European Bank
for Reconstruction and Development

The Balkan Region Special Fund

Annual Financial Report
31 December 2023

The Balkan Region Special Fund

Contents

The Balkan Region Special Fund

Statement of comprehensive income

For the year ended 31 December 2023

	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest income		181	-
Fee income		20	25
Other operating expenses	3	(22)	(42)
Financial guarantees movement		46	(33)
Net profit/(loss) and comprehensive income/(expense) for the year		225	(50)
Attributable to:			
Contributors		225	(50)

Balance sheet

At 31 December 2023

	Note	€ 000	31 December 2023 € 000	€ 000	31 December 2022 € 000
Assets					
Placements with credit institutions			8,019		7,835
Other financial assets	4		26		8
Total assets			8,045		7,843
Liabilities					
Other financial liabilities	5		26		50
Contributors' resources					
Contributions	6	9,779		9,779	
Reserves and accumulated losses		(1,760)		(1,986)	
Total contributors' resources			8,019		7,793
Total liabilities			8,045		7,843
Memorandum items					
Guarantees*			7,827		7,645

*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 2023

	Contributions	Reserves and accumulated losses	Total
	€ 000	€ 000	€ 000
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
Net profit and total comprehensive income for the year	-	225	225
At 31 December 2023	**9,779**	**(1,761)**	**8,018**

Statement of cash flows

For the year ended 31 December 2023

		Year to 31 December 2023		Year to 31 December 2022
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit/(loss) for the year	225		(50)	
Adjustment to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Financial guarantees movement	(46)		33	
	201		(17)	
Working capital adjustment				
Movement in interest receivable	(17)		-	
Movement in other financial liabilities	22		(3)	
Movement in fee income	-		3	
Net cash generated from/(used in) operating activities		184		(17)
Net increase/(decrease) in cash and cash equivalents		184		(17)
Cash and cash equivalents at beginning of year		7,835		7,852
Cash and cash equivalents at 31 December		8,019		7,835

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

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 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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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. 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

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.

Initial recognition and measurement

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.

Subsequent measurement

The carrying value of the asset is subsequently measured at initial fair value less any fee income received.

The carrying value of the liability is subsequently measured at the higher of:

- the initial fair value recognised when the guarantees were issued less cumulative amortisation, and
- the expected credit loss allowance with the financial guarantee

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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions

2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness

2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

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

Sustainable Infrastructure						
2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions						
2022 PD rating[2]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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 2023 (2022: 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.

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

Loss given default rates

A loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[3], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[4]	20%	30%

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 have cause no decrease on the financial guarantee liability (2022: €17,000), or increase the financial guarantee liability by €12,000 (2022: €373,000).

[3] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €1,000 on the date of application on 30 September 2023.
[4] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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).

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

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	Investment grade
3	2.7 3.0 3.3	A+ A A-	Strong	Investment grade
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	Investment grade
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.

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.

Guarantees
At 31 December 2023, 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 2023, the Fund's maximum exposure under such guarantees was €7,828,000 (2022: €7,645,000).

Fee income receivable from financial guarantees is recognised in Other financial assets

No amounts are currently recognised as required to settle a guarantee commitment (2022: 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 2023, hence it is not exposed to any foreign exchange risk.

C. Liