132	136
Provisions for impairment	(2)	(30)	(32)	(1)	(11)	(12)
Total assets	122	99	221	78	121	199
Liabilities						
Other financial liabilities	(1)	-	(1)	-	-	-
Concessional loan discount	(12)	-	(12)	(12)	-	(12)
Contributors' resources	(109)	(99)	(208)	(66)	(121)	(187)
Total liabilities	(122)	(99)	(221)	(78)	(121)	(199)

10. Undrawn commitments

	2022 € million	2021 € million
Loan investments	35	30
Incentive fees	-	2
Technical cooperation expenses	4	1
Undrawn commitments at 31 December	39	33

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 2022.

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 2022.

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

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 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 contributors.

Fees are paid to the Bank based on budgeted expenditure as approved by the Trustee for the CIF. During 2022 the Bank incurred €0.8 million of reimbursable expenses on behalf of the Fund (2021: €0.8 million), of which €0.4 million remain payable at year end (2021: €0.3 million). Included in this amount are audit fees of €26,000 (2021: €23,700). Audit fees of €26,000 remain payable to the Bank at year end (2021 Nil). 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

[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's (the 'Fund') non-statutory financial statements:

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund)

Annual Financial Report
31 December 2022

The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund)

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The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund)

Statement of comprehensive income

For the year ended 31 December 2022

	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest and other similar income			
From loans		902	662
From credit institutions		1,800	8
Fee income		29	8
Foreign exchange movement		2,329	1,127
Other operating expenses	3	(14,987)	(18)
Impairment release on loan investments	4	710	2,310
Financial guarantees movement	5	(70,496)	-
Net (loss)/profit and total comprehensive (expense)/income for the year		(79,713)	4,097
Attributable to:			
Contributors		(79,713)	4,097

Balance sheet

At 31 December 2022

	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			833,148		24,622
Interest receivable			586		92
Loan investments					
Loans	4	27,770		31,266	
Less: Provisions for impairment	4	(8,163)		(8,377)	
			19,607		22,889
Contributions receivable			4,034		-
Total assets			857,375		47,603
Negative interest expense payable			-		2
Management fee payable			3,852		-
Financial guarantee liability	6		70,491		-
Contributors' resources			783,032		47,601
Total liabilities and contributors' resources			857,375		47,603
Memorandum items					
Undrawn commitments	7		215,374		-

The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund)

Statement of changes in contributors' resources

For the year ended 31 December 2022

		Contributions	Accumulated losses	Total
		€ 000	€ 000	€ 000
Balance at 31 December 2020		46,797	(3,293)	43,504
Net profit and total comprehensive income for the year		-	4,097	4,097
Balance at 31 December 2021		46,797	804	47,601
Net loss and total comprehensive expense for the year		-	(79,713)	(79,713)
Contributions received and receivable		837,008	-	837,008
Distribution to other donor funds	7	(21,864)	-	(21,864)
Balance at 31 December 2022		**861,941**	**(78,909)**	**783,032**

Statement of cash flows

For the year ended 31 December 2022

	Year to 31 December 2022		Year to 31 December 2021	
	€ 000	€ 000	€ 000	€ 000
Cash flows (used in)/from operating activities				
Net (loss)/profit for the year	(79,713)		4,097	
Adjustments to reconcile net (loss)/profit to net cash flows:				
Non-cash items in the income statement				
Interest income unwinding discount[1]	(85)		(101)	
Effective interest rate adjustment on loans[1]	(132)		(7)	
Financial guarantees movement	70,496		-	
Foreign exchange movement	(2,329)		(1,127)	
Impairment release on loan investments	(710)		(2,310)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	8,484		9,103	
Funds advanced for loans	(4,313)		(6,429)	
Front end fees received	17		-	
Working capital adjustment				
Movement in interest income	(494)		15	
Movement in interest payable	(2)		2	
Movement in management fee payable	3,852		-	
Movement in fee income	-		1	
Net cash (used in)/from operating activities		(4,929)		3,244
Cash flows from financing activities				
Contributions received	832,974		-	
Distributed to other donor funds	(21,864)		-	
Net cash from financing activities		811,110		-
Net increase in cash and cash equivalents		806,181		3,244
Cash and cash equivalents at the beginning of the year		24,622		20,254
Effect of foreign exchange rate changes		2,345		1,124
Cash and cash equivalents at 31 December		833,148		24,622

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

Gordon Jones Director, Financial Control
Date: 5 April 2023

[1] Loan interest income, the effective interest rate adjustment on loans and the unwinding discount all make up the interest income from loans figure in the income statement but have been separated for presentation in the cash flow statement

The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund)

Fund purpose

The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund) ("the Fund") was originally established to support financial intermediaries and private enterprises and to support green economy investments in the countries 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. Following an amendment signed 6 July 2022, the Fund will continue to do this, as well as provide support to the Bank's crisis response efforts through concessional loans, funded guarantees oand co-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 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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and" Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 1 and IFRS Practice	The amendments aim to help entities provide accounting policy disclosures that are more useful by:	The Fund anticipates no material impact as a result of

Pronouncement	Nature of change	Potential impact
Statement 2: Disclosure of Accounting Policies	• 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.	adopting the changes to the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standards.

B. 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

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 the reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, EUR and CHF LIBORs and the one-week and two-month USD LIBORs were no longer published. Some GBP and JPY LIBOR settings (one-month, three-month and six-month) continue to be published using a synthetic methodology. The publication of synthetic JPY LIBOR will cease after 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) will no longer be published after 30 June 2023.

The International Swaps and Derivatives Association (ISDA) published its IBOR fallback protocols, which are designed to address the transition for those derivative contracts that are still yet to transition to the new benchmarks. 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 €8.9 million (2021: €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 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 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 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 to 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.

Financial guarantees

The Fund's resources may be used to guarantee a proportion of principal losses of loan investments made by the Bank under specific signed loan agreements.

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 statement of comprehensive income.

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 and receivable 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.

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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. Negative interest rate 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 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.

C. Significant accounting estimates and critical judgements

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:

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.

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.

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 sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

[3] The Bank's internal PD rating scale is explained in detail on page 13 of the Risk Management section.

Sustainable Infrastructure

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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%

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 2022 (2021: 84 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.

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 2022 €000	Change in provision 2022 €000	Change in provision 2022 %	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %
2022 portfolio provision (Stages 1 and 2)	276			328	0	0%
Staging						
All loans in Stage 1	174	(102)	(37)%	201	(127)	(39)%
All loans in Stage 2	316	40	15%	425	97	30%
PD Ratings						
All loans upgraded 1 notch	180	(96)	(35)%	185	(143)	(44)%
All loans downgraded 1 notch	367	91	33%	459	131	40%
All loans upgraded 3 notches	42	(234)	(85)%	50	(278)	(85)%
All loans downgraded 3 notches	505	229	83%	636	308	94%
Projected GDP						
Projected GDP increased by 1%	256	(20)	(7)%	312	(16)	(5)%
Projected GDP decreased by 1%	298	22	8%	346	18	5%
Projected GDP increased by 5%	213	(63)	(23)%	275	(53)	(16)%
Projected GDP decreased by 5%	379	103	38%	436	108	33%
LGD						
All loans decreased by 10%	214	(62)	(22)%	256	(72)	(22)%
All loans increased by 10%	337	61	22%	400	72	22%
EAD						
All undrawn commitments cancelled	275	(1)	(0)%	328	-	0%
All undrawn commitments disbursed within one month	276	0	0%	328	-	0%

With respect to Stage 3 provisions, a decrease of ten percent on the current provision cover level would reduce the ECL by - €790,000 (2021: - €805,000).

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 €2,220,000 (2021: nil). Conversely, a 3 notch PD downgrade would have increased the ECL of the financial guarantee liability €1,140,000 (2021:nil).

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 +€413,000/-€413,000 (2021: nil) on the Fund's financial guarantee liability.

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve a judgement which could have a material impact on the financial statements:

- Impairment of financial assets held at amortised cost – stage assessment: The determination of what constitutes a significant increase in credit risk is a critical judgement given the subjectivity involved in assessing whether an increase should be deemed "significant" and the potential impact this decision has on the measurement of the 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.

The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund)

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[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 and Risk 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 and guarantees (see page 14).

[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 and Risk 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	

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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant accounting estimates and critical judgements" 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.

Impairment 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	2022 € 000	2021 € 000
2: Very strong	217,116	17,333
3: Strong	616,032	7,289
At 31 December	833,148	24,622

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

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

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

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

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

	Amortised cost carrying value					Impairment			Total net of impairment	
			Credit impaired					Credit impaired	Total net of	Impairment provisions
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	impairment	coverage
Risk rating category	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**Total %**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**%**
4: Good	1,889	-	-	1,889	6.8%	(1)	-	-	1,888	0.1%
5: Fair	7,272	-	-	7,272	26.2%	(5)	-	-	7,267	0.1%
6: Weak	4,882	-	-	4,882	17.6%	(19)	-	-	4,863	0.4%
7: Special Attention	711	5,064	-	5,775	20.8%	(8)	(243)	-	5,524	4.3%
8: Non-performing	-	-	7,952	7,952	28.6%	-	-	(7,887)	65	99.2%
At 31 December 2022	**14,754**	**5,064**	**7,952**	**27,770**	**100.0%**	**(33)**	**(243)**	**(7,887)**	**19,607**	

	Amortised cost carrying value					Impairment			Total net of impairment	
			Credit impaired					Credit impaired	Total net of	Impairment provisions
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	impairment	coverage
Risk rating category	€ 000	€ 000	€ 000	€ 000	Total %	€ 000	€ 000	€ 000	€ 000	%
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	2,994	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	19,592	3,624	8,049	31,266	100.0%	(111)	(217)	(8,049)	22,889	

At 31 December 2022 the Fund had security arrangements in place for €4.7 million of its disbursed loan investments (2021: €5.0 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.

Financial guarantee liabilities and undrawn loan and guarantee commitments
Set out below is an analysis of the Funds undrawn commitments for loan for each of the Bank relevant internal risk rating categories.

	Financial guarantee liabilities				Undrawn loan and guarantee commitments			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Risk rating category	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
6: Weak	-	-	-	-	900	-	-	900
7: Special Attention	3,016	3,116	-	6,132	38,859	26,557	-	65,416
8: Non-performing	-	-	64,359	64,359	-	-	149,058	149,058
At 31 December	3,016	3,116	64,359	70,491	39,759	26,557	149,058	215,374

There were no financial guarantees or undrawn loan or guarantee commitments as at 31 December 2021.

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

Guarantees 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. At 31 December 2022, the total eligible loans and guarantee commitments outstanding under the Bank guarantees is €741 million (2021: nil), of which €201 million has disbursed. At 31 December 2022, the maximum exposure of eligible operations covered by the guarantees is €285 million (2021: nil). The guarantee liability on the balance sheet of €71 million (2021: nil) 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.

Concentration of credit risk exposure

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

	Loans 2022 € 000	Financial guarantee liabilities 2022 € 000	Undrawn loan and guarantee commitments 2022 € 000	Total 2022 € 000	Loans 2021 € 000	Financial guarantee liabilities 2021 € 000	Undrawn loan and guarantee commitments 2021 € 000	Total 2021 € 000
Azerbaijan	2,706	-	-	2,706	2,599	-	-	2,599
Lebanon	5,092	-	-	5,092	5,450	-	-	5,450
Moldova	975	-	-	975	1,485	-	-	1,485
Romania	9,161	-	-	9,161	13,740	-	-	13,740
Türkiye	1,727	-	-	1,727	2,858	-	-	2,858
Turkmenistan	154	-	-	154	644	-	-	644
Uzbekistan	3,866	-	900	4,766	-	-	-	-
Ukraine	4,089	70,491	214,474	289,054	4,490	-	-	4,490
At 31 December	27,770	70,491	215,374	313,635	31,266	-	-	31,266

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

	Loans 2022 € 000	Financial guarantee liabilities 2022 € 000	Undrawn loan and guarantee commitments 2022 € 000	Total 2022 € 000	Loans 2021 € 000	Financial guarantee liabilities 2021 € 000	Undrawn loan and guarantee commitments 2021 € 000	Total 2021 € 000
Agribusiness	10,810	614	9,959	21,383	9,384	-	-	9,384
Depository credit (banks)	16,960	4,041	35,458	56,459	17,525	-	-	17,525
Energy	-	60,000	90,000	150,000	-	-	-	-
Leasing finance	-	1,249	13,627	14,876	-	-	-	-
Municipal and environmental infrastructure	-	228	7,272	7,500	-	-	-	-
Natural resources	-	4,359	59,058	63,417	-	-	-	-
Non-depository credit (non-bank)	-	-	-	-	4,357	-	-	4,357
At 31 December	27,770	70,491	215,374	313,635	31,266	-	-	31,266

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 2022, the Fund has fixed rate loan investments of €3,870,000 (2021: €3,920,000). 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 2022 € 000	Romanian Leu 2022 € 000	United States dollars 2022 € 000	Danish krone 2022 € 000	Ukrainian Hryvnia 2022 € 000	Total € 000
Total assets	704,851	5,787	142,703	4,034	-	857,375
Total liabilities	(856,973)	-	(338)	-	(64)	(857,375)
Net currency position at 31 December 2022	(152,122)	5,787	142,365	4,034	(64)	-

	Euro 2021 € 000	Romanian Leu 2021 € 000	United States dollars 2021 € 000	Danish krone 2021 € 000	Ukrainian Hryvnia 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	-	-	-

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:

- €9,982,000 (2021: €1,080,000) from a 7 per cent strengthening or weakening in the United States dollar to Euro exchange rate (2021: 8 per cent)
- €77,000 (2021: €89,000) from a 1 per cent strengthening or weakening in the Romanian Leu to Euro exchange rate (2021: 1 per cent).
- €13,000 (2021: nil) from a 0.2 per cent strengthening or weakening in the Danish Krone to Euro exchange rate (2021: nil).
- €98,000 (2021: nil) from a 19 per cent strengthening or weakening in the Danish Krone to Euro exchange rate (2021: nil).

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 no longer be published after 30 June 2023.

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 2022, the Fund had nine 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;
- The ICDF Innovation and Sustainability in Agribusiness Value Chains Account (AVC), loan Sub-account;
- The Ukraine Response Platform – Pooled Sub-Account;
- The Ukraine Response Platform – Individual Sub-Account USA; and
- The Ukraine Response Platform – Individual Sub-Account Netherlands
- The Ukraine Response Platform – Individual Sub-Account Norway
- The Ukraine Response Platform – Individual Sub-Account Denmark

*The USAID have chosen to withdraw from the Fund but have some remaining resources to be distributed.

Five Sub-accounts were opened during 2022.

The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund)

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special 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".

On 6 July 2022 the Rules and Regulations of the Fund were further amended, changing the name of the Fund from "The Financial Intermediary and Private Enterprises Investment Special Fund" to "The EBRD Crisis Response Special Fund"

The Fund's principal office is located in London at 5 Bank Street, E14 4BG.

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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report.

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:

	2022 € 000	2021 € 000
Management fees	14,974	-
Interest expense	13	18
Year to 31 December	**14,987**	18

4. Loan investments

Release(Charge) for the year	2022 € 000	2021 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	53	78
Impairment of loan investments at amortised cost in stage 3	657	2,232
Provisions for impairment of loan investments	710	2,310

Movement in provisions		
At 1 January	(8,377)	(9,957)
Release for the year to the income statement	710	2,310
Unwinding of the discount on expected future cash flows of stage 3 assets	-	-
Foreign exchange adjustments	(496)	(730)
At 31 December	(8,163)	(8,377)

Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	(276)	(328)
Stage 3 provisions for loan investments at amortised cost	(7,887)	(8,049)
At 31 December	(8,163)	(8,377)

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) 2022 € 000	Lifetime ECL (Stage 2) 2022 € 000	Lifetime ECL (Stage 3) 2022 € 000	Total 2022 € 000
As at 1 January	(111)	(217)	(8,049)	(8,377)
New loans originated	(14)	-	-	(14)
Transfer to stage 2 - significant increase in credit risk	74	(119)	-	(45)
ECL release - repayments	-	-	755	755
Changes in model or risk parameters	18	94	(98)	14
Foreign exchange and other movements	-	(1)	(495)	(496)
As at 31 December 2022	(33)	(243)	(7,887)	(8,163)

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 loans at amortised cost	Loans Stage 1 2022 € 000	Loans Stage 2 2022 € 000	Loans Stage 3 2022 € 000	Total 2022 € 000
As at 1 January	19,593	3,624	8,049	31,266
Loan disbursements	4,313	-	-	4,313
Transfer to stage 2 - significant increase in credit risk	(2,739)	2,739	-	-
Transfer to stage 3 - credit impaired	-	(303)	303	-
Repayments	(6,533)	(1,060)	(891)	(8,484)
Movement in effective interest rate adjustment	174	22	4	200
Foreign exchange and other movements	(54)	42	487	475
As at 31 December 2022	14,754	5,064	7,952	27,770

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

5. Financial guarantees movement

	2022 € 000	2021 € 000
Movement in financial guarantee for Stage 1 and Stage 2 loans	(6,132)	-
Charge for estimated settlement of credit impaired guaranteed loans	(64,359)	-
Financial guarantees movement	**(70,491)**	-

6. 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.

7. Undrawn Commitments

	2022	2021
	€ 000	€ 000
Financial guarantees	214,474	-
Undrawn loan commitments	900	-
At 31 December	215,374	-

This represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2022.

8. Contributions transferred

During the year €21.9 million (2021: nil) of contributions were distributed to other funds administered by the Bank at their request of the relevant contributor.

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

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

	Current	Non-current	Total	Current	Non-current	Total
	2022	2022	2022	2021	2021	2021
Assets	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Placements with credit institutions	833,148	-	833,148	24,622	-	24,622
Other financial assets	586	-	586	92	-	92
Loans	7,148	20,622	27,770	7,148	24,118	31,266
Provisions for impairment	(1,918)	(6,245)	(8,163)	(1,918)	(6,459)	(8,377)
Total assets	838,964	14,377	853,341	29,944	17,659	47,603
Liabilities						
Financial Guarantee	70,491	-	70,491	-	-	-
Other liabilities	3,852	-	3,852	2	-	2
Contributors' resources	764,621	14,377	778,998	29,942	17,659	47,601
Total liabilities	838,964	14,377	853,341	29,944	17,659	47,603

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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 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 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 €14.8 million management fee was charged by the Bank to the Fund (2021: nil). There was €3.9 million accrued management fee payable by the Fund to the Bank at 31 December 2022 (2021: nil).

External auditors' remuneration of €19,100 was paid by the Bank from the management fee (2021: €18,200). 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development (the "Bank") in respect of The EBRD Crisis Response Special Fund (previously known as The Financial Intermediary and Private Enterprises Investment Special Fund)

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 auditors report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The EBRD GEF Investment Special Fund

Annual Financial Report
31 December 2022

The EBRD GEF Investment Special Fund

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The EBRD GEF Investment Special Fund

Income statement

For the year ended 31 December 2022

	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest and other similar income			
From loans		20	33
From credit institutions		194	20
Commitment fees		-	1
Negative interest expense		(8)	(17)
Technical cooperation and investment grant expenses	3	(1,080)	(1,900)
Foreign exchange movements		(134)	(199)
Management fee expense	10	(26)	-
Impairment release/(charge)on loan investments	4	2	(3)
Change in concessional loan discount	5	(181)	3
Net loss for the year		(1,213)	(2,062)
Attributable to:			
Contributor		(1,213)	(2,062)

Statement of comprehensive income

For the year ended 31 December 2022

	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Net loss for the year	(1,213)	(2,062)
Other comprehensive income		
Foreign exchange movement between functional		
and presentational currencies	1,725	2,270
Total comprehensive income	512	208
Attributable to:		
Contributor	512	208

These items will not subsequently be reclassified to profit or loss.

Balance sheet

At 31 December 2022

	Note	€ 000	31 December 2022 € 000	€ 000	31 December 2021 € 000
Assets					
Placements with credit institutions			28,684		27,755
Other financial assets			5		2
Loan investments					
Loans	6	446		533	
Less: Provisions for impairment	4	(13)		(14)	
			433		519
Total assets			29,122		28,276
Liabilities					
Technical cooperation expenses payable			131		237
Interest payable			-		1
Concessional loan discount	5		169		-
Contributor's resources			28,822		28,038
Total liabilities			29,122		28,276
Memorandum items					
Undrawn commitments	7		686		384

The EBRD GEF Investment Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2022

	Contributed resources	General reserve	Total
	€ 000	€ 000	€ 000
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
Net loss for the year	(1,213)	-	(1,213)
Other comprehensive income for the year	-	1,725	1,725
Contributions received	425	-	425
Distribution of funds to contributor	(153)	-	(153)
At 31 December 2022	**27,731**	**1,091**	**28,822**

Statement of cash flows

For the year ended 31 December 2022

		Year to 31 December 2022		Year to 31 December 2021
	€ 000	€ 000	€ 000	€ 000
Cash flows used in from operating activities				
Net loss for the year	(1,213)		(2,062)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Movement in effective interest rate adjustment[1]	(15)		(24)	
Foreign exchange movement	134		199	
Change in concessional loan discount	181		(3)	
Impairment (release)/charge on loan investments	(2)		3	
	(915)		(1,887)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan	134		241	
Funds advanced for loans	-		(796)	
Working capital adjustment				
Movement in interest receivable	(3)		(2)	
Movement in accrued expenses	(107)		(564)	
Net cash used in operating activities		(891)		(3,008)
Cash flows generated from financing activities				
Contributions received	425		-	
Distribution of funds to contributor	(153)		(1,241)	
Net cash from/(used in) financing activities		272		(1,241)
Net decrease in cash and cash equivalents		(619)		(4,249)
Cash and cash equivalents at the beginning of the year		27,755		29,874
Effect of foreign exchange rate changes		1,548		2,130
Cash and cash equivalents at 31 December		28,684		27,755

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

Gordon Jones

Gordon Jones, Director – Financial Control
Date: 5 April 2023

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €21,000. This, with loan interest income, make up the interest income from loans figure in the Income 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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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 the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no impact as a result of adopting the changes to the standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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 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.

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 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.

[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.

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

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

Contributor's resources

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

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

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

Contributions are recognised as a receivable and a liability on the balance sheet on the date of project approval by the Board of Directors ("the Board") of the Bank following receipt of a letter of commitment from the Contributor.

General reserve

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

Statement of cash flows

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

Technical cooperation and investment grant expenses

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

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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant accounting estimates are outlined below:

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.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank’s historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

Sustainable Infrastructure

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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%

[4] 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%

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 2022 (2021: 84 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.

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.

Aside from through a post model adjustment, 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 2022 and 31 December 2021 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2022 €000	Change in provision 2022 €000	Change in provision 2022 %	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %
2022 portfolio provision (Stages 1 and 2)	13	-	-	14	-	-
Staging [1]						
All loans in Stage 1	13	-	-	14	-	-
All loans in Stage 2	41	28	215%	25	11	79%
PD Ratings [2]						
All loans upgraded 1 notch	7	(6)	(46)%	9	(5)	(36)%
All loans downgraded 1 notch	15	2	15%	18	4	29%
All loans upgraded 3 notches	2	(11)	(85)%	3	(11)	(79)%
All loans downgraded 3 notches	19	6	46%	25	11	79%
Projected GDP [3]						
Projected GDP increased by 1%	13	-	-	13	(1)	(7)%
Projected GDP decreased by 1%	13	-	-	14	-	-
Projected GDP increased by 5%	12	(1)	(8)%	12	(2)	(14)%
Projected GDP decreased by 5%	21	8	62%	18	4	29%
LGD						
All loans decreased by 10%	10	(3)	(23)%	11	(3)	(21)%
All loans increased by 10%	15	2	15%	17	3	21%
EAD						
All undrawn commitments cancelled	7	(6)	(46)%	14	-	-
All undrawn commitments disbursed within one month	22	9	69%	14	-	-

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 the course of making accounting estimates which are described in the Significant accounting estimates section above, 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.

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 and Risk 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.

[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 countries 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 and Risk 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.

<table>
<tr><th>EBRD risk rating category</th><th>EBRD risk rating</th><th>External rating equivalent</th><th>Category name</th><th>Broader category</th></tr>
<tr><td>1</td><td>1.0</td><td>AAA</td><td>Excellent</td><td rowspan="4">Investment grade</td></tr>
<tr><td>2</td><td>1.7
2.0
2.3/2.5</td><td>AA+
AA
AA-</td><td>Very strong</td></tr>
<tr><td>3</td><td>2.7
3.0
3.3</td><td>A+
A
A-</td><td>Strong</td></tr>
<tr><td>4</td><td>3.7
4.0
4.3</td><td>BBB+
BBB
BBB-</td><td>Good</td></tr>
<tr><td>5</td><td>4.7
5.0
5.3</td><td>BB+
BB
BB-</td><td>Fair</td><td>Risk range 5</td></tr>
<tr><td>6</td><td>5.7
6.0
6.3</td><td>B+
B
B-</td><td>Weak</td><td>Risk range 6</td></tr>
</table>

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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant accounting estimates" section on page 7.

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.

Impairment 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.

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	383	63	446	100%	(12)	(1)	433	2.9%
At 31 December 2022	383	63	446	100%	(12)	(1)	433	

	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	2.6%
At At 31 December 2021	348	185	533	100%	(3)	(11)	519	

At 31 December 2022 the Fund had security arrangements in place for €428,000 of its disbursed loan investments (2021: €300,000). 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
There were no distressed restructured loans[6] at 31 December 2022 (2021: none).

Undrawn loan commitments

As at 31 December 2022 the Fund's undrawn loan commitments had an internal risk rating of 7 and were in Stage 1 (31 December 2021: no undrawn loan commitments).

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 the carrying amounts by country.

	Undrawn loan commitments 2022 € 000	Loans 2022 € 000	Undrawn loan commitments 2021 € 000	Loans 2021 € 000
Egypt	515	386	-	343
Lebanon	-	60	-	190
At 31 December	515	446	-	533

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

	Undrawn loan commitments 2022 € 000	Loans 2022 € 000	Undrawn loan commitments 2021 € 000	Loans 2021 € 000
Power and energy	515	446	-	533
At 31 December	515	446	-	533

B. Market risk

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

Market risk management and measurement

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

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

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

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

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

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

	Euro 2022 € 000	United States dollars 2022 € 000	Total € 000
Total assets	1,924	27,198	29,122
Total liabilities	-	(29,122)	(29,122)
Net currency position at 31 December	**1,924**	**(1,924)**	**-**

	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	2,251	(2,251)	-

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 due to presentation currency movement from a 7 per cent strengthening or weakening (2021: 8 per cent) is +/- €126,000 (2021: +/- €154,000).

C. Liquidity risk

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

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

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors (“the Board”) of the Bank at its meeting of 7 May 2014 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund and the Financial Procedures Agreement (“the FPA”).

The FPA was signed between the EBRD and the International Bank for Reconstruction and Development as the Trustee of the Global Environment Facility (“the Trustee”) on 6 November 2006. A new FPA was signed on 30 September 2009 superseding the previous version, and further amended on 9 March 2014.

The Fund became operational upon approval of the Rules on 7 May 2014.

The Fund’s principal office is located in London at 5 Bank St, E14 4BG.

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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report.

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 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 and investment grant expenses[7]

	Commitments approved € 000	Technical Cooperation expenses € 000	Undrawn commitments € 000
Total projects			
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
Movement in the year	867	(1,080)	(213)
At 31 December 2022	**8,666**	**(8,495)**	**171**

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

4. Provisions for impairment of loan investments

Release/(charge) for the year	2022 € 000	2021 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	2	(3)
Provisions for impairment of loan investments	2	(3)
Movement in provisions		
At 1 January	(14)	(7)
Release/(charge) for the year to the income statement	2	(3)
Foreign exchange adjustments	(1)	(4)
At 31 December	(13)	(14)
Analysed between:		
Stage 1 and 2 provisions for loan investments at amortised cost	(13)	(14)
At 31 December	(13)	(14)

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) 2022 € 000	Lifetime ECL (Stage 2) 2022 € 000	Total 2022 € 000
As at 1 January	(3)	(11)	(14)
New loans originated	(7)	-	(7)
Repayments	-	11	11
Changes in model or risk parameters	(2)	-	(2)
Foreign exchange and other movements	-	(1)	(1)
As at 31 December	(12)	(1)	(13)

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 loans originated		(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 loans at amortised cost	Loans Stage 1 2022 € 000	Loans Stage 2 2022 € 000	Total 2022 € 000
As at 1 January	348	185	533
Repayments	-	(134)	(134)
Movement in effective interest rate adjustment	14	1	15
Foreign exchange and other movements	21	11	32
As at 31 December	383	63	446

Movement in loans at amortised cost	Loans Stage 1 2021 € 000	Loans Stage 2 2021 € 000	Total 2021 € 000
As at 1 January	-	-	-
New banking loans originated	374	422	796
Repayments	-	(241)	(241)
Day one fair value adjustment	(68)	(11)	(79)
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

5. Concessional loan discount

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

	2022 € 000	2021 € 000
At 1 January	-	(67)
Day one fair value adjustment	(181)	(922)
Derecognition of liability on loan disbursement	-	79
Release of discount on loan cancellation	-	925
Foreign exchange movements	12	(15)
At 31 December	(169)	-

The change in concessional loan discount recognised in the income statement for the year to 2022 is comprised of the day one fair value adjustment above (2021: day one fair value adjustment and release of discount on loan cancellation).

6. Loan investments

Operating assets	2022 € 000	2021 € 000
At 1 January	533	-
Disbursements	-	796
Concessional loan discount movement	-	14
Repayments/settlements	(134)	(241)
Day one fair value adjustment	-	(79)
Movement in effective interest rate adjustment	80	10
Foreign exchange movements	(33)	33
At 31 December	446	533
Provisions for impairment at 31 December	(13)	(14)
Total loan investments net of impairment at 31 December	433	519

7. Undrawn commitments

Undrawn commitments	2022 € 000	2021 € 000
Loan investments at amortised cost	515	-
Technical cooperation and investment grants	171	384
At 31 December	686	384

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

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

Assets	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000
Placements with credit institutions	28,684	-	28,684	27,755	-	27,755
Loan investments	139	294	433	110	409	519
Other financial assets	5	-	5	2	-	2
Total assets	28,828	294	29,122	27,867	409	28,276
Liabilities						
Technical cooperation expense	(131)	-	(131)	(237)	-	(237)
Concessional loan discount	(169)	-	(169)	-	-	-
Interest payable	-	-	-	(1)	-	(1)
Total contributor's resources	(28,528)	(294)	(28,822)	(27,629)	(409)	(28,038)
Total liabilities	(28,828)	(294)	(29,122)	(27,867)	(409)	(28,276)

9. Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate 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 2022.

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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 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 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 2022 there were no fees payable to the Bank (2021: Nil).

External auditors' remuneration of €19,100 is payable by the Bank from the management fee (2021: €18,200). 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The EBRD Green Climate Fund Special Fund

Annual Financial Report
31 December 2022

The EBRD Green Climate Fund Special Fund

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The EBRD Green Climate Fund Special Fund

Income statement

For the year ended 31 December 2022	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest income			
From loans		10,795	4,682
From credit institutions		1,728	-
Net interest income		12,523	4,682
Commitment fee income		202	353
Technical cooperation expenses	3	(3,746)	(5,253)
Disbursements for investment grants		(832)	(5,179)
Foreign exchange movements		(3,793)	(5,606)
Accredited entity fee expense		(7,051)	(2,794)
Impairment (charge)/release on loan investments	4	(152)	852
Change in concessional loan discount	5	(3,294)	(1,233)
Operating expenses		(252)	(493)
Net loss for the period		(6,395)	(14,671)

Statement of comprehensive income

For the year ended 31 December 2022	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Net loss for the period	(6,395)	(14,671)
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	20,972	22,886
Total comprehensive income	14,577	8,215
Attributable to:		
Contributor	14,577	8,215

Balance sheet

As at 31 December 2022	Note	€ 000	31 December 2022 € 000	€ 000	31 December 2021 € 000
Assets					
Placements with credit institutions			145,920		180,945
Other financial assets	6		1,117		815
Loan investments					
Loans	4	160,131		165,999	
Less: Provisions for impairment	4	(1,026)		(860)	
			159,105		165,139
Contributions receivable			14,466		4,654
Total assets			320,608		351,553
Liabilities					
Other financial liabilities	7		11,199		7,632
Concessional loan discount	5		9,153		11,528
Contributor's resources			300,256		332,393
Total liabilities			320,608		351,553
Memorandum items					
Undrawn commitments	8		116,381		131,315

The EBRD Green Climate Fund Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2022	Contributed Resources	General reserve	Total
	€ 000	€ 000	€ 000
As at 30 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
Net loss for the year	(6,395)	-	(6,395)
Other comprehensive income in the year	-	20,972	20,972
Contributions received and receivable	16,696	-	16,696
Distribution of funds to contributor	(63,410)	-	(63,410)
As at 31 December 2022	**276,961**	**23,295**	**300,256**

Statement of cash flows

For the year ended 31 December 2022		Year to 31 December 2022		Year to 31 December 2021
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the period	(6,395)		(14,671)	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	(6,628)		(1,139)	
Change in concessional loan discount	3,294		1,233	
Foreign exchange movement	3,793		5,606	
Impairment charge/(release) on loan investment	152		(852)	
	(5,784)		(9,823)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan investments	69,907		8,326	
Funds advanced for loans	(53,814)		(60,708)	
Front end fees received	147		338	
Working capital adjustment				
Movement in interest receivable	(314)		(97)	
Movement in fee receivable	4		(21)	
Accrued expenses	3,567		2,058	
Net cash generated from/(used in) operating activities		13,713		(59,927)
Cash flows from financing activities				
Contributions received	6,883		64,939	
Distribution of funds to contributors	(64,209)		(10,548)	
Net cash (used in)/generated from financing activities		(57,326)		54,391
Net decrease in cash and cash equivalents		(43,613)		(5,536)
Cash and cash equivalents at the beginning of the period		180,945		178,716
Effect of foreign exchange rate changes		8,588		7,765
Cash and cash equivalents at 31 December		145,920		180,945

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €4,252,000. This, with loan interest income, make up the interest income from loans figure in the Income 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 years 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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and" Significant accounting estimates" within the section for Accounting policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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
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 considers that this standard is not applicable to its operations.
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 anticipates no material impact as a result of adopting the changes to these standards.
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.

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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.

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 the reliance on judgement and maximises the use of observable trade data in producing the benchmarks. After 31 December 2021, EUR and CHF LIBORs and the one-week and two-month USD LIBORs were no longer published. Some GBP and JPY LIBOR settings (one-month, three-month and six-month) continue to be published using a synthetic methodology. The publication of synthetic JPY LIBOR will cease after 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) will no longer be published after 30 June 2023.

The International Swaps and Derivatives Association (ISDA) published its IBOR fallback protocols, which are designed to address the transition for those derivative contracts that are still yet to transition to the new benchmarks. 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 €32.6 million (€99.8 million in 2021) (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 Fund's reporting currency for the presentation of its financial statements is the euro. 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 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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank. At 31 December 2022 the prevailing interest rate is no longer negative. 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 of the contractual arrangement.

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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant accounting estimates are outlined below.

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 (page 3) and further explained under "Credit risk" within the "Risk management" section of the report (page 11).

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

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

Sustainable Infrastructure

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%

[4] The Bank's internal PD rating scale is explained in detail on page 11 of the Risk Management section.

7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one-year probability of growth was 84 per cent at the end of 2022 (2021: 84 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 as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. Forward-looking country-specific probabilities of macroeconomic growth and recession using a three year GDP horizon are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

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 2022 €000	Change in provision 2022 €000	Change in provision 2022 %	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %
2022 portfolio provision (Stages 1 and 2)	1,026			860		
Staging						
All loans in Stage 1	683	(343)	(33)%	860	-	0%
All loans in Stage 2	4,647	3,621	353%	6,935	6,075	706%
PD Ratings						
All loans upgraded 1 notch	520	(506)	(49)%	387	(473)	(55)%
All loans downgraded 1 notch	1,915	889	87%	2,191	1,331	155%
All loans upgraded 3 notches	334	(692)	(67)%	256	(604)	(70)%
All loans downgraded 3 notches	11,055	10,029	977%	14,641	13,781	1,603%
Projected GDP						
Projected GDP increased by 1%	998	(28)	(3)%	839	(21)	(2)%
Projected GDP decreased by 1%	1,066	40	4%	889	29	3%
Projected GDP increased by 5%	956	(70)	(7)%	805	(55)	(6)%
Projected GDP decreased by 5%	1,497	471	46%	1,241	381	44%
LGD						
All loans decreased by 10%	751	(275)	(27)%	640	(220)	(26)%
All loans increased by 10%	1,301	275	27%	1,080	220	26%
EAD						
All undrawn commitments cancelled	901	(125)	(12)%	777	(83)	(10)%
All undrawn commitments disbursed within one month	1,063	37	4%	999	139	16%

Financial assets at amortised cost initial recognition

The Fund's method for determining the fair value on the initial recognition of concessional loans is further detailed in the accounting policies and judgements section of the report.

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve a judgement which could have a material impact on the financial statements:

- Impairment of financial assets held at amortised cost – stage assessment: The determination of what constitutes a significant increase in credit risk is a critical judgement given the subjectivity involved in assessing whether an increase should be deemed "significant" and the potential impact this decision has on the measurement of the 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.

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 and Risk 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 and Risk 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.

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

Loss given default
The Bank assigns loss given default percentages on a scale of 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant 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.

Impairment 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 %
5: Fair	29,551	-	29,551	18.4%	(38)	-	29,513	0.1%
6: Weak	104,657	10,892	115,549	72.2%	(281)	(412)	114,856	0.6%
7: Special Attention	15,031	-	15,031	9.4%	(295)	-	14,736	2.0%
At 31 December 2022	149,239	10,892	160,131	100%	(614)	(412)	159,105	

	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%
6: Weak	3,896	-	3,896	2.3%	(129)	-	3,767	3.3%
At 31 December 2021	165,999	-	165,999	100%	(860)	-	165,139	

At 31 December 2022 the Fund had security arrangements in place for loan investments with a disbursed value of €54.9 million (2021: €99.3 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 investments for each of the Bank's relevant internal risk rating categories.

	Undrawn loan commitments		Undrawn loan commitments	
	Stage 1	Total	Stage 1	Total
	2022	2022	2021	2021
Risk rating category	€ 000	€ 000	€ 000	€ 000
4: Good	-	-	14,375	14,375
5: Fair	11,367	11,367	35,520	35,520
6: Weak	28,883	28,883	500	500
7: Special Attention	14,099	14,099	17,876	17,876
At 31 December	54,349	54,349	68,271	68,271

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 2022 € 000	Loans 2022 € 000	Undrawn loan commitments 2021 € 000	Loans 2021 € 000
Armenia	-	4,233	-	5,211
Egypt	22,320	46,774	25,470	82,131
Georgia	10,000	4,922	10,000	5,654
Jordan	6,031	24	2,800	5
Kazakhstan	-	47,307	-	49,786
Moldova	1,000	999	1,500	-
Mongolia	-	12,138	-	336
Morocco	1,367	32,564	10,625	14,755
Republic of Serbia	-	3,050	-	4,563
Tajikistan	13,631	8,120	17,876	3,558
At 31 December	54,349	160,131	68,271	165,999

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

	Undrawn loan commitments 2022 € 000	Loans 2022 € 000	Undrawn loan commitments 2021 € 000	Loans 2021 € 000
Depository credit (banks)	4,130	92,753	15,542	64,305
Leasing finance	-	4,340	-	-
Municipal and environmental infrastructure	12,800	-	13,800	5
Non-depository Credit (non-bank)	468	-	13,800	5
Power and energy	36,951	63,038	38,929	101,689
At 31 December	54,349	160,131	68,271	165,999

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 2022, the Fund has fixed rate loan investments of €106,358,000 (2021: €83,144,000). 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 2022 € 000	United States dollars 2022 € 000	Total 2022 € 000
Total assets	84,411	236,197	320,608
Total liabilities	(106,430)	(214,178)	(320,608)
Net currency position at 31 December 2022	(22,019)	22,019	-

	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	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentation currency movement, from a 7 per cent strengthening or weakening (2021: 8 per cent) is €1,440,000 (2021: €488,000).

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 no longer be published after 30 June 2023.

C. Liquidity risk

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

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

The EBRD Green Climate Fund Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Governors at its meeting on 5 July 2017 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules of the Fund and Accreditation Master Agreement (the AMA).

The AMA was signed between the Bank and the Green Climate Fund (GCF), the contributor, on 22 April 2017. The Fund became operational upon approval of the Rules on 5 July 2017.

The Fund's principal office is located in London at 5 Bank St, London E14 4BG.

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. None of these conditions have occurred, or are expected to occur in the foreseeable future, as at the date of issuance of this report.

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 2021	56,373	(11,658)	44,715
Movement in the year	2,250	(3,746)	(1,496)
As at 31 December 2022	**58,623**	**(15,404)**	**43,219**

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 2022.

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

4. Loan investments

Operating assets	2022 € 000	2021 € 000
At beginning of period	165,999	110,481
Disbursements	53,814	60,695
Repayments	(69,907)	(8,326)
Day one fair value adjustment	(7,074)	(8,143)
Effective interest rate adjustment movement	7,407	784
Foreign exchange movements	9,892	10,508
At 31 December	**160,131**	**165,999**
Impairment at 31 December	(1,026)	(860)
Total loan investments net of impairment at 31 December	**159,105**	**165,139**

Provisions for impairment

(Charge)/release for the year	2022 € 000	2021 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	(152)	852
Provisions for impairment of loan investments	**(152)**	**852**
Movement in provisions		
At at 1 January	(860)	(1,598)
(Charge)/release for the year to the income statement	(152)	852
Foreign exchange adjustments	(14)	(114)
At 31 December	**(1,026)**	**(860)**
Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	(1,026)	(860)
At 31 December	**(1,026)**	**(860)**

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 2022, the Fund has no loan investments or undrawn commitments in Stage 3 (2021: none in Stage 2 or 3).

Movement in provisions	12-month ECL (Stage 1) 2022 € 000	Lifetime ECL (Stage 2) 2022 € 000	Total 2022 € 000	12-month ECL (Stage 1) 2021 € 000	Lifetime ECL (Stage 2) 2021 € 000	Total 2021 € 000
As at 1 January	(860)	-	(860)	(1,591)	(7)	(1,598)
New loans originated	(179)	-	(179)	(68)	-	(68)
Transfer to stage 1	-	-	-	(2)	2	-
Transfer to stage 2 - significant increase in credit risk	43	(471)	(428)	-	-	-
ECL release - repayments	-	-	-	7	-	7
Changes in model or risk parameters	427	28	455	908	5	913
Foreign exchange and other movements	(45)	31	(14)	(114)	-	(114)
As at 31 December	(614)	(412)	(1,026)	(860)	-	(860)

Movement in loans at amortised cost	Loans Stage 1 2022 € 000	Loans Stage 2 2022 € 000	Loans Stage 3 2022 € 000	Total 2022 € 000	Loans Stage 1 2021 € 000	Loans Stage 2 2021 € 000	Total 2021 € 000
As at 1 January	165,999	-	-	165,999	110,323	158	110,481
New banking loans originated	53,814	-		53,814	60,695	-	60,695
Transfer to stage 1	-	-	-	-	49	(49)	-
Transfer to stage 2 - significant increase in credit risk	(12,026)	12,026		-	-	-	-
Repayments	(69,461)	(446)	-	(69,907)	(8,204)	(122)	(8,326)
Day one fair value adjustment	(6,280)	-	-	(6,280)	(8,143)	-	(8,143)
Movement in effective interest rate adjustment	6,279	334	-	6,613	782	2	784
Foreign exchange and other movements	10,914	(1,022)	-	9,892	10,497	11	10,508
As at 31 December	**149,239**	**10,892**	**-**	**160,131**	**165,999**	**-**	**165,999**

5. Concessional loan discount

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

	2022 € 000	2021 € 000
At 1 January	11,528	17,419
Day one fair value adjustment	3,294	1,233
Derecognition of liability on loan disbursement	(6,280)	(8,143)
Foreign exchange movements	611	1,019
At 31 December	**9,153**	**11,528**

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

	2022 € 000	2021 € 000
Interest receivable	1,059	745
Front end fees receivable	-	8
Commitment fees receivable	58	62
As at 31 December	**1,117**	**815**

7. Other financial liabilities

	2022 € 000	2021 € 000
Technical cooperation expenses	7,299	6,691
Accredited entity fees payable	3,666	854
Negative interest rate expense	-	87
Other payable	234	-
As at 31 December	**11,199**	**7,632**

8. Undrawn commitments

	2022 € 000	2021 € 000
Loan commitments	54,349	68,271
Technical cooperation expenses	43,219	44,715
Investment grants	18,813	18,329
Undrawn commitments at 31 December	**116,381**	**131,315**

This represents amounts for which the Fund has contracted for but for which the transaction or service was not undertaken at 31 December.

9. Contributions

Pledged contributions not yet due	2022 € 000	2021 € 000
Total pledged	1,047,124	990,273
Total received	(432,234)	(425,351)
FX on contributions received	(30,745)	(3,106)
Contributions receivable	(14,466)	(4,654)
As at 31 December	**569,679**	**557,162**

As at 31 December 2022 the total contributions pledged per the signed FAAs is equivalent to €1,047,124,000 (2021: €990,273,000). The next tranche of contributions can be called when conditions precedent stipulated in the relevant FAA have been met.

During 2022, €63.0 million was distributed to the contributor (2021: €10.5 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.

	Current 2022	Non-current 2022	Total 2022	Current 2021	Non-current 2021	Total 2021
Assets	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Placements with credit institutions	145,920	-	145,920	180,945	-	180,945
Other financial assets	1,117	-	1,117	815	-	815
Loans	29,772	130,359	160,131	18,792	147,207	165,999
Provisions for impairment	(191)	(835)	(1,026)	(102)	(758)	(860)
Contributions receivable	14,466	-	14,466	4,654	-	4,654
Total assets	191,084	129,524	320,608	205,104	146,449	351,553
Liabilities						
Other financial liabilities	11,199	-	11,199	7,632	-	7,632
Concessional loan discount	9,154	-	9,154	11,528	-	11,528
Total contributor's resources	170,731	129,524	300,255	185,944	146,449	332,393
Total liabilities	191,084	129,524	320,608	205,104	146,449	351,553

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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 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 auditors' remuneration of €19,100 is payable by the Bank from the accredited entity fee (2021: €18,200). The external auditors are appointed by the Board of Directors, on the recommendation of the President. 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

The Accredited entity fees payable from the Fund to the Bank are outlined in note 7.

The Other Payable of €234,000 (2021: €Nil) in note 7 is for an amount payable to the Bank for a loan disbursement.

Contributions received and receivable from the contributor and amounts returned to the contributors are outlined in note 9.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 auditors report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The EBRD Post-Graduation Special Fund

Annual Financial Report
31 December 2022

The EBRD Post-Graduation Special Fund

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The EBRD Post-Graduation Special Fund

Statement of comprehensive income

For the year ended 31 December 2022	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Operating expenses	(44)	(71)
Net loss and comprehensive expense for the year	(44)	(71)
Attributable to:		
Contributors	(44)	(71)

Balance sheet

At 31 December 2022	Note	31 December 2022 € 000	31 December 2021 € 000
Assets			
Placements with credit institutions		-	9,337
Total assets		-	9,337
Liabilities and contributors' resources			
Negative interest payable		-	6
Total liabilities		-	6
Contributions	3	713	10,000
Reserves and accumulated loss		(713)	(669)
Total contributors' resources		-	9,331
Total liabilities and contributors' resources		-	9,337

The EBRD Post-Graduation Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2022	Note	Contributions € 000	Reserves and accumulated loss € 000	Total € 000
At 31 December 2020		10,000	(598)	9,402
Net loss and total comprehensive expense for the year		-	(71)	(71)
At 31 December 2021		10,000	(669)	9,331
Net loss and total comprehensive expense for the year		-	(44)	(44)
Contributions transferred	3	(9,287)	-	(9,287)
At 31 December 2022		713	(713)	-

Statement of cash flows

For the year ended 31 December 2022	€ 000	Year to 31 December 2022 € 000	€ 000	Year to 31 December 2021 € 000
Cash flows used in operating activities				
Net loss for the year	(44)		(71)	
Working capital adjustment				
Movement in accrued expenses	(6)		6	
Net cash used in operating activities		(50)		(65)
Cash flows used in financing activities				
Contributions transferred	(9,287)		-	
Net cash used in financing activities		(9,287)		-
Net decrease in cash and cash equivalents		(9,337)		(65)
Cash and cash equivalents at the beginning of the year		9,337		9,402
Cash and cash equivalents at the end of the year		-		9,337

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

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.

The Fund transferred its available assets to another Special Fund in 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"). The financial statements have been prepared under the historical cost convention.

Going concern

The financial statements for the Fund are presented on a basis other than that of a going concern as the Board of Governors granted the Board of Directors with authority to transfer the remaining balance of the resources of the Fund to the EBRD Shareholder Special Fund in April 2022. 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 the use of certain significant 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 "Accounting policies and judgements" and" Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

IFRS not yet mandatorily effective and not adopted early

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

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

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 anticipates no material impact as a result of adopting the changes to the 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 the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standards.

B. 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.

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

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 does not currently have any such assets in this category.

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. At December 2021 these were measured at amortised cost.

The Fund does not have any liabilities as at 31 December 2022.

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 the 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 reporting currency for the presentation of its financial statements is the euro, the functional currency of the Fund.

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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. Negative interest rate expense is recognised in 'operating expenses' 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.

C. Significant accounting estimates and critical judgements

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

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve 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 of the Fund.

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

Risk management

Risk governance

The Fund is subject to the European Bank for Reconstruction and Development's (the "Bank") risk governance procedures as below:

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

On 24 November 2022 all of the Fund's resources were transferred to the EBRD Shareholder Special Fund. As such, the Fund has no exposure to credit risk, market risk or liquidity risk.

The Fund's financial risk for the prior year was considered to be minimal.

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

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 5 Bank St, E14 4BG.

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.

The Board of Directors approved an amendment to the Rules of the EBRD Post-Graduation Special Fund on 6 April 2022, while the Board of Governors authorised an amendment to the use of the resources of the Fund on 11 May 2022 under Resolution No. 249.

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 received and refunded**

No contributions were received during the year by the Fund (2021: nil).

In accordance with the amendment to the Rules of the EBRD Post-Graduation Special Fund on 6 April 2022, the remaining balance of the resources of the Fund totalling €9,287,000 was transferred to the EBRD Shareholder Special Fund on November 24, 2022.

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 2021. As at 31 December 2022 there are no remaining assets and liabilities.

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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 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 2022, the Fund paid no management fee (2021: nil) and there were no accrued management fees payable by the Fund to the Bank at 31 December 2022 (2021: nil).

External auditors' remuneration of €19,100 (2021: €18,200) 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

Contributions refunded to the Contributor 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 Post-Graduation Special Fund

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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.

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 Going concern section on page 3 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.

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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 March 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 LLP
Chartered Accountants
London
April 2022

European Bank
for Reconstruction and Development

The EBRD Shareholder Special Fund

Annual Financial Report
31 December 2022

The EBRD Shareholder Special Fund

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The EBRD Shareholder Special Fund

Statement of comprehensive income

For the year ended 31 December 2022

		Year to 31 December 2022		Year to 31 December 2021	
	Note	€ million	€ million	€ million	€ million
Technical cooperation expenses	3	(41)		(63)	
Client cost sharing for technical cooperation		1		4	
Net technical cooperation expenses			(40)		(59)
Disbursements for investment grants			(17)		(9)
Incentive fees			(2)		(2)
Net (loss)/gain from share investments	6		(3)		5
Foreign exchange movement			2		3
Financial guarantees movement	7		(6)		-
Other operating expenses			(4)		(4)
Net loss and comprehensive expense for the year			(70)		(66)
Total comprehensive expense attributable to:					
Contributors			(70)		(66)

Balance sheet

At 31 December 2022

		31 December 2022		31 December 2021	
	Note	€ million	€ million	€ million	€ million
Assets					
Placements with credit institutions	4		520		470
Contributions receivable	5		94		110
Share investments	6		48		51
Other receivables			2		-
Total assets			664		631
Liabilities and contributors' resources					
Accrued technical cooperation expenses			40		52
Financial guarantee liability			7		1
Total liabilities			47		53
Contributions	5	1,309		1,200	
Reserves and accumulated loss		(692)		(622)	
Total contributors' resources			617		578
Total liabilities and contributors' resources			664		631
Memorandum items					
Undrawn commitments	8		156		117

The EBRD Shareholder Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Contributions € million	Accumulated loss € million	Total € million
At 31 December 2020	1,135	(556)	579
Contributions received and receivable	65	-	65
Net loss and total comprehensive expense for the year	-	(66)	(66)
At 31 December 2021	1,200	(622)	578
Contributions received and receivable	109	-	109
Net loss and total comprehensive expense for the year	-	(70)	(70)
At 31 December 2022	**1,309**	**(692)**	**617**

Statement of cash flows

For the year ended 31 December 2022

		Year to 31 December 2022		Year to 31 December 2021
	€ million	€ million	€ million	€ million
Cash used in operating activities				
Net loss for the year	(70)		(66)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Net loss/(gain) on share investments	3		(5)	
Foreign exchange movement	(2)		(3)	
Financial guarantees movement	6		0	
Management fees	2		3	
	(61)		(71)	
Cash flows from the sale and purchase of operating assets				
Net placements to credit institutions	(10)		(40)	
Working capital adjustment				
Movement in accrued expenses	(12)		4	
Net cash used in operating activities		(83)		(107)
Cash flows from financing activities				
Contributions received	122		96	
Net cash generated from financing activities		122		96
Net increase/(decrease) in cash and cash equivalents		39		(11)
Effect of foreign exchange rate changes		1		3
Cash and cash equivalents at the beginning of the year		280		288
Cash and cash equivalents at 31 December		320		280

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

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 countries 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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting estimates and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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:	The Fund anticipates no material impact as a result

Pronouncement	Nature of change	Potential impact
	• 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.	of adopting the changes to the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standards.

B. 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, EUR and CHF LIBORs and the one-week and two-month USD LIBORs were no longer published. The remaining USD LIBOR settings (the overnight, one-month, three-months, six-months, and 12 months USD LIBOR) will no longer be published after 30 June 2023.

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

In 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 nil (2021: €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 contributor as equity on the basis that 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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. Negative interest rate expense is recognised in 'operating expenses' in the income statement.

Technical cooperation expenses and investment grants

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

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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant 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.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank’s historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

[3] The Bank’s internal PD rating scale is explained in detail on page 11 of the Risk Management section.

Sustainable Infrastructure						
2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions						
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%	0.02%	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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one-year probability of growth was 84 per cent at the end of 2022 (2021: 84 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 as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. Forward-looking country-specific probabilities of macroeconomic growth and recession using a three year GDP horizon are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-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.

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

Exposure at default

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

Sensitivity analysis

Financial guarantee liability
The Fund's method for determining the fair value of financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained under credit risk within the risk management section of the report.

A 3-notch PD upgrade on the Bank's loan investments covered by the Fund's guarantees would have decreased the financial guarantees by €1.0 million (2021: €0.1 million). Conversely, a 3-notch PD downgrade would have increased the amount of the financial guarantees provided by €0.3 million (2021: €0.4 million).

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 +€179,000/-€179,000 (2021: nil) on the Fund's financial guarantee liability.

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 "Significant accounting estimates" section above, 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.

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 and Risk 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 €100 million (2021: €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. The custodian is responsible for ensuring 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 and Risk 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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Critical accounting estimates and critical judgements" 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.

Impairment 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 and undrawn guarantee commitments
Set out below is an analysis of the Funds undrawn commitments for loan for each of the Bank relevant internal risk rating categories.

	Financial guarantee liabilities				Undrawn guarantee commitments			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Risk rating category	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
5: Fair	-	-	-	-	3	-	-	3
6: Weak	-	-	-	-	2	-	-	2
7: Special attention	1	5	-	6	12	16	-	28
8: Non-performing	-	-	1	1	-	-	1	1
At 31 December 2022	1	5	1	7	17	16	1	34

Risk rating category	Financial guarantee liabilities Stage 1 € million	Financial guarantee liabilities Total € million	Undrawn guarantee commitments Stage 1 € million	Undrawn guarantee commitments Total € million
5: Fair	1	1	1	1
6: Weak	-	-	1	1
7: Special attention	-	-	4	4
At 31 December 2021	1	1	6	6

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

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 2022, the total eligible loans outstanding under the Bank and PB guarantees is €235 million (2021: €42.3 million). At 31 December 2022, the maximum exposure of eligible operations covered by the guarantees is €41 million (2021: €6.4 million). The guarantee liability on the balance sheet of €7 million (2021: €0.9 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.

Concentration of credit risk exposure

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

	Financial guarantee liabilities 2022 € million	**Undrawn guarantee commitments 2022 € million**	Financial guarantee liabilities 2021 € million	Undrawn guarantee commitments 2021 € million
Armenia	-	1	-	1
Azerbaijan	-	1	1	-
Egypt	-	-	-	1
Georgia	-	1	-	-
Montenegro	-	1	-	-
Morocco	-	3	-	3
Serbia	-	2	-	1
Tunisia	-	1	-	-
Ukraine	7	24	-	-
At 31 December	7	34	1	6

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

	Financial guarantee liabilities 2022 € million	**Undrawn guarantee commitments 2022 € million**	Financial guarantee liabilities 2021 € million	Undrawn guarantee commitments 2021 € million
Agribusiness	4	11	-	-
Depository Credit (banks)	-	14	-	3
Energy	1	1	-	1
Leasing Finance	-	1	-	-
Manufacturing & Services	1	4	1	2
Non-depository Credit (non-bank)	-	1	-	-
Transport	1	2	-	-
At 31 December	7	34	1	6

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 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 2022 € million	United States dollars 2022 € million	Total € million
Total assets	**559**	**105**	**664**
Total liabilities	**(46)**	**(6)**	**(52)**
Net currency position at 31 December 2022	**513**	**99**	**612**

	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

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: 8 per cent) is +/- €7 million (2021: +/- €6 million).

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 are no longer published. The remaining USD LIBOR settings (the overnight, one-month, three-months, six-months, and 12 months USD LIBOR) will no longer by 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 nil (2021: €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.

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 €1.4 million (2021: nil) and an unfavourable change in value of €3.1 million (2021: €2.1 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 5 Bank Street, E14 4BG .

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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report. The rules of the Fund were amended in December 2022 for resources on termination to be returned to the Bank.

The funds basis of preparation and accounting policies are described on pages 3-10.

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[5] € million	Undrawn commitments € million
Total projects			
At 31 December 2020	508	(452)	56
Movement in the year	58	(63)	(5)
As at 31 December 2021	566	(515)	51
Movement in the year	46	(41)	5
As at 31 December 2022	**612**	**(556)**	**56**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2022.

4. Placements with credit institutions

	2022 € million	2021 € million
Cash and cash equivalents	320	280
Other current placements	200	190
At 31 December	520	470

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

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. Contributions received and receivable

Contributions received and receivable from the Bank are set out below:

	2022 € million	2021 € million
Cumulative contributions received	1,209	1,087
Contributions pledged by EBRD		
Contributions receivable	94	110
Accrued Management fee	6	3
Total contributions at 31 December	**1,309**	**1,200**

6. Share investments

The table below provides information about the Fund's share investments.

	2022 € million	2021 € million
Outstanding disbursements		
At 1 January	48	48
Disbursements	-	-
At 31 December	**48**	**48**
Fair value adjustment		
At 1 January	3	(2)
Movement in fair value revaluation	(3)	5
At 31 December	**-**	**3**
Fair value at 31 December	**48**	**51**

	2022 € million	2021 € million
Net unrealised (loss)/gain from share investments	(3)	5
Net gain from share investments	**(3)**	**5**

7. Financial guarantee movement

	2022 € million	2021 € million
Movement in financial guarantee for Stage 1 and Stage 2 loans	(5)	-
Charge for estimated settlement of credit impaired guaranteed loans	(1)	-
Financial guarantees movement	**(6)**	**-**

8. Undrawn commitments

	2022 € million	2021 € million
Technical cooperation expenses	56	51
Incentive fees	10	9
Financial guarantees	33	6
Investment grants	57	51
At 31 December	**156**	**117**

This represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2022. Undrawn commitments for technical cooperation expenses excludes amounts accrued on the balance sheet.

Analysis of current and non-current assets and liabilities

Assets	Current 2022 € million	Non-current 2022 € million	Total 2022 € million	Current 2021 € million	Non-current 2021 € million	Total 2021 € million
Placements with credit institutions	520	-	520	470	-	470
Contributions receivable	94	-	94	110	-	110
Share investments	-	48	48	-	51	51
Other receviables	2	-	2	-	-	-
Total assets	616	48	664	580	51	631
Liabilities						
Accrued expenses	40	-	40	52	-	52
Financial guarantee liability	12	-	12	1	-	1
Total liabilities	52	-	52	53	-	53

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 2022.

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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 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 ultimate parent and controlling 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 €3 million was charged during the year (2021: €3 million). There was an accrued management fee payable of €6 million by the Fund to the Bank at 31 December 2022 (2021: €4.9 million), offset against contributions receivable.

External auditors' remuneration of €19,100 (2021: €18,200) 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 in their first term as the Bank's external auditors for the five-year period 2020-24. 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 2022, €16,100 is receivable from the Bank for bank charges incurred (2021: €14,300).

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

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

Report on the audit of the financial statements

Opinion

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2022 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 2022;
- 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 auditors report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The EBRD SME Special Fund

Annual Financial Report
31 December 2022

The EBRD SME Special Fund

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The EBRD SME Special Fund

Statement of comprehensive income

For the year ended 31 December 2022

	Note	Year to 31 December 2022 € 000	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000	Year to 31 December 2021 € 000
Interest income			35		2
Accrued technical cooperation expenses release		53		-	
Technical cooperation expenses		(13)		(82)	
Client cost sharing for technical cooperation		-		2	
Net technical cooperation expenses			40		(80)
Net (loss)/gain from share investments	4		(293)		512
Foreign exchange movement			225		171
Other operating expenses	3		(96)		(56)
Net (loss)/profit and comprehensive (expense)/income for the year			(89)		549
Attributable to:					
Contributors			(89)		549

Balance sheet

At 31 December 2022

	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			8,370		4,425
Interest receivable			1		-
Share investment	4		3,650		3,943
Total assets			12,021		8,368
Liabilities					
Other financial liabilities	5		75		88
Contributors' resources					
Contributions	6	45,902		42,147	
Reserves and accumulated losses		(33,956)		(33,867)	
Total contributors' resources			11,946		8,280
Total liabilities			12,021		8,368

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Contributions € 000	Reserves and accumulated losses € 000	Total € 000
At 31 December 2020	40,382	(34,416)	5,966
Contributions received	1,765	-	1,765
Net profit and total comprehensive income for the year	-	549	549
At 31 December 2021	42,147	(33,867)	8,280
Contributions received	3,755	-	3,755
Net loss and total comprehensive expense for the year	-	(89)	(89)
At 31 December 2022	**45,902**	**(33,956)**	**11,946**

The EBRD SME Special Fund

Statement of cash flows

For the year ended 31 December 2022	Year to 31 December 2022		Year to 31 December 2021	
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net (loss)/profit for the year	(89)		549	
Adjustment to reconcile (loss)/profit to net cash flows:				
Non-cash items in the income statement				
Net loss/(gain) from share investments	293		(512)	
Foreign exchange movement	(225)		(171)	
	(21)		(134)	
Working capital adjustment				
Movement in client cost sharing for technical cooperation receivable	-		28	
Movement in interest receivable	(1)		-	
Movement in accrued expenses	(13)		49	
Net cash used in operating activities		(35)		(57)
Cash flows from financing activities				
Contributions received	3,755		1,765	
Net cash from financing activities		3,755		1,765
Net increase in cash and cash equivalents		3,720		1,708
Cash and cash equivalents at the beginning of the year		4,425		2,546
Effect of foreign exchange rate changes		225		171
Cash and cash equivalents at 31 December		8,370		4,425

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

Gordon Jones

Gordon Jones, Director – Financial Control
Date: 5 April 2023

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €2,000. This, with loan interest income, make up the interest income from loans figure in the Statement of comprehensive income.

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period
There were a number of amendments to existing standards, effective for the current reporting period, which have negligible or no impact on the Fund's financial statements, namely:
- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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

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

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 anticipates no material impact as a result of adopting the changes to the 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 the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standards.

B. 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 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.

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

Contributors' resources

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

The Fund is required to return to contributors reflows of investment income earned on contributed resources. The return of funds to the contributor is disclosed as 'distribution of funds to contributors' in the statement of changes in contributors' resources.

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

Statement of cash flows

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

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro, the functional currency of the Fund.

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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. Negative interest rate expense is recognised in '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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant 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.

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve 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 of the Fund.

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

The EBRD SME Special Fund

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[2] 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 and Risk 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 2022 and 31 December 2021.

[2] 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 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.

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.

There is no comparable stock exchange for the Fund’s investment to determine a correlated movement. The level 3 sensitivity analysis below provides the best estimate of possible fair value change’s to the Fund’s investment.

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 2022 € 000	**United States dollars 2022 € 000**	**Total € 000**
Total assets	472	11,549	**12,021**
Total liabilities	(12,021)	-	**(12,021)**
Net currency position at 31 December 2022	**(11,549)**	**11,549**	-

	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	-

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: 8 per cent) is € 755,000 (2021 €554,000).

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 €109,000 (2021: €nil) and an unfavourable change in value of € 243,000 (2021: €164,000).

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 5 Bank Street, E14 4BG.

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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report.

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

	2022 € 000	2021 € 000
Management fees	75	35
Audit fees	19	18
Negative interest rate expense	2	3
Year to 31 December	**96**	56

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditors' remuneration of € 19,100 (2021: €18,200). The Bank pays the external auditors’ remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2022 no fee (2021: nil) is payable in relation to the 2022 external audit. 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 in their first term as the Bank’s external auditors for the five-year period 2020-24.

4. Share investment

The table below provides information about the Fund's share investment.

	2022 € 000	2021 € 000
Outstanding disbursements		
At 1 January	3,747	3,747
At 31 December	3,747	3,747
Fair value adjustment		
At 1 January	196	(316)
Movement in fair value revaluation	(293)	512
At 31 December	(97)	196
Fair value at 31 December	3,650	3,943

5. Other financial liabilities

	2022 € 000	2021 € 000
Technical cooperation expenses	-	53
Management fees payable	75	35
At 31 December	75	88

6. Contributions

Contributions of €3,756,000 were received from the Embassy of the United States of America during the year (2021: 1,765,000). The US dollar equivalent of this contribution was $4,000,000.

7. Undrawn commitments

This represents amounts for which the Fund has contracted but for which the transaction or service was not performed at 31 December.

	2022 € 000	2021 € 000
Total commitments approved	31,183	31,224
Total technical cooperation expenses[2]	(31,169)	(31,209)
Undrawn commitments at 31 December	14	15

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

	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000
Assets						
Placements with credit institutions	8,370	-	8,370	4,425	-	4,425
Interest receivable	1	-	1	-	-	-
Share investments	-	3,650	3,650	-	3,943	3,943
Total assets	8,371	3,650	12,021	4,425	3,943	8,368
Liabilities						
Other financial liabilities	75	-	75	88	-	88
Contributors' resources	8,296	3,650	11,946	4,337	3,943	8,280
Total liabilities	8,371	3,650	12,021	4,425	3,943	8,368

[3] Total technical cooperation expenses includes amounts accrued on the balance sheet. In 2022 a number of contracts which were accrued for closed which has resulted in a reduction in technical cooperation expenses

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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 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. Management fees of €35,000 were paid by the Fund to the Bank in 2022 (2021: nil) and €75,000 is payable by the Fund to the Bank at 31 December 2022 (2021: €35,000). 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 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The Italian Investment Special Fund

Annual Financial Report
31 December 2022

The Italian Investment Special Fund

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The Italian Investment Special Fund

Statement of comprehensive income

For the year ended 31 December 2022	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest income from loans	3	222	180
Dividend income		97	67
Fee income		5	7
Net gains from share investments	4	392	475
Financial guarantees movement	5	(413)	338
Foreign exchange movement		1	93
Operating expenses	6	(41)	(65)
Impairment release on loan investments	7	41	74
Net profit and comprehensive income for the year		304	1,169
Attributable to:			
Contributor		304	1,169

Balance sheet

At 31 December 2022	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			6,899		7,601
Other financial assets			-		-
Loan investments					
Loans at amortised cost	8	521		651	
Less: Provisions for impairment	7	(94)		(337)	
			427		314
Share investments	9		2,813		2,758
Financial guarantee assets			24		38
Total assets			10,163		10,711
Liabilities					
Other financial liabilities	10		43		80
Financial guarantee liabilities	11		1,065		880
Total liabilities			1,108		960
Contributions			13,524		14,524
Reserves and accumulated loss			(4,469)		(4,773)
Total contributor's resources			9,055		9,751
Total liabilities and contributor's resources			10,163		10,711
Memorandum items					
Undrawn commitments	13		1,790		2,216

The Italian Investment Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2022	Note	Net contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2020		17,524	(5,942)	11,582
Distribution to other donor funds	12	(3,000)	-	(3,000)
Net profit and total comprehensive income for the year		-	1,169	1,169
At 31 December 2021		14,524	(4,773)	9,751
Distribution to other donor funds	12	(1,000)	-	(1,000)
Net profit and total comprehensive income for the year		-	304	304
At 31 December 2022		**13,524**	**(4,469)**	**9,055**

Statement of cash flows

For the year ended 31 December 2022

	Year to 31 December 2022 € 000	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000	Year to 31 December 2021 € 000
Cash flows from operating activities				
Net profit for the year	304		1,169	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	(9)		(5)	
Fair value movement on share investments	(392)		(475)	
Foreign exchange movement	(1)		(93)	
Financial guarantees movement	413		(338)	
Remeasurement of previously impaired loans	(207)		-	
Impairment (release) on loan investments	(41)		(74)	
	67		184	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan investments	143		40	
Proceeds from return of capital on share investments	303		62	
Proceeds from sale of share investments	-		508	
Settlement of derivative financial instruments	-		(477)	
Settlement of financial guarantee liabilities	(211)		-	
Working capital adjustment				
Movement in fee income	-		1	
Movement in other receivable	-		512	
Movement in accrued expenses	(3)		(1)	
Movement in guarantee payable	-		(450)	
Movement in other payable	-		(6)	
Net cash from operating activities		299		373
Distribution to other donor funds	(1,000)		(3,000)	
Net cash used in financing activities		(1,000)		(3,000)
Net decrease in cash and cash equivalents		(701)		(2,627)
Cash and cash equivalents at the beginning of the year		7,601		10,233
Effect of foreign exchange rate changes		(1)		(5)
Cash and cash equivalents at 31 December		6,899		7,601

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €2,000. This, with loan interest income, make up the interest income from loans figure in the Statement of comprehensive income.

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of significant 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 "Accounting policies and judgements" and "Significant accounting estimates and critical judgements" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

There were four amendments to existing standards, effective for the current reporting period, which had no impact on the Bank's financial statements, namely:

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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
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 considers that this standard is not applicable to its operations.
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 anticipates no material impact as a result of adopting the changes to these standards.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	The amendments aim to help entities provide accounting policy disclosures that are more useful by: • Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and • Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy Effective for annual reporting periods beginning on or after 1 January 2023.	The 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.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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 have been reformed. 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.

C. Significant accounting estimates and critical judgements

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 significant 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.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions						
2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

[4] The Bank's internal PD rating scale is explained in detail on page 13 of the Risk Management section.

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

Sustainable Infrastructure

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one-year probability of growth was 84 per cent at the end of 2022 (2021: 84 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 as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. Forward-looking country-specific probabilities of macroeconomic growth and recession using a three year GDP horizon are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-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

There are no Stage 1 provisions at 31 December 2022 (2021: no Stage 1 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 2022 €000	Change in provision 2022 €000	Change in provision 2022 %	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %
2022 portfolio provision (Stage 2)	39			17		
Staging						
All loans in Stage 1	26	(13)	(34)%	12	(5)	(29)%
All loans in Stage 2	39	-	0%	17	-	0%
PD Ratings						
All loans upgraded 1 notch	31	(8)	(21)%	14	(3)	(18)%
All loans downgraded 1 notch	39	-	0%	17	-	0%
All loans upgraded 3 notches	16	(23)	(59)%	6	(11)	(65)%
All loans downgraded 3 notches	39	-	0%	17	-	0%
Projected GDP						
Projected GDP increased by 1%	37	(2)	(6)%	16	(1)	(6)%
Projected GDP decreased by 1%	41	2	4%	18	1	6%
Projected GDP increased by 5%	32	(7)	(19)%	15	(2)	(12)%
Projected GDP decreased by 5%	51	12	30%	24	7	41%
LGD						
All loans decreased by 10%	31	(8)	(21)%	13	(4)	(24)%
All loans increased by 10%	48	9	22%	21	4	24%
EAD						
All undrawn commitments cancelled	39	-	0%	17	-	0%
All undrawn commitments disbursed within one month	39	-	0%	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 +/-€23,000 (2021: +/-€38,000).

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 €331,000 (2021: €183,000). Conversely, a 3 notch PD downgrade would have increased the ECL of the financial guarantee liability €120,000 (2021: €220,000).

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 +€70,000/-€70,000 (2021: +€12,000/-€63,000) on the Fund's financial guarantee liability.

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 making accounting estimates described in the Significant accounting estimates section above, 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 of the Fund.

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

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 and Risk 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 13).

[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 and Risk 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	AA+	Very strong	
	2.0	AA		
	2.3/2.5	AA-		
3	2.7	A+	Strong	
	3.0	A		
	3.3	A-		
4	3.7	BBB+	Good	
	4.0	BBB		
	4.3	BBB-		

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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the “Significant 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.

Impairment 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	2022 € 000	2021 € 000
2: Very strong	**6,899**	7,595
6: Weak	-	6
At 31 December	**6,899**	7,601

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 (2021: 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 2022, the Fund has no loan investments in Stage 1 (2021: no loans in Stage 1).

	Amortised cost carrying value				Impairment		Total net of impairment	
		Credit impaired				Credit impaired	Total net of	Impairment provisions
	Stage 2	Stage 3	Total		Stage 2	Stage 3	impairment	coverage
Risk rating category	**€ 000**	**€ 000**	**€ 000**	**Total %**	**€ 000**	**€ 000**	**€ 000**	**%**
7: Special Attention	288	-	288	55.3%	(39)	-	249	13.5%
8: Non-performing	-	233	233	44.7%	-	(55)	178	23.6%
At 31 December 2022	**288**	**233**	**521**	**100.0%**	**(39)**	**(55)**	**427**	

	Amortised cost carrying value				Impairment		Total net of impairment	
		Credit impaired				Credit impaired	Total net of	Impairment provisions
	Stage 2	Stage 3	Total		Stage 2	Stage 3	impairment	coverage
Risk rating category	€ 000	€ 000	€ 000	Total %	€ 000	€ 000	€ 000	%
7: Special Attention	276	-	276	42.4%	(17)	-	259	6.2%
8: Non-performing	-	375	375	57.6%	-	(320)	55	85.3%
At 31 December 2021	276	375	651	100.0%	(17)	(320)	314	

At 31 December 2022 the Fund had security arrangements in place for €509,000 of its disbursed loan investments (2021: €592,000). 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 2022 there were distressed restructured loans[6] with a disbursed value of €230,000 (2021: €271,000).

Financial guarantee liabilities and undrawn loan and guarantee commitments
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]

	Financial guarantee liabilities				Undrawn loan and guarantee commitments		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Total
Risk rating category	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
7: Special Attention	153	412	-	565	526	384	910
8: Non-performing	-	-	500	500	-	-	-
At 31 December 2022	**153**	**412**	**500**	**1,065**	**526**	**384**	**910**

	Financial guarantee liabilities				Undrawn loan and guarantee commitments		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Total
Risk rating category	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
7: Special Attention	65	280	-	345	777	559	1,336
8: Non-performing	-	-	535	535	-	-	-
At 31 December 2021	65	280	535	880	777	559	1,336

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

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 2022 the relevant amounts outstanding were €11.5 million (2021: €16.9 million). At 31 December 2022, the Fund's maximum exposure under such guarantees was €1.9 million (2021: €2.3 million). An amount of €43,000 (2021: €77,000) is recognised as "Derivative financial instrument liabilities" in relation to the share investments and an amount of €1.1 million (2021: €0.9 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 2022 € 000	Financial guarantee liabilities 2022 € 000	Undrawn loan and guarantee commitments 2022 € 000	Total 2022 € 000	Loans 2021 € 000	Financial guarantee liabilities 2021 € 000	Undrawn loan and guarantee commitments 2021 € 000	Total 2021 € 000
Albania	233	500	-	733	277	270	-	547
Bulgaria	-	153	526	679	-	47	777	824
Croatia	-	6	233	239	-	9	298	307
Egypt	-	6	151	157	-	18	261	279
Serbia	288	400	-	688	321	387	-	708
Türkiye	-	-	-	-	53	149	-	202
At 31 December	521	1,065	910	2,496	651	880	1,336	2,867

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

	Loans 2022 € 000	Financial guarantee liabilities 2022 € 000	Undrawn loan and guarantee commitments 2022 € 000	Total 2022 € 000	Loans 2021 € 000	Financial guarantee liabilities 2021 € 000	Undrawn loan and guarantee commitments 2021 € 000	Total 2021 € 000
Agribusiness	-	6	151	157	53	166	262	481
Manufacturing and Services	521	1,059	759	2,339	598	714	1,074	2,386
At 31 December	521	1,065	910	2,496	651	880	1,336	2,867

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 2022 € 000	Euro 2022 € 000	Turkish lira 2022 € 000	Total € 000
Total assets	3	10,160	-	10,163
Total liabilities	(6)	(1,102)	-	(1,108)
Net currency position at 31 December	(3)	9,058	-	9,055

	British Pounds 2021 € 000	Euro 2021 € 000	Turkish lira 2021 € 000	Total € 000
Total assets	8	10,697	6	10,711
Total liabilities	(18)	(793)	(149)	(960)
Net currency position at 31 December	(10)	9,904	(143)	9,751

Based on the average five year absolute rolling average movement in the below currencies, the potential impact on comprehensive income is €Nil (2021: €27,000):

- 5.7 per cent strengthening or weakening in the British pound to euro exchange rate (2021: 6.1 per cent); and
- 26.0 per cent strengthening or weakening in the Turkish lira to euro exchange rate (2021: 22.1 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 2022 € 000	Equities 2021 € 000
Albania	**68**	67
Bosnia and Herzegovina	**119**	117
Croatia	**510**	501
Kosovo	**1,504**	1,473
North Macedonia	**136**	133
Serbia	**476**	467
At 31 December	**2,813**	2,758

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 net profit from a 8 per cent movement (2021: 9 per cent) in equity prices is €222,000 (2021: €248,000).

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 no longer be published after 30 June 2023.

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, 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 2022	Derivative financial instruments 2022	Total 2022	Share investments 2021	Derivative financial instruments 2021	Total 2021
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Balance as at 1 January	2,758	(77)	2,681	2,578	(279)	2,299
Net gains/(losses) recognised in:						
- Net gains/(losses) from share investments at fair value through profit or loss	358	34	392	750	(275)	475
Purchases	-	-	-	-	-	-
Sales	(303)	-	(303)	(570)	-	(570)
Settlements	-	-	-	-	477	477
Balance at 31 December	**2,813**	**(43)**	**2,770**	2,758	(77)	2,681
Net gains/(losses) recognised for the year for Level 3 instruments held at 31 December recognised in:						
- Net gains from share investments at fair value through profit or loss	358	34	392	498	(23)	475

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2022 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2022	
	Carrying amount	Favourable change	Unfavourable change
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments and associated derivatives	2,770	698	(535)
At 31 December 2022	**2,770**	**698**	**(535)**

		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)

Level 3 financial liabilities relate to derivatives attached to share investments which have been analysed together in the table above.

Share investments and associated derivatives

The Fund's unlisted equity portfolio comprises direct share investments, equity derivatives and equity funds. The valuation techniques/models used to fair value these financial instruments are net asset value multiples, earnings before interest, tax, depreciation and amortisation (EBITDA) multiples, book cost and discounted cash flow models. Reasonable possible alternative valuations have been determined based on the net asset value and EBITDA multiple ranges used in the valuations.

A valuation model is used to fair value the guarantee of a minimum rate of return on the Bank's parallel share investments. The inputs into the model include the euro yield curve, the valuation of the underlying parallel investments, future dividend yields, equity volatility, the subscription price and an equity valuation additional amount. Reasonable possible alternative valuations have been determined based on the favourable and unfavourable change in the underlying direct share investments.

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of the Bank at its meeting of 15/16 September 1998 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations ("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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report.

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 €207,000 of interest recognised as a result of the remeasurement of previously impaired Stage 3 loans returning to Stage 2 (2021: €134,000).

4. Net gains from share investments

	2022	2021
	€ 000	€ 000
Net unrealised gains from share investments	358	1,220
Net realised losses from share investments	-	(470)
Net unrealised gains from equity related derivatives	34	202
Charge on derivative financial instruments	-	(477)
Net gains from share investments	**392**	475

5. Financial guarantees movement

	2022	2021
	€ 000	€ 000
Movement in financial guarantee for Stage 1 and Stage 2 loans	(106)	37
Change in guarantee on loan transfer from Stage 3 to Stage 2	(33)	346
Change in guarantee on loan transfer from Stage 2 to Stage 3	(229)	-
Charge for estimated settlement of credit impaired guaranteed loans	(45)	(45)
Financial guarantees movement	**(413)**	338

6. Operating expenses

	2022 € 000	2021 € 000
Audit fees	19	18
Negative interest rate expense on placements	22	47
Year to 31 December	41	65

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditor's remuneration of €19,100 (2021: €18,200). The Bank pays the external auditor's remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2022 no fee (2021: no fee) is payable to the Bank in relation to the 2022 external audit.

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 in their first term as the Bank's external auditors for the five-year period 2020-24.

7. Provision for impairment of loan investments

Release for the year	2022 € 000	2021 € 000
Impairment of loan investments at amortised cost in stage 2	(22)	(17)
Impairment of loan investments at amortised cost in stage 3	63	91
Provisions for impairment of loan investments	41	74

Movement in provisions		
As at 1 January	(337)	(449)
Release for the year to the income statement	41	74
Release against amounts written off	200	-
Unwinding of the discount on expected future cash flows of stage 3 assets	2	-
Foreign exchange adjustments	-	38
At 31 December	(94)	(337)

Analysed between		
Stage 2 provisions for loan investments at amortised cost	(39)	(17)
Stage 3 provisions for loan investments at amortised cost	(55)	(320)
At 31 December	(94)	(337)

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 2022, the Fund has no loan investments in Stage 1 (2021: no loans in Stage 1).

Movement in provisions	Lifetime ECL (Stage 2) 2022 € 000	Lifetime ECL (Stage 3) 2022 € 000	Total 2022 € 000
As at 1 January	(17)	(320)	(337)
Transfer to stage 2 - significant decrease in credit risk	(39)	74	35
Transfer to stage 3 - credit impaired	16	(57)	(41)
ECL release - repayments	-	46	46
ECL release - write offs	-	200	200
Changes in model or risk parameters	1	2	3
As at 31 December	(39)	(55)	(94)

Movement in provisions	Lifetime ECL (Stage 2) 2021 € 000	Lifetime ECL (Stage 3) 2021 € 000	Total 2021 € 000
As at 1 January	-	(449)	(449)
Transfer to stage 2 - significant increase in credit risk	(17)	48	31
Changes in model or risk parameters	-	43	43
Foreign exchange and other movements	-	38	38
As at 31 December	(17)	(320)	(337)

Movement in loans at amortised cost	Loans Stage 2 2022 € 000	Loans Stage 3 2022 € 000	Total 2022 € 000
As at 1 January	276	375	651
Transfer to stage 2 - significant decrease in credit risk	85	(85)	-
Transfer to stage 3 - credit impaired	(255)	255	-
Repayments	(32)	(111)	(143)
Remeasurement of previously impaired loans	207	-	207
Release against amounts written off	-	(200)	(200)
Movement in effective interest rate adjustment	8	(1)	7
Foreign exchange and other movements	(1)	-	(1)
As at 31 December	288	233	521

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 increase in credit risk	271	(271)	-
Repayments	-	(40)	(40)
Movement in effective interest rate adjustment	5	-	5
Foreign exchange and other movements	-	(40)	(40)
As at 31 December	276	375	651

8. Loan investments

	2022	2021
	€ 000	€ 000
At 1 January	651	726
Repayments	(143)	(40)
Remeasurement of previously impaired loans	207	-
Write offs	(200)	-
Movement in effective interest rate adjustment	7	5
Foreign exchange movement	(1)	(40)
At 31 December	521	651
Impairment at 31 December	(94)	(337)
Total loan investments net of impairment at 31 December	427	314

9. Share investments

	2022	2021
	€ 000	€ 000
Outstanding disbursements		
At 1 January	2,494	3,534
Disposals	(303)	(1,040)
At 31 December	2,191	2,494
Fair value adjustment		
At 1 January	264	(956)
Movement in fair value revaluation	358	1,220
At 31 December	622	264
Fair value at 31 December	2,813	2,758

10. Other financial liabilities

	2022	2021
	€ 000	€ 000
Fair value of equity related derivatives	43	77
Negative interest rate expense payable	-	3
At 31 December	43	80

11. Financial guarantee liabilities

	2022	2021
	€ 000	€ 000
At 1 January	880	1,323
Financial guarantee movement	413	(338)
Unamortised fair value of loan guarantee	(14)	(5)
Settlement of financial guarantee liabilities	(211)	-
Foreign exchange movement	(3)	(100)
At 31 December	1,065	880

	2022	2021
Represented by:	€ 000	€ 000
Guarantees on Stage 1 and Stage 2 loans	565	345
Guarantees on credit impaired loans	500	535
At 31 December	1,065	880

12. Contributions

At the request of the Contributor, the following contributions were transferred to other donor funds during the year:

	2022	2021
Distribution to other donor funds	**€ 000**	€ 000
Small Business Impact Fund	1,000	2,000
Italian Technical Cooperation Fund	-	1,000
At 31 December	**1,000**	3,000

13. Undrawn commitments

	2022	2021
	€ 000	€ 000
Guarantees	910	1,336
Undrawn share commitments	880	880
Undrawn commitments and guarantees at 31 December	**1,790**	2,216

14. 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 2022	Non-current 2022	Total 2022	Current 2021	Non-current 2021	Total 2021
Assets	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Placements with credit institutions	6,899	-	6,899	7,601	-	7,601
Loan investments at amortised cost	58	463	521	325	326	651
Provisions for impairment	(8)	(86)	(94)	(215)	(122)	(337)
Share investments	-	2,813	2,813	-	2,758	2,758
Financial guarantee assets	5	19	24	8	30	38
Total assets	6,954	3,209	10,163	7,719	2,992	10,711
Liabilities						
Other financial liabilities	-	43	43	3	77	80
Financial guarantee liabilities	506	559	1,065	34	846	880
Total liabilities	506	602	1,108	37	923	960

15. 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 2022. 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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 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.

16. 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 2022, there were no management fees paid by the Fund to the Bank (2021: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2022 (2021: 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 2022 nothing was owing to the Fund from the Bank (2021: Nil). At 31 December 2022 no amounts were owing from the Bank to the Fund. (2021: nil).

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 2022 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 2022;
- the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributor's 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 auditors report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 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 LLP
Chartered Accountants
London
April 2023

European Bank
For Reconstruction and Development

The Multi-Donor Trust Fund for the West Bank and Gaza

Annual Financial Report
31 December 2022

The Multi-Donor Trust Fund for the West Bank and Gaza

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The Multi-Donor Trust Fund for the West Bank and Gaza

Statement of comprehensive income

For the year ended 31 December 2022

	Note		Year to 31 December 2022 € 000		Year to 31 December 2021 € 000
Client cost sharing for technical cooperation		17		-	
Technical cooperation expenses	3	(561)		(538)	
Net technical cooperation expenses			(544)		(538)
Operating expenses	4		(5)		(23)
Net loss and total comprehensive expense for the year			(549)		(561)
Attributable to:					
Contributors			(549)		(561)

Balance sheet

As at 31 December 2022

	Note	31 December 2022 € 000	31 December 2021 € 000
Assets			
Placements with credit institutions		1,254	1,757
Other financial assets	5	11	-
Total assets		1,265	1,757
Liabilities and contributors' resources			
Other financial liabilities	6	516	459
Total liabilities		516	459
Contributions	7	2,362	2,362
Reserves and accumulated loss		(1,613)	(1,064)
Total contributors' resources		749	1,298
Total liabilities and contributors' resources		1,265	1,757

The Multi-Donor Trust Fund for the West Bank and Gaza

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Contributions € 000	Reserves and accumulated loss € 000	Total € 000
At 31 December 2020	1,462	(503)	959
Contributions received	900	-	900
Net loss and total comprehensive expense for the year	-	(561)	(561)
At 31 December 2021	2,362	(1,064)	1,298
Net loss and total comprehensive expense for the year	-	(549)	(549)
At 31 December 2022	**2,362**	**(1,613)**	**749**

Statement of cash flows

For the year ended 31 December 2022

		Year to 31 December 2022		Year to 31 December 2021
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the year	(549)		(561)	
Adjustments to reconcile net loss to net cash flows:				
Working capital adjustment				
Movement in accrued expenses	57		232	
Movement in client cost sharing for technical cooperation receivable	(11)		-	
Net cash used in operating activities		(503)		(329)
Cash flows from financing activities				
Contributions received	-		900	
Net cash generated from financing activities		-		900
Net (decrease)/increase in cash and cash equivalents		(503)		571
Cash and cash equivalents at the beginning of the period		1,757		1,186
Cash and cash equivalents at 31 December		1,254		1,757

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period
There were a number of amendments to existing standards, effective for the current reporting period, which have negligible or no impact on the Fund's financial statements, namely:
- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	The amendments aim to help entities provide accounting policy disclosures that are more useful by: • Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and • Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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.

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 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.

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 statement of comprehensive income.

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 of the contractual arrangement.

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.

Interest

Interest is recorded on an accruals basis. Negative interest was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. Negative interest rate expense is recognised in 'operating expenses' in the statement of comprehensive income.

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.

C. Significant accounting estimates and critical judgements

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 countries in which the Fund invests, but which are not directly correlated to market risks such as interest rate and foreign exchange risk.

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

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.

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 and Risk 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. The financial institution rating approximated to a Standard & Poor's equivalent rating of AA+ to AA-.

The carrying amounts of placements presented on the balance sheet best represents the Fund's maximum exposure to credit risk at 31 December 2022 and 31 December 2021.

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 dollar	Total
	€ 000	€ 000	€ 000
Total assets	1,265	-	**1,265**
Total liabilities	388	128	**516**
Net currency position at 31 December 2022	**1,653**	**128**	**1,781**

	Euro	United States dollar	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

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 7.55 per cent strengthening or weakening (2021: 7 percent) is +/- €8,440 (2021: +/- €5,550).

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 5 Bank Street, E14 4BG.

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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report.

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 € 000	Undrawn commitments € 000
Total Projects			
At 31 December 2020	832	(435)	397
Movement in the period	527	(538)	(11)
At 31 December 2021	**1,359**	**(973)**	**386**
Movement in the period	433	(561)	(128)
At 31 December 2022	**1,792**	**(1,534)**	**258**

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 2022.

4. Operating expenses

Operating expenses comprised the following:

	2022 € 000	2021 € 000
Management fees	-	(16)
Negative interest rate expense	(5)	(7)
Year to 31 December	(5)	(23)

5. Other financial assets

	2022 € 000	2021 € 000
Client cost sharing for technical cooperation receivable	11	-
At 31 December	11	-

6. Other financial liabilities

Other financial liabilities consist of accrued technical cooperation expenses of €516,000 (2021: €459,000).

7. Contributions

Cumulative contributions received	2022 € 000	2021 € 000
Netherlands	1,200	1,200
Spain	500	500
United Kingdom	662	662
At 31 December	2,362	2,362

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

All assets and liabilities on the balance sheet are classified as current for 2022 and 2021.

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 2022.

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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

10. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 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. No management fees were paid during the period (2021: €16,000) and there were no management fees payable to the Bank at period end (2021: Nil).

External auditors' remuneration of €19,100 (2021: €18,200) 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

Contributions received from the contributors are outlined in note 7.

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 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The Russia Small Business Technical Cooperation Special Fund

Financial Report
for the period
1 January 2022 to 28 December 2022

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The Russia Small Business Technical Cooperation Special Fund

Income statement

For the period ended 28 December 2022

	Note	Period to 28 December 2022 € 000	Year to 31 December 2021 € 000
Interest income			
From credit institutions		2	1
Other operating expenses	3	(19)	(18)
Net loss for the period/year		(17)	(17)
Attributable to:			
Contributors		(17)	(17)

Statement of comprehensive income

For the period ended 28 December 2022

	Period to 28 December 2022 € 000	Year to 31 December 2021 € 000
Net loss for the period/year	(17)	(17)
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	208	135
Total comprehensive income for the period/year	191	118
Attributable to:		
Contributors	191	118

These items will not subsequently be reclassified to profit or loss.

Balance sheet

As at 28 December 2022

	Note	28 December 2022 € 000	28 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			-		1,715
Total assets			-		1,715
Liabilities and contributors' resources					
Contributions	4	67,674		69,580	
Reserves and accumulated losses		(67,674)		(67,865)	
Total contributors' resources			-		1,715
Total liabilities and contributors' resources			-		1,715

The Russia Small Business Technical Cooperation Special Fund

Statement of changes in contributors' resources

For the period ended 28 December 2022

	Contributions	General reserve	Accumulated losses	Total
	€ 000	€ 000	€ 000	€ 000
As at 31 December 2020	69,580	848	(68,831)	1,597
Net loss for the year	-	-	(17)	(17)
Other comprehensive income for the year	-	135	-	135
As at 31 December 2021	69,580	983	(68,848)	1,715
Contributions transferred	(1,906)	-	-	(1,906)
Net loss for the period	-	-	(17)	(17)
Other comprehensive income for the period	-	208	-	208
As at 28 December 2022	**67,674**	**1,191**	**(68,865)**	**-**

Statement of cash flows

For the period ended 28 December 2022

	Period to 28 December 2022		Year to 31 December 2021	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss	(17)		(17)	
Net cash used in operating activities		(17)		(17)
Cash flows from financing activities				
Contributions transferred	(1,906)		-	
Net cash used in financing activities		(1,906)		-
Net decrease in cash and cash equivalents		(1,923)		(17)
Cash and cash equivalents at the beginning of the year		1,715		1,597
Effect of foreign exchange rate changes		208		135
Cash and cash equivalents at the end of the period		-		1,715

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

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.

The Fund was terminated on 6 May 2022 and closed on 28 December 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 periods 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"), on a an historical cost convention.

Going concern

The financial statements for the Fund are presented on a basis other than that of a going concern as the Fund terminated 6 May 2022 and subsequently closed on 28 December 2022. 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 the use of certain significant 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 "Accounting policies and judgements" and" Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

B. 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

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.

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

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.

C. Significant accounting estimates and critical judgements

The Fund does not have any significant accounting estimates for 2022 and 2021.

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve 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 of the Fund.

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

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 was to assist the operations of the Programme rather than to generate a return on its assets, financial risks, with the exception of credit risk, were not actively managed by the Fund.

Risk governance

On 28 December 2022 all of the Fund’s resources had been transferred in line with the Contributors agreements. As such, the Fund has no exposure to credit risk, market risk or liquidity risk.

The Fund’s financial risk for the prior year was 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 5 Bank Street, E14 4BG.

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 Board of Directors approved termination of the Fund on the 6 May 2022. Following the final transaction, the Fund was closed on 28 December 2022.

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 €19,400 (31 December 2021: €18,200). The Bank pays the remuneration on behalf of the Fund, who in turn reimburses the Bank in full. At 28 December 2022, the audit fee had been paid in full (31 December 2021: paid in full). 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

4. Contributions

Contributions received and transferred are set out below:

	2022		2021	
Cumulative contributions received	**€ 000**	**%**	**€ 0**	**%**
Canada	4,309	6.2	4,309	6.2
France	4,980	7.2	4,980	7.2
Germany	3,025	4.3	3,025	4.3
Italy	1,360	2.0	1,360	2.0
Japan	3,295	4.7	3,295	4.7
The Russia Small Business Investment Special Fund	8,848	12.7	8,848	12.7
Switzerland	1,244	1.8	1,244	1.8
United Kingdom	12,824	18.4	12,824	18.4
United States of America	29,695	42.7	29,695	42.7
At the end of the period/year	69,580	100	69,580	100

The table below summarises the amounts transferred.

	2022
Contributions transferred	**€ 000**
Canada	117
France	131
Germany	66
Italy	39
Japan	92
The Russia Small Business Investment Special Fund	274
Switzerland	36
United Kingdom	347
United States of America	804
At 28 December 2022	1,906

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

All assets and liabilities on the balance sheet are classified as current for both 2022 and 2021.

6. Fair value of financial assets and financial liabilities

Since the Fund has been closed, no assets or liabilities exist as at 28 December 2022. All assets and liabilities presented on the balance sheet approximated their fair value at 31 December 2021.

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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

8. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. 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 2022, there were no management fees paid by the Fund to the Bank (31 December 2021: nil), and there was no accrued management fee payable by the Fund to the Bank at 28 December 2022 (31 December 2021: 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 2022 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 2022;

- 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.

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 Going concern section on page 3 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.

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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The Russia Small Business Investment Special Fund

Annual Financial Report
31 December 2022

The Russia Small Business Investment Special Fund

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The Russia Small Business Investment Special Fund

Income statement

For the year ended 31 December 2022	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest from credit institutions		133	53
Dividend income		42	130
Net loss from share investments		(846)	(126)
Foreign exchange movement		175	4
Financial guarantees movement		(31)	-
Other operating expenses	3	(19)	(18)
Net (loss)/profit for the year		(546)	43
Attributable to:			
Contributors		(546)	43

Statement of comprehensive income

For the year ended 31 December 2022	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Net (loss)/profit for the year	(546)	43
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Foreign exchange movement between functional and presentational currencies	7,066	5,281
Total comprehensive income for the year	6,520	5,324
Attributable to:		
Contributors	6,520	5,324

Balance sheet

At 31 December 2022	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			1,293		67,185
Other financial assets	4		-		1
Loan investments					
Loans	5	-		12	
Less: Provisions for impairment	6	-		(12)	
			-		-
Share investments	7		294		1,413
Total assets			1,587		68,599
Liabilities and contributors' resources					
Financial guarantee liability	8		-		677
Total liabilities			-		677
Contributions	9	-		59,351	
Reserves and retained earnings		1,587		8,571	
Total contributors' resources			1,587		67,922
Total liabilities and contributors' resources			1,587		68,599
Memorandum items					
Guarantees			820		820

The Russia Small Business Investment Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2022	Contributions	General reserve	Retained earnings	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2020	59,351	42	3,205	62,598
Net profit and total comprehensive income for the year	-	5,281	43	5,324
At 31 December 2021	59,351	5,323	3,248	67,922
Net loss and total comprehensive income for the year	-	7,066	(546)	6,520
Distribution of contributors resources	(59,351)	(9,940)	(3,564)	(72,855)
At 31 December 2022	-	**2,449**	**(862)**	**1,587**

Statement of cash flows

For the year ended 31 December 2022	Year to 31 December 2022		Year to 31 December 2021	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(546)		43	
Adjustments to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Net loss from share investments	846		126	
Foreign exchange movement	(175)		(4)	
Financial guarantees movement	31		-	
	156		165	
Cash flows from the sale and purchase of operating assets				
Proceeds from sale of share investments	274		-	
Settlement of Financial guarantee liabilities	(527)		-	
Working capital adjustment				
Movement in other financial assets	1		60	
Net cash (used in)/generated from operating activities		(96)		225
Cash flows used in financing activities				
Distribution of contributors resources	(72,855)		-	
Net cash used in financing activities		(72,855)		-
Net (decrease)/increase in cash and cash equivalents		(72,951)		225
Cash and cash equivalents at the beginning of the year		67,185		61,737
Effect of foreign exchange rate changes		7,059		5,223
Cash and cash equivalents at 31 December		1,293		67,185

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

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").

In May 2022 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 termination agreements of the Fund, the net assets then available were transferred. Once all share investments have been realised, the Fund's remaining cash resources will be transferred.

The financial statements for the Fund are therefore presented on a basis other than that of a going concern. 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 the use of certain significant 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 "Accounting policies and judgements" and" Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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
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 anticipates no material impact as a result of adopting the changes to 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 this 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 anticipates no material impact as a result of adopting the changes to this standards.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	The amendments aim to help entities provide accounting policy disclosures that are more useful by: • Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and • Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to this standard.
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.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to this standard.

B. 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 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.

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-translated into USD at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

[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.

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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant 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 7. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report and in note 7.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

Sustainable Infrastructure

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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 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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one-year probability of growth was 84 per cent at the end of 2022 (2021: 84 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 as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. Forward-looking country-specific probabilities of macroeconomic growth and recession using a three year GDP horizon are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-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, Stage 2 or Stage 3 provisions for the unidentified impairment of loan investments at 31 December 2022 (2021: No Stage 1 or 2).

With respect to specific provisions, a decrease of ten percent on the current provision cover level would have an impact of €Nil (2021: €1,000).

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be 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.

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 and Risk 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 2022 and 31 December 2021, 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 and Risk 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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant 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.

	2022	2021
Risk rating category	**€ 000**	€ 000
2: Very strong	**1,260**	47,118
3: Strong	**-**	19,966
5: Weak	**33**	101
At 31 December	**1,293**	67,185

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 2022, the Bank had share investments amounting to €0.8 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 (2021; outstanding parallel loans and share investments amounted to €1.5 million). At 31 December 2022, the Fund's maximum exposure under such guarantees was €0.8 million (2021: €1.5 million).

At 31 December 2022 the financial guarantee liability is €Nil, (2021: €0.7 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 2022 € 000	Russian rouble 2022 € 000	United States dollar 2022 € 000	Total € 000
Total assets (excluding share investments)	4	33	1,257	**1,294**
Share investments	-	293	-	**293**
Net currency position at 31 December	**4**	**326**	**1,257**	**1,587**

	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	3	619	67,300	67,922

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 16 per cent strengthening or weakening (2021: 19 per cent) is €0.05 million (2021: €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 7 per cent strengthening or weakening of the USD (2021: 8 per cent) is €0.1 million (2021: €4.7 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 23 per cent strengthening or weakening (2021: 16 per cent) is €0.7 million (2021: €0.2 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 2022 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2022	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments and associated derivatives	294	44	(126)
At 31 December 2022	294	44	(126)

		Impact on net profit in 2021	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments and associated derivatives	1,413	318	(451)
At 31 December 2021	1,413	318	(451)

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 5 Bank Street, E14 4BG.

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 Board of Directors approved termination of the Fund on the 6 May 2022. In line with the termination agreements the Fund is currently in the process closing down.

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. Other operating expenses

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditors' remuneration of €19,100 (2021: €18,200). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2022 no fee (2021: €nil) is payable to the Bank in relation to the 2022 external audit.

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 in their first term as the Bank's external auditors for the five-year period 2020-24.

4. Other financial assets

	2022 € 000	2021 € 000
Interest receivable on placements with credit institutions	-	1
At 31 December	-	1

5. Loan investments

	2022 € 000	2021 € 000
At 1 January	12	11
Write offs	(7)	-
Foreign exchange movements	(5)	1
At 31 December	-	12
Impairment at 31 December	-	(12)
Total loan investments net of impairment at 31 December	-	-

6. Provision for impairment of loan investments

Movement in provisions	2022	2021
At 1 January	(12)	(11)
Release against amounts written off	7	-
Foreign exchange movement	5	(1)
At 31 December	-	(12)

Stage 3 provisions for loan investments at amortised cost	-	(12)
At 31 December	-	(12)

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) 2022 € 000	Total 2022 € 000	Lifetime ECL (Stage 3) 2021 € 000	Total 2021 € 000
As at 1 January	(12)	(12)	(11)	(11)
ECL release - write offs	7	7	-	-
Foreign exchange and other movements	5	5	(1)	(1)
As at 31 December	-	-	(12)	(12)

Movement in loans at amortised cost	Loans Stage 3 2022 € 000	Total 2022 € 000	Loans Stage 3 2021 € 000	Total 2021 € 000
As at 1 January	12	12	11	11
Write offs	(7)	(7)	-	-
Foreign exchange and other movements	(5)	(5)	1	1
As at 31 December	-	-	12	12

7. Share investments

	2022 € 000	2021 € 000
Outstanding disbursements		
At 1 January	9,054	9,054
Disposals	(8,848)	-
At 31 December	206	9,054
Fair value adjustment		
At 1 January	(7,641)	(7,630)
Movement in fair value revaluation	(846)	(126)
Disposals	8,574	-
Movement in functional currency	1	115
At 31 December	88	(7,641)
Fair value at 31 December	294	1,413

8. Financial guarantee liability

	2022 € 000	2021 € 000
At 1 January	(677)	(626)
Financial guarantee movement	(31)	-
Financial guarantee settlement	527	-
Foreign exchange movement	181	(51)
At 31 December	-	(677)

9. Contributions

Contributions received are set out below:

	2022		2021	
Cumulative contributions received	€ 000	%	€ 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

In accordance with the termination agreement, contributions were distributed in 2022. Any remaining distributions will be made upon the closure of the Fund from the realisation of share investments where applicable. As at 31 December 2022 contributions are nil (2021: €59,351).

10. 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.

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

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

Assets	Current 2022 € 000	Total 2022 € 000	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000
Placements with credit institutions	**1,293**	**1,293**	67,185	-	67,185
Other financial assets	-	-	1	-	1
Loans	-	-	-	12	12
Provisions for impairment	-	-	-	(12)	(12)
Share investments	**294**	**294**	-	1,413	1,413
Total assets	**1,587**	**1,587**	67,186	1,413	68,599
Liabilities					
Financial guarantee liability	-	-	-	(677)	(677)
Total liabilities	-	-	-	(677)	(677)

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 2022.

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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 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 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 2022, there were no management fees paid by the Fund to the Bank (2021: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2022 (2021: nil).

No amounts are receivable from the Bank as at 31 December 2022 (2021 €Nil).

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

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

Contributions received from 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 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 2022 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 2022;
- 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.

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 Going concern section on page 3 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.

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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The SME Local Currency Special Fund

Annual Financial Report
31 December 2022

The SME Local Currency Special Fund

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The SME Local Currency Special Fund

Income statement

For the year ended 31 December 2022	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest income		781	51
Financial guarantees movement		(9,013)	2,121
Net (loss)/profit for the year		(8,232)	2,172
Attributable to:			
Contributors		(8,232)	2,172

Statement of comprehensive income

For the year ended 31 December 2022	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Net (loss)/profit for the year	(8,232)	2,172
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	3,888	4,752
Total comprehensive (expense)/income for the year	(4,344)	6,924
Attributable to:		
Contributors	(4,344)	6,924

Balance sheet

As at 31 December 2022	Note	31 December 2022 € 000	31 December 2021 € 000
Assets			
Placements with credit institutions		72,547	67,742
Interest receivable		22	-
Total assets		72,569	67,742
Liabilities and contributors' resources			
Financial guarantee liability	3	13,714	4,543
Total liabilities		13,714	4,543
Contributions	4	60,731	60,731
Reserves and accumulated (loss)/profit		(1,876)	2,468
Total contributors' resources		58,855	63,199
Total liabilities and contributors' resources		72,569	67,742
Memorandum items			
Undrawn guarantees		222,016	245,845

The SME Local Currency Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Contributions	General reserve	Accumulated loss	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2020	60,731	125	(4,581)	56,275
Net profit and total comprehensive income for the year	-	4,752	2,172	6,924
At 31 December 2021	60,731	4,877	(2,409)	63,199
Net loss and total comprehensive expense for the year	-	3,888	(8,232)	(4,344)
At 31 December 2022	**60,731**	**8,765**	**(10,641)**	**58,855**

Statement of cash flows

For the year ended 31 December 2022

	Year to 31 December 2022		Year to 31 December 2021	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(8,232)		2,172	
Adjustment to reconcile net (loss)/profit to net cash flows:				
Financial guarantees movement	9,013		(2,121)	
Movement in interest receivable	(22)		-	
	759		51	
Net cash from operating activities		759		51
Net increase in cash and cash equivalents		759		51
Cash and cash equivalents at the beginning of the year		67,742		62,420
Effect of foreign exchange rate changes		4,046		5,271
Cash and cash equivalents at 31 December		72,547		67,742

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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	The Fund anticipates no material impact as a result of adopting the changes to the standards.

Pronouncement	Nature of change	Potential impact
	• 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.	
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 anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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 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.

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

C. Significant accounting estimates and critical judgements

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 countries 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 significant accounting estimates are 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.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

[1] The Bank's internal PD rating scale is explained in detail on page 11 of the Risk Management section.

Sustainable Infrastructure						
2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions						
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%	0.02%	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%

The Bank has applied forward-looking macroeconomic scenario information in the ECL calculation by breaking down TTC PD rates into PD rates applicable during periods of macroeconomic growth and recession, therefore considering two distinct forward-looking macroeconomic scenarios for each country. The probabilities of growth and recession are derived from GDP forecasts, sourced from the IMF, using the normal distribution of forecasted GDP with standard deviation equal to historical mean forecasting error for the country. The weighted average one-year probability of growth was 84 per cent at the end of 2022 (2021: 84 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 as significantly correlating with historic loss experience, and therefore GDP growth is the sole variable used in establishing PIT PD rates. Forward-looking country-specific probabilities of macroeconomic growth and recession using a three year GDP horizon are a key driver of PIT PD rates, and therefore a key driver of the level of impairment recognised by the Bank.

Loss given default rates

An LGD rate is assigned to individual facilities indicating how much the Fund expects to lose on each facility if the borrower defaults. The rates for senior and subordinated loans are in accordance with the foundation-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

The sensitivity of the financial guarantee relating to stage 1 and 2 loans are provided below for 31 December 2022.

Adjusted risk parameter	Recalculated ECL 2022 €000	Change in ECL 2022 €000	Change in ECL 2022 %
Financial guarantee liability on stage 1 and 2 loans	2,028		
Staging			
All loans in Stage 1	1,818	(210)	(10)%
All loans in Stage 2	3,167	1,139	56%
PD Ratings			
All loans upgraded 1 notch	1,049	(979)	(48)%
All loans downgraded 1 notch	3,259	1,231	61%
All loans upgraded 3 notches	280	(1,748)	(86)%
All loans downgraded 3 notches	5,919	3,891	192%
Projected GDP			
Projected GDP increased by 1%	1,924	(104)	(5)%
Projected GDP decreased by 1%	2,156	128	6%
Projected GDP increased by 5%	1,711	(317)	(16)%
Projected GDP decreased by 5%	2,810	782	39%
LGD			
All loans decreased by 10%	1,579	(449)	(22)%
All loans increased by 10%	2,477	449	22%
EAD			
All undrawn commitments cancelled	1,959	(69)	(3)%
All undrawn commitments disbursed within one month	2,079	51	3%

As at 31 December 2021 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 affected the value of the guarantee as at 31 December 2021 as they were measured at the initial fair value less cumulative amortisation.

With respect to the portion of the guarantee liability related to Stage 3 loans (€11 million), an increase or decrease of 10 percentage points to the expected credit losses of the underlying loans would increase or decrease the guarantee liability by €1.1 million in 2022 (2021: nil).

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 Significant accounting estimates section above, the Fund has deemed the following accounting policies to be critical as they involve a judgement 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.

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 and Risk 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's maximum exposure to credit risk (financial guarantees) is limited to the total assets presented on the balance sheet at 31 December 2022 and 31 December 2021. For more details see the "Credit risk exposures" section on page 12.

Credit risk management and measurement

As previously stated, the Fund participates alongside the Bank as a guarantor for the financing of investments in the countries 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 and Risk 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.

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant 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.

Impairment 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 financial institutions are which ranked in the second and third 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 A-. Placements with credit institutions are considered to have low credit risk.

Guarantees
At 31 December 2022, the Bank had outstanding loans amounting to €236 million (2021: €250 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 2022, the Fund's maximum exposure under such guarantees is limited to the total assets of the Fund of €72.6 million (2021: €67.7 million).

At 31 December 2022, the guarantee liability on the balance sheet is €13.7 million (2021: €4.5 million). The Fund manages credit risk on its guarantee exposure by limiting the level of guarantees to 8 times the available resources.

During the year, no amount was paid from the Fund to the Bank (2021: €nil) for losses incurred by the Bank on a loan covered under the Fund's guarantee.

Undrawn guarantees and financial guarantee liability
Set out below is an analysis of the Fund's undrawn guarantees and financial guarantee liability for each of the Fund's relevant internal risk rating categories. The undrawn guarantees are limited to the available resources of the fund.

	Undrawn guarantees				Undrawn guarantees			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	2022	2022	2022	2022	2021	2021	2021	2021
Risk rating category	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
5: Fair	63,401	-	-	63,401	77,511	-	-	77,511
6: Weak	83,016	-	-	83,016	84,580	-	-	84,580
7: Special Attention	56,330	15,303	-	71,633	69,166	13,849	-	83,015
8: Non-performing	-	-	3,966	3,966	-	-	739	739
At 31 December	202,747	15,303	3,966	222,016	231,257	13,849	739	245,845

	Financial guarantee liability				Financial guarantee liability			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	2022	2022	2022	2022	2021	2021	2021	2021
Risk rating category	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
5: Fair	72	-	-	72	145	-	-	145
6: Weak	403	-	-	403	670	-	-	670
7: Special Attention	970	583	-	1,553	2,360	1,146	-	3,506
8: Non-performing	-	-	11,686	11,686	-	-	222	222
At 31 December	1,445	583	11,686	13,714	3,175	1,146	222	4,543

Concentration of credit risk exposure on guarantees
The following table breaks down the main credit risk exposures at the carrying amount by geographical region.

Country	Undrawn guarantees 2022 € 000	Financial guarantee liability 2022 € 000	Undrawn guarantees 2021 € 000	Financial guarantee liability 2021 € 000
Armenia	46,317	314	34,638	511
Azerbaijan	16,917	11,281	21,980	1,781
Belarus	-	-	14,028	205
Egypt	2,453	8	1,509	15
Georgia	22,769	120	27,968	162
Kyrgyz Republic	12,834	111	15,201	166
Moldova	13,280	61	9,046	123
Mongolia	6,425	88	11,525	210
Morocco	13,471	527	13,215	440
Serbia	57,750	67	68,615	132
Tajikistan	16,320	282	8,163	233
Tunisia	7,322	152	14,519	435
Ukraine	224	640	1,341	88
Uzbekistan	5,934	63	4,097	42
At 31 December	222,016	13,714	245,845	4,543

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

	Undrawn guarantees 2022 € 000	Financial guarantee liability 2022 € 000	Undrawn guarantees 2021 € 000	Financial guarantee liability 2021 € 000
Manufacturing and services	9,819	11,781	20,872	1,534
Depository credit (banks)	184,036	1,112	189,814	1,799
Agribusiness	15,226	620	12,552	482
Leasing finance	6,998	132	13,624	301
Non-depository credit (non-bank)	5,937	69	8,243	206
Municipal and environmental infrastructure	-	-	740	221
At 31 December	222,016	13,714	245,845	4,543

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's net exposure to functional currency foreign exchange risk is outlined in the table below:

	Total financial assets 2022 € 000	Total financial liabilities 2022 € 000	Net currency position 2022 € 000	Total financial assets 2021 € 000	Total financial liabilities 2021 € 000	Net currency position 2021 € 000
United States dollar	72,569	(5)	72,564	67,742	(20)	67,722
Azerbaijani manat	-	(11,283)	(11,283)	-	(1,781)	(1,781)
Ukraine hryvna	-	(640)	(640)	-	(88)	(88)
Morrocan dirham	-	(527)	(527)	-	(440)	(440)
Armenian dram	-	(314)	(314)	-	(511)	(511)
Tajik somoni	-	(268)	(268)	-	(233)	(233)
Tunisian dinar	-	(152)	(152)	-	(435)	(435)
Kyrgyz som	-	(109)	(109)	-	(159)	(159)
Georgian lari	-	(105)	(105)	-	(105)	(105)
Euro	-	(89)	(89)	-	(76)	(76)
Other non-euro	-	(222)	(222)	-	(695)	(695)
	72,569	(13,714)	58,855	67,742	(4,543)	63,199

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive expense due to presentational currency movement, from a 7 per cent strengthening or weakening (2021: 8 per cent) is €3.8 million (2021: €4.7 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 5 Bank St, E14 4BG.

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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report.

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

	2022 € 000	2021 € 000
At 1 January	4,543	6,145
Financial guarantee movement	9,013	(2,121)
Movement in functional currency	158	519
At 31 December	**13,714**	4,543

4. Contributions

Cumulative contributions received	2022 € 000	2021 € 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.

Assets	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000
Placements with credit institutions	72,547	-	72,547	67,742	-	67,742
Total assets	72,547	-	72,547	67,742	-	67,742
Liabilities						
Financial guarantee liability	12,592	1,122	13,714	490	4,053	4,543
Total liabilities	12,592	1,122	13,714	490	4,053	4,543

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 2022.

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.

At 5 April 2023 there had been no material events after the reporting period to disclose.

On 5 April 2023 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

8. Related parties

The Fund's related parties are the Bank and 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 (2021: nil). At 31 December 2022 there was no management fee payable to the Bank (2021: nil).

External auditors' remuneration of €19,100 (2021: €18,200) 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.

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 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 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The Special Fund for the High Impact Partnership on Climate Action

Annual Financial Report
31 December 2022

The Special Fund for the High Impact Partnership on Climate Action

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The Special Fund for the High Impact Partnership on Climate Action

Statement of comprehensive income
For the year ended 31 December 2022

	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest income			
From loans		1,834	551
From credit institutions		280	4
Total interest		2,114	555
Fee income		56	87
Operating expenses	3	(1,482)	(1,754)
Technical cooperation expenses	4	(3,816)	-
Foreign exchange movement		1,821	764
Impairment release/(charge) on loans	5	266	(455)
Change in concessional loan discount	6	105	-
Net loss and comprehensive expense for the year		(936)	(803)
Attributable to:			
Contributors		(936)	(803)

Balance sheet
At 31 December 2022

	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			114,764		83,483
Interest receivable			232		22
Commitment fees receivable			3		9
Loan investments					
Loans	7	36,130		28,371	
Less: Provisions for impairment	5	(2,416)		(2,682)	
			33,714		25,689
Total assets			148,713		109,203
Liabilities					
Other liabilities	8		644		860
Concessional loan discount	6		1,848		3,678
Contributors' resources			146,221		104,665
Total liabilities			148,713		109,203
Memorandum items					
Undrawn loan commitments			6,769		17,148
Pledged contributions not yet due	11		64,418		61,017

The Special Fund for the High Impact Partnership on Climate Action

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Contributions	Accumulated loss	Total
	€ 000	€ 000	€ 000
At 31 December 2020	47,528	(10,919)	36,609
Net loss and 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
Net loss and total comprehensive expense for the year	-	(936)	(936)
Contributors' resource transactions			
Contributions received	44,224	-	44,224
Distribution of funds to the contributors	(1,732)	-	(1,732)
At 31 December 2022	**158,879**	**(12,658)**	**146,221**

Statement of cash flows

For the year ended 31 December 2022[1]

		Year to 31 December 2022		Year to 31 December 2021
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	(936)		(803)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Movement in effective interest rate adjustment[1]	(1,446)		(377)	
Change in concessional loan discount	(105)		-	
Foreign exchange movement	(1,821)		(764)	
Impairment (release)/charge on loan investments	(266)		455	
	(4,574)		(1,489)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	2,517		1,343	
Funds advanced for loans	(10,379)		(11,280)	
Working capital adjustment				
Movement in interest income	(210)		1	
Movement in fee income	6		12	
Movement in accrued expenses	(216)		850	
Net cash used in operating activities		(12,856)		(10,563)
Cash flows from financing activities				
Contributions received	44,224		79,817	
Distribution of funds to the contributors	(1,732)		(10,958)	
Net cash from financing activities		42,492		68,859
Net increase in cash and cash equivalents		29,636		58,296
Cash and cash equivalents at the beginning of the year		83,483		24,660
Effect of foreign exchange rate changes		1,645		527
Cash and cash equivalents at 31 December		114,764		83,483

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €1,247,000. This with loan interest income, make up the interest income from loans figure in the Statement of comprehensive income.

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non-current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the 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	The Fund anticipates no material impact as a result of adopting the changes to the standards.

Pronouncement	Nature of change	Potential impact
	• 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.	
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 anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

B. 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, EUR and CHF LIBORs and the one-week and two-month USD LIBORs were no longer published. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) will no longer be published after 30 June 2023.

The International Swaps and Derivatives Association (ISDA) published its IBOR fallback protocols, which are designed to address the transition for those derivative contracts that are still yet to transition to the new benchmarks. 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 €2.7 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.

[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 – 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.

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.

[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.

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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. Negative interest rate expense is recognised in 'operating expenses' in the statement of comprehensive income.

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.

C. Significant accounting estimates and critical judgements

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 countries 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 significant accounting estimates are outlined below:

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

Sustainable Infrastructure

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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 11 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%

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 2022 (2021: 84 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.

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 2022 €000	Change in provision 2022 €000	Change in provision 2022 %	Recalculated provision 2021 €000	Change in provision 2021 €000	Change in provision 2021 %
2022 portfolio provision (Stages 1 and 2)	2,417	-	-	2,682	-	-
Staging						
All loans in Stage 1	866	(1,551)	(64)%	504	(2,178)	(81)%
All loans in Stage 2	2,876	459	19%	2,775	93	3%
PD Ratings						
All loans upgraded 1 notch	1,995	(422)	(17)%	1,431	(1,251)	(47)%
All loans downgraded 1 notch	3,217	800	33%	3,443	761	28%
All loans upgraded 3 notches	587	(1,830)	(76)%	789	(1,893)	(71)%
All loans downgraded 3 notches	3,538	1,121	46%	3,724	1,042	39%
Projected GDP						
Projected GDP increased by 1%	2,302	(115)	(5)%	2,561	(121)	(5)%
Projected GDP decreased by 1%	2,547	130	5%	2,819	137	5%
Projected GDP increased by 5%	2,005	(412)	(17)%	2,246	(436)	(16)%
Projected GDP decreased by 5%	3,140	723	30%	3,453	771	29%
LGD						
All loans decreased by 10%	1,874	(543)	(22)%	2,080	(602)	(22)%
All loans increased by 10%	2,960	543	22%	3,285	603	22%
EAD						
All undrawn commitments cancelled	2,338	(79)	(3)%	2,141	(541)	(20)%
All undrawn commitments disbursed within one month	2,734	317	13%	3,160	478	18%

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.

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 the course of making accounting estimates which are described in the Significant accounting estimates section above, 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.

Risk management

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

Risk governance

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

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

[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 countries 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 and Risk 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	B+ B	Weak	Risk range 6

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
	6.3	B-		
7	6.7 7.0 7.3	CCC+ CCC CCC-/CC/C	Special attention	Risk range 7
8	8.0	D	Non-performing	NPL/Credit-impaired assets

Loss given default
The Bank assigns loss given default percentages on a scale of 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the "Significant 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.

Impairment 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 AA- in terms of the S&P equivalent). Placements with credit institutions are considered to have low credit risk.

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

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

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

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

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

	Amortised cost carrying value				Impairment		Total net of impairment	
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 %
5: Fair	5,023	-	5,023	13.9%	(3)	-	5,020	0.1%
6: Weak	-	2,718	2,718	7.5%	-	(6)	2,712	0.2%
7: Special Attention	3,495	24,894	28,389	78.6%	(113)	(2,294)	25,982	8.5%
At 31 December 2022	8,518	27,612	36,130	100.0%	(116)	(2,300)	33,714	

	Amortised cost carrying value			Impairment		Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Total %	Stage 1 € 000	Stage 2 € 000	Total net of impairment € 000	Impairment provisions coverage %
6: Weak	-	13,822	48.7%	-	(1,334)	12,488	9.7%
7: Special Attention	4,446	10,103	51.3%	(9)	(1,339)	13,201	9.3%
At 31 December 2021	4,446	23,925	100%	(9)	(2,673)	25,689	

At 31 December 2022 the Fund had no security arrangements for disbursed loan investments (2021: none).

Credit risk in the loan portfolio
As at 31 December 2022 there were distressed restructured loans[6] with a disbursed value of €4.2 million (2021: €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.

	Undrawn loan commitments			Undrawn loan commitments		
Risk rating category	**Stage 1 2022 € 000**	**Stage 2 2022 € 000**	**Total 2022 € 000**	Stage 1 2021 € 000	Stage 2 2021 € 000	Total 2021 € 000
5: Fair	-	-	-	5,000	-	5,000
6: Weak	-	-	-	-	5,754	5,754
7: Special Attention	**2,348**	**4,421**	**6,769**	-	6,394	6,394
At 31 December	**2,348**	**4,421**	**6,769**	5,000	12,148	17,148

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 2022 € 000	**Loans 2022 € 000**	Undrawn loan commitments 2021 € 000	Loans 2021 € 000
Bosnia and Herzegovina	**3,101**	**12,522**	6,312	10,804
Bulgaria	**-**	**2,660**	-	3,521
Jordan	**-**	**2,718**	-	2,829
Moldova	**82**	**-**	82	224
Romania	**-**	**5,023**	5,000	-
Serbia	**3,586**	**13,207**	5,754	10,993
At 31 December	**6,769**	**36,130**	17,148	28,371

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

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

	Undrawn loan commitments 2022 € 000	Loans 2022 € 000	Undrawn loan commitments 2021 € 000	Loans 2021 € 000
Manufacturing and services	-	4,491	-	4,446
Municipal and environmental infrastructure	3,668	23,609	10,836	17,567
Power and energy	3,101	8,030	6,312	6,358
At 31 December	6,769	36,130	17,148	28,371

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 2022 € 000	United States dollars 2022 € 000	Total 2022 € 000
Total assets	106,424	42,289	148,713
Total liabilities	(148,713)	-	(148,713)
Net currency position at 31 December	(42,289)	42,289	-

	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	(16,401)	16,401	-

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 per cent) is €2.8 million (2021: €1.2 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 EUR and CHF LIBOR settings, and one-week and two-month USD LIBOR settings. All remaining USD LIBOR settings (that is the overnight, one-month, three-month, six-month and 12-month settings) will no longer be published after 30 June 2023.

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 2022, the Fund had eight Sub-accounts:

- The EBRD Green Energy Special Fund;
- International Cooperation Development Fund (Taiwan ICDF) Sub-account;
- The Federal Ministry of Finance of the Republic of Austria (Austria) Sub-account;
- The Ministry of Foreign Affairs of the Netherlands (Netherlands) Sub-account;
- The Ministry of Foreign Affairs of Finland (Finland) Sub-account;
- The State Secretariat for Economic Affairs of Switzerland (SECO) Sub-account;
- The Foreign, Commonwealth and Development Office of the United Kingdom (FCDO) Sub-account; and
- The Ministry of Economic Affairs and Digital Transformation of Spain (Spain) 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.

Two Sub-accounts were opened during 2022. At 31 December 2022, €31.4 million contributions were received in relation to The Foreign, Commonwealth and Development Office of the United Kingdom (FCDO) and The Ministry of Economic Affairs and Digital Transformation of Spain (Spain) 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 5 Bank St, E14 4BG.

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.

None of these conditions have occurred, or are expected to occur in the foreseeable future, as at the date of issuance of this report.

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

	2022 € 000	2021 € 000
Interest expense	270	183
Management fees	1,212	1,571
At 31 December	**1,482**	1,754

4. Technical cooperation expenses[7]

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
At 31 December 2021	-	-	-
Movement in the year	5,569	(3,816)	1,753
At 31 December 2022	**5,569**	**(3,816)**	**1,753**

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 2022.

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

5. Provisions for impairment of loan investments

Release/(charge) for the year	2022 € 000	2021 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	266	(455)
Provisions for impairment of loan investments	**266**	(455)

Movement in provisions		
At 1 January	(2,682)	(2,227)
Release/(charge) for the year to the income statement	266	(455)
At 31 December	**(2,416)**	(2,682)
Representing:		
Impairment of loan investments at amortised cost in stages 1 and 2	(2,416)	(2,682)
At 31 December	**(2,416)**	(2,682)

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) 2022 € 000	Lifetime ECL (Stage 2) 2022 € 000	Total 2022 € 000
As at 1 January	(9)	(2,673)	(2,682)
New loans originated	(2)	(4)	(6)
Transfer to stage 1	(122)	685	563
Transfer to stage 2 - significant increase in credit risk	9	(69)	(60)
Changes in model or risk parameters	8	(239)	(231)
As at 31 December	(116)	(2,300)	(2,416)

Movement in loans at amortised cost	Loans Stage 1 2022 € 000	Loans Stage 2 2022 € 000	Total 2022 € 000
As at 1 January	4,446	23,925	28,371
Loan disbursements	5,982	4,397	10,379
Transfer to stage 1	2,907	(2,907)	-
Transfer to stage 2 - significant increase in credit risk	(4,446)	4,446	-
Repayments	(207)	(2,310)	(2,517)
Day one fair value adjustment	(415)	(1,310)	(1,725)
Movement in effective interest rate adjustment	251	1,195	1,446
Foreign exchange and other movements	-	176	176
As at 31 December	8,518	27,612	36,130

Movement in provisions	12-month ECL (Stage 1) 2021 € 000	Lifetime ECL (Stage 2) 2021 € 000	Total 2021 € 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)

Movement in loans at amortised cost	Loans Stage 1 2021 € 000	Loans Stage 2 2021 € 000	Total 2021 € 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 and other movements	230	7	237
As at 31 December	4,446	23,925	28,371

6. Concessional loan discount

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

	2022 € 000	2021 € 000
Day one fair value adjustment	95	-
Release of discount on loan repayment	10	-
Change in concessional loan discount	**105**	-

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

	2022 € 000	2021 € 000
At 1 January	(3,678)	(6,800)
Day one fair value adjustment	95	-
Derecognition of liability on loan disbursement	1,725	3,122
Release of discount on loan repayment	10	-
At 31 December	**(1,848)**	(3,678)

[8] The day one fair value adjustment was reassessed and reduced for the Stage 1 loan disbursements during the year.

7. Loan investments

Operating assets	2022 € 000	2021 € 000
At 1 January	28,371	20,942
Disbursements	10,379	11,280
Day one fair value adjustment	(1,725)	(3,122)
Movement in effective interest rate adjustment	1,446	377
Repayments	(2,517)	(1,343)
Foreign exchange movements	176	237
At 31 December	36,130	28,371
Impairment at 31 December	(2,416)	(2,682)
Total loan investments net of impairment at 31 December	33,714	25,689

8. Other liabilities

	2022 € 000	2021 € 000
Interest expense	-	15
Management fees payable	51	845
Technical Cooperation expense payable	3,816	-
At 31 December	3,867	860

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

Assets	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000	Current 2021 € 000	Non-current 2021 € 000	Total 2021 € 000
Placements with credit institutions	114,764	-	114,764	83,483	-	83,483
Interest receivable	232	-	232	22	-	22
Commitment fees receivable	3	-	3	9	-	9
Loan investments						
Loans	4,310	31,819	36,129	2,136	26,235	28,371
Less: Provisions for impairment	(288)	(2,129)	(2,417)	(202)	(2,480)	(2,682)
Total assets	119,021	29,690	148,711	85,448	23,755	109,203
Liabilities						
Other liabilities	(644)	-	(644)	(860)	-	(860)
Concessional loan discount	(1,848)	-	(1,848)	(3,678)	-	(3,678)
Contributor's resources	(116,531)	(29,690)	(146,221)	(80,910)	(23,755)	(104,665)
Total liabilities	(119,023)	(29,690)	(148,713)	(85,448)	(23,755)	(109,203)

10. Fair value of financial assets and financial liabilities

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

11. Contributions

Pledged contributions not yet due	Executing agency	2022 € 000	2021 € 000
Total pledged	ICDF	114,328	112,202
Total received	ICDF	(76,863)	(76,863)
Total pledged	Netherlands	20,000	20,000
Total received	Netherlands	(10,000)	(5,000)
Total pledged	Austria	7,000	5,000
Total received	Austria	(7,000)	(5,000)
Total pledged	Finland	41,730	41,730
Total received	Finland	(40,730)	(40,730)
Total pledged	SECO	9,969	9,678
Total received	SECO	(5,857)	
Total pledged	UK	35,207	-
Total received	UK	(23,366)	-
Total pledged	Spain	8,000	-
Total received	Spain	(8,000)	-
At 31 December		64,418	61,017

The next tranche of contributions can be called when the threshold of loan commitments have disbursed.

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 2022.

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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 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 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, the State Secretariat for Economic Affairs of Switzerland, the Foreign, Commonwealth and Development Office of the United Kingdom and The Ministry of Economic Affairs and Digital Transformation of Spain.

The Bank is entitled to charge the Fund a management fee of an amount between 2% and 5% of each contribution received and is determined by the amount received and whether it is intended for technical assistance or investment grants. The management fee covers directly attributable administrative services provided by the Bank to the Fund in relation to finance and project management. Contributions of €44,223,000 were received in 2022, and management fees of €2,005,000 were paid by the Fund to the Bank (2021: €726,000) and there was €51,000 accrued management fees payable by the Fund to the Bank as at 31 December 2022 (2021: 8746,000).

External auditors' remuneration of €19,100 (2021: €18,200) 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 in their first term as the Bank's external auditors for the five-year period 2020-24.

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 2022 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 2022 ;
- 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 auditors report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 LLP
Chartered Accountants
London
April 2023

European Bank
for Reconstruction and Development

The Trust Fund for the West Bank and Gaza

Annual Financial Report
31 December 2022

The Trust Fund for the West Bank and Gaza

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The Trust Fund for the West Bank and Gaza

Statement of comprehensive income

For the year ended 31 December 2022

	Note	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000
Interest and other similar income			
From loans at amortised cost		1,341	936
From loans at fair value through profit and loss		23	24
From credit institutions		230	3
Total interest income		1,594	963
Technical cooperation expenses	4	(469)	(458)
Client cost sharing for technical operation		41	-
Net technical cooperation expenses		(428)	(458)
Fee income		85	62
General adminstrative expenses and depreciation	3	(481)	(334)
Financial guarantees movement		(318)	13
Impairment release on loan investments	5	203	1,122
Management fees	6	(600)	(450)
Negative interest expense		(163)	(284)
Foreign exchange movement		2,472	3,893
Net gains from share investments at fair value through profit or loss		47	-
Gains/(losses) from loans at fair value through profit and loss		15	(14)
Net gains and comprehensive income for the year		2,426	4,513
Attributable to:			
Contributors		2,426	4,513

Balance sheet

At 31 December 2022

	Note	31 December 2022 € 000	31 December 2022 € 000	31 December 2021 € 000	31 December 2021 € 000
Assets					
Placements with credit institutions			77,970		73,028
Interest receivable			274		152
Contributions receivable	7		19,400		-
Share investments			52		5
Trade finance guarantees			45		28
Loan investments at fair value through profit and loss	8		-		292
Loan investments at amortised cost					
Loans	9	22,336		24,280	
Less: Provisions for impairment	5	(385)		(557)	
			21,951		23,723
Office equipment	10		5		6
Other financial assets			269		-
Total assets			119,966		97,234
Liabilities and contributors' resources					
Financial guarantee liability			458		136
Other financial liabilities	11		878		894
Total liabilities			1,336		1,030
Contributions	7	120,000		100,000	
Reserves and accumulated losses		(1,370)		(3,796)	
Total contributors' resources			118,630		96,204
Total liabilities and contributors' resources			119,966		97,234
Memorandum items					
Undrawn commitments and guarantees	12		15,701		11,442

The Trust Fund for the West Bank and Gaza

Statement of changes in contributors' resources

For the year ended 31 December 2022

	Note	Contributions € 000	Reserves and accumulated losses € 000	Total € 000
At 31 December 2020		85,000	(8,309)	76,691
Contributions received	7	15,000	-	15,000
Net gains and total comprehensive income for the year		-	4,513	4,513
At 31 December 2021		100,000	(3,796)	96,204
Contributions receivable	7	20,000	-	20,000
Net gains and total comprehensive income for the year		-	2,426	2,426
At 31 December 2022		**120,000**	**(1,370)**	**118,630**

Statement of cash flows

For the year ended 31 December 2022

	Year to 31 December 2022 € 000	Year to 31 December 2022 € 000	Year to 31 December 2021 € 000	Year to 31 December 2021 € 000
Cash flows from operating activities				
Net gain for the year	2,426		4,513	
Adjustments to reconcile net gain to net cash flows:				
Non-cash items in the statement of comprehensive income				
Depreciation	1		1	
Effective interest rate adjustment on loans[1]	(317)		(44)	
Financial guarantees movement	318		(13)	
Impairment release	(203)		(1,122)	
Foreign exchange movement	(2,472)		(3,893)	
Net gains from share investments at fair value through profit or	(47)		-	
Fair value loan movement	(15)		14	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayments of loan investments	14,583		9,197	
Funds advanced for loans	(11,039)		(15,047)	
Front end fees received	104		117	
Working capital adjustment				
Movement in management fees payable	600		-	
Movement in accrued expenses	(16)		200	
Movement in interest income	(122)		(84)	
Net cash from/(used in) operating activities		3,801		(6,161)
Cash flows from financing activities				
Contributions received	-		15,000	
Net cash from financing activities		-		15,000
Net increase in cash and cash equivalents		3,801		8,839
Cash and cash equivalents at the beginning of the year		73,028		62,118
Effect of foreign exchange rate changes		1,141		2,071
Cash and cash equivalents at 31 December		77,970		73,028

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

Gordon Jones, Director – Financial Control
Date: 5 April 2023

[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 statement of cash flows

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 5 April 2023, the date on which they signed the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain significant 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 "Accounting policies and judgements" and "Significant accounting estimates" within the section for Accounting Policies.

New and amended IFRS mandatorily effective for the current reporting period

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

- Amendments to IFRS 16: Leases
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Amendments to IAS 16: Property, Plant and Equipment

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
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 anticipates no material impact as a result of adopting the standard.
Amendments to: IAS 1: Presentation of Financial Statements	Aims to provide a more general approach to the classification of liabilities as either current or non current, based on the contractual arrangements in place. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.
Amendments to: IAS 8: Definition of Accounting Estimates	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standard.

Pronouncement	Nature of change	Potential impact
Amendments to: IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	The amendments aim to help entities provide accounting policy disclosures that are more useful by: • Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and • Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no material impact as a result of adopting the changes to the standards.
Amendments to: IAS 12 on deferred tax	Aims to clarify accounting for deferred tax on transactions such as leases and decommissioning obligations. Effective for annual reporting periods beginning on or after 1 January 2023.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IFRS 16: Leases	The amendments clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no impact as a result of adopting the changes to the standard.
Amendments to: IAS 1: Presentation of Financial Statements	The amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Effective for annual reporting periods beginning on or after 1 January 2024.	The Fund anticipates no material impact as a result of adopting the changes to the standards.

B. 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.

Financial assets at fair value through profit or loss (continued)

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, EUR and CHF LIBORs and the one-week and two-month USD LIBORs were no longer published. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) will no longer be published after 30 June 2023.

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

In 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 €8.2 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[2], with the stage allocation being based on the financial asset's probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of credit-impairment is identified, the asset is reallocated to Stage 3 as described below.
The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

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

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

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

Financial assets at amortised cost – nonperforming assets (Stage 3)
Where there is objective evidence that an identified loan asset is credit-impaired, specific provisions for impairment are recognised in the income statement, and under IFRS 9, the asset is classified in Stage 3. The criteria that the Fund uses to determine that there is observable evidence that the asset is credit-impaired include:
- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

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.

[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 guarantees

The Fund's resources may be used to provide the following guarantees:

- Trade facilitation programme ("TFP") guarantees to international commercial banks: 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.
- Participating Bank ("PB") guarantees: cover a proportion of principal losses of loan investments made by PB's under specific signed loan agreements.

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.

Contributors' resources

The Fund recognises contributions received and receivable 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.

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 of the contractual arrangement.

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 was incurred on euro placements due to the prevailing negative rates set by the European Central Bank until September 2022. 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 2022.

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 or receivable.

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.

C. Significant accounting estimates and critical judgements

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 significant 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.

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.

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 for sub-investment grades. These are then adjusted based on analysis of the Bank's historical default experience in relation to the macroeconomic environment prevailing at the time of default.

The cumulative TTC PD rates used in 2022 and 2021 are set out by internal rating grade below:

Financial Institutions

2022 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%	0.25%	0.33%
4.0	BBB	0.10%	0.27%	0.44%	0.73%	1.01%
5.0	BB	0.27%	0.72%	1.31%	2.00%	2.72%
6.0	B	0.39%	0.91%	1.64%	2.45%	3.28%
7.0	CCC	4.45%	7.43%	10.31%	13.00%	15.00%

Industry, Commerce and Agribusiness

2022 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%	0.41%
3.0	A	0.06%	0.16%	0.27%	0.40%	0.53%
4.0	BBB	0.16%	0.43%	0.71%	1.17%	1.62%
5.0	BB	0.43%	1.16%	2.10%	3.22%	4.37%
6.0	B	0.63%	1.46%	2.64%	3.95%	5.27%
7.0	CCC	7.16%	11.95%	16.58%	20.92%	24.13%

Sustainable Infrastructure

2022 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%	0.33%	0.44%
4.0	BBB	0.13%	0.36%	0.59%	0.97%	1.34%
5.0	BB	0.36%	0.96%	1.74%	2.67%	3.62%
6.0	B	0.52%	1.21%	2.19%	3.27%	4.37%
7.0	CCC	5.93%	9.90%	13.74%	17.33%	20.00%

Financial Institutions

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%	0.02%	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%

[4] The Bank's internal PD rating scale is explained in detail on page 13 of the Risk Management section.

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%

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 2022 (2021: 84 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.

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 ECL 2022 €000	Change in ECL 2022 €000	Change in ECL 2022 %	Recalculated ECL 2021 €000	Change in ECL 2021 €000	Change in ECL 2021 %
2022 portfolio provision (Stages 1 and 2)	385			557		
Staging						
All loans in Stage 1	385	-	-	557	-	-
All loans in Stage 2	583	198	51%	786	229	41%
PD Ratings						
All loans upgraded 1 notch	263	(122)	(32)%	387	(170)	(31)%
All loans downgraded 1 notch	396	11	3%	574	17	3%
All loans upgraded 3 notches	84	(301)	(78)%	116	(441)	(79)%
All loans downgraded 3 notches	724	339	88%	635	78	14%
Projected GDP						
Projected GDP increased by 1%	373	(12)	(3)%	541	(16)	(3)%
Projected GDP decreased by 1%	398	13	3%	575	18	3%
Projected GDP increased by 5%	333	(52)	(14)%	491	(66)	(12)%
Projected GDP decreased by 5%	454	69	18%	656	99	18%
LGD						
All loans decreased by 10%	297	(88)	(23)%	433	(124)	(22)%
All loans increased by 10%	473	88	23%	681	124	22%
EAD						
All undrawn commitments cancelled	385	-	-	557	-	-
All undrawn commitments disbursed within one month	403	18	5%	557	-	-

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 the course of making accounting estimates which are described in the Significant accounting estimates section above, 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.

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 and Risk 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.

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

Individual projects
The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit and Risk 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 and Risk 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.

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

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 5 to 100 determined by the seniority of the instrument in which the Bank invested. For more details on LGD rates see the “Significant accounting estimates and critical judgements” 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.

Impairment 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	8,970	8,970	40.2%	(20)	8,950	0.2%
7: Special Attention	13,366	13,366	59.8%	(365)	13,001	2.7%
At 31 December 2022	22,336	22,336	100.0%	(385)	21,951	

	Amortised cost carrying value			Impairment	Total net of impairment	
	Stage 1	Total	Total	Stage 1	Total net of impairment	Impairment provisions coverage
Risk rating category	€ 000	€ 000	%	€ 000	€ 000	%
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	

At 31 December 2022 the Fund had security arrangements in place for €1 million of its disbursed loan investments (2021: €1.4 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 2022 € 000	Fair value 2021 € 000
7: Special Attention	-	292
At 31 December	-	292

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		Financial guarantee liability		Undrawn guarantees	
	Stage 1 2022	Total 2022	Stage 1 2022	Total 2022	Stage 1 2022	Total 2022
Risk rating category	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
6: Weak	-	-	21	21	1,046	1,046
7: Special Attention	1,873	1,873	437	437	12,252	12,252
At 31 December	1,873	1,873	458	458	13,298	13,298

	Undrawn loan commitments		Financial guarantee liability		Undrawn guarantees	
	Stage 1 2021	Total 2021	Stage 1 2021	Total 2021	Stage 1 2021	Total 2021
Risk rating category	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
6: Weak	-	-	-	-	2,650	2,650
7: Special Attention	131	131	136	136	8,495	8,495
At 31 December	131	131	136	136	11,145	11,145

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 the carrying amount by geographical region.

	Loans 2022 € 000	Undrawn loan commitments 2022 € 000	Financial guarantee liability 2022 € 000	Undrawn guarantees 2022 € 000
Jordan*	926	-	1	691
West Bank and Gaza	21,410	1,873	457	12,607
At 31 December	22,336	1,873	458	13,298

	Loans 2021 € 000	Undrawn loan commitments 2021 € 000	Financial guarantee liability 2021 € 000	Undrawn guarantees 2021 € 000
Egypt*	-	-	-	2,650
Jordan*	1,376	-	-	-
West Bank and Gaza	23,196	131	136	8,495
At 31 December	24,572	131	136	11,145

*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.

	Loans 2022 € 000	Undrawn loan commitments 2022 € 000	Financial guarantee liability 2022 € 000	Undrawn guarantees 2022 € 000
Depository credit (banks)	20,801	1,873	395	12,986
Health care and social assistance	926	-	-	-
Non-depository Credit (non-bank)	609	-	63	312
At 31 December	22,336	1,873	458	13,298

	Loans 2021 € 000	Undrawn loan commitments 2021 € 000	Financial guarantee liability 2021 € 000	Undrawn guarantees 2021 € 000
Depository credit (banks)	21,135	-	136	11,145
Educational services	292	131	-	-
Health care and social assistance	1,376	-	-	-
Non-depository Credit (non-bank)	1,769	-	-	-
At 31 December	24,572	131	136	11,145

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 2022 € 000	United States dollars 2022 € 000	Israeli new shekel 2022 € 000	Total 2022 € 000
Total financial assets	33,208	86,700	58	119,966
Total financial liabilities	(854)	(207)	(275)	(1,336)
Net currency position at 31 December	32,354	86,493	(217)	118,630

	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	38,151	58,155	(108)	96,198

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the Fund's net loss, from a 7 per cent strengthening or weakening of the USD (2021: 8 per cent) is +/- €5.6 million (2021: €4.1 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 (that is the overnight, one-month, three-month, six-month and 12-month settings) will no longer be published after 30 June 2023.

To date the Bank has successfully incorporated fall-back language in all new LIBOR loan signings that will facilitate an amendment from LIBOR to an alternative reference rate when LIBOR ceases to be a reference rate. In addition, from January 2022, the Bank has not signed any new loans linked to LIBOR. Planned amendments to legacy LIBOR-based contracts have also been formulated. For derivative business the Bank is adhering to the International Swaps and Derivatives Association (ISDA) protocol that took effect on 25 January 2021. For the loan portfolio, the Bank has commenced negotiation with borrowers to agree new loan terms that will replace LIBOR as the reference rate and IT system changes required to accurately capture the new replacement reference rates were completed during 2021. During 2022 many of the affected transactions have been migrated and rebooked, with the remaining transactions expected to be fully transitioned by 30 June 2023.

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.

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, 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 2022 € 000	**Total 2022 € 000**	Share investments 2021 € 000	Total 2021 € 000
Balance as at 1 January	5	5	5	5
Net gains/(losses) recognised in:				
- Net gains/(losses) from share investments at fair value through profit or loss	47	47	-	-
Balance at 31 December	**52**	**52**	5	5
Net gains/(losses) recognised for the year for Level 3 instruments held at 31 December recognised in:				
- Net gains from share investments at fair value through profit or loss	47	47	-	-

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2022 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2022	
Assets	**Carrying amount € 000**	**Favourable change € 000**	**Unfavourable change € 000**
Share investments and associated derivatives	52	9	(10)
At 31 December 2022	**52**	**9**	**(10)**

There would have been no material impact on financial instruments carried at fair value at 31 December 2021 from increases or decreases in fair value based on reasonably possible alternative assumptions.

The Trust Fund for the West Bank and Gaza

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 5 Bank St, E14 4BG.

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. No notice has been given and none expected for the foreseeable future, as at the date of issuance of this report.

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.

	2022 € 000	2021 € 000
General administrative expenses	480	333
Depreciation charge	1	1
Year to 31 December	**481**	334

4. Technical cooperation expenses[6]

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
At 31 December 2020	1,294	(992)	302
Movement in the period	697	(458)	239
At 31 December 2021	1,991	(1,450)	541
Movement in the period	458	(469)	(11)
At 31 December 2022	**2,449**	**(1,919)**	**530**

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 for the year	2022 € 000	2021 € 000
Impairment release on loan investments at amortised cost in stage 1	**203**	1,122
Impairment release on loan investments	**203**	1,122

Movement in provisions	2022 € 000	2021 € 000
At 1 January	**(557)**	(1,569)
Release for the year to the income statement	**203**	1,122
Foreign exchange adjustments	**(31)**	(110)
At 31 December	**(385)**	(557)
Representing:		
Stage 1 provisions for loan investments at amortised cost	**(385)**	(557)
At 31 December	**(385)**	(557)

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 2022, the Fund has no loan investments or undrawn commitments in Stage 2 or Stage 3 (2021: none).

Movement in ECL	12-month ECL Stage 1 and total 2022 € 000	12-month ECL Stage 1 and total 2021 € 000
At 1 January	**(557)**	(1,569)
New loans originated	**(99)**	(131)
ECL release - repayments/settlements	**102**	-
Changes in model or risk parameters	**200**	1,253
Foreign exchange and other movements	**(31)**	(110)
At 31 December	**(385)**	(557)

Movement in loans at amortised cost	Loans Stage 1 and total 2022 € 000	Loans Stage 1 and total 2021 € 000
At 1 January	**24,280**	16,579
New banking loans originated	**11,039**	15,047
Repayments and prepayments	**(14,516)**	(9,197)
Movement in effective interest rate adjustment	**200**	(75)
Foreign exchange movements	**1,333**	1,926
At 31 December	**22,336**	24,280

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. No management fees were paid during the year (2021: €450,000). As at 31 December 2022 there were accrued management fees payable by the Fund to the Bank of €600,000 (2021: nil). During the period the Bank incurred €480,000 (2021: €333,000) of general administrative expenses on behalf of the Fund, of which €181,000 (2021: €124,000) remains payable to the Bank at period end (note 3 and note 11).

External auditors' remuneration of €19,100 (2021: €18,200) 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. 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. Contributions receivable

	2022 € 000	2021 € 000
Cumulative contributions received	100,000	100,000
Contributions pledged		
Contributions	19,400	-
Management fees payable	600	-
Total contributions at 31 December	**120,000**	**100,000**

8. Loan investments at fair value through profit and loss

	2022 € 000	2021 € 000
Carrying amount as at 1 January	292	282
Repayments	(320)	-
Movement in fair value revaluation	15	(14)
Foreign exchange movement	13	24
Carrying amount as at 31 December	-	292

9. Loan investments at amortised cost

Loans	2022 € 000	2021 € 000
At 1 January	**24,280**	16,579
Disbursements	**11,039**	15,047
Repayments	**(14,516)**	(9,197)
Movement in effective interest rate adjustment	**200**	(75)
Foreign exchange movements	**1,333**	1,926
At 31 December	**22,336**	24,280
Impairment at 31 December	**(385)**	(557)
Total loan investments net of impairment at 31 December	**21,951**	23,723

10. Office equipment

Cost	Office equipment 2022 € 000	Leasehold improvements 2022 € 000	Total 2022 € 000
At 1 January	11	20	31
At 31 December	11	20	31
Accumulated Depreciation			
At 1 January	(5)	(20)	(25)
Charge	(1)	-	(1)
At 31 December	(6)	(20)	(26)
Net book value at 31 December	5	-	5

Cost	Office equipment 2021 € 000	Leasehold improvements 2021 € 000	Total 2021 € 000
At 1 January	11	20	31
At 31 December	11	20	31
Accumulated Depreciation			
At 1 January	(4)	(20)	(24)
Charge	(1)	-	(1)
At 31 December	(5)	(20)	(25)
Net book value at 31 December	6	-	6

11. Other financial liabilities

	2022 € 000	2021 € 000
Accrued technical cooperation expense	697	693
General administrative expense payable	181	124
Accrued negative interest rate expense	-	77
At 31 December	878	894

12. Undrawn commitments and guarantees

Analysis by instrument	2022 € 000	2021 € 000
Undrawn commitments		
Loan investments at amortised cost	1,873	-
Loan investments at fair value through profit and loss	-	131
Technical cooperation expenses	530	302
At 31 December	2,403	433
Guarantees		
Financial guarantees	13,298	11,009
At 31 December	13,298	11,009
Undrawn commitments and guarantees at 31 December	15,701	11,442

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

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

	Current 2022	Non-current 2022	Total 2022	Current 2021	Non-current 2021	Total 2021
Assets	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Placements with credit institutions	77,970	-	77,970	73,028	-	73,028
Interest receivable	274	-	274	152	-	152
Contributions receivable	19,400	-	19,400	-	-	-
Share investments	-	52	52	-	5	5
Trade finance guarantees	45	-	45	28	-	28
Loan investments at fair value through profit and los	-	-	-	292	-	292
Loan investments at amortised cost	6,442	15,894	22,336	12,009	12,271	24,280
Provisions for impairment	(111)	(274)	(385)	(276)	(281)	(557)
Office equipment	-	5	5	-	6	6
Other financial assets	269	-	269	-	-	-
Total assets	104,289	15,677	119,966	85,233	12,001	97,234
Liabilities						
Financial guarantee liability	(458)	-	(458)	(136)	-	(136)
Other financial liabilities	(878)	-	(878)	(894)	-	(894)
Total liabilities	(1,336)	-	(1,336)	(1,030)	-	(1,030)

14. 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 2022.

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.

At 5 April 2023 there had been no other material events after the reporting period to disclose.

On 5 April 2023 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 2022 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 2022;
- 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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
Chartered Accountants
London
April 2023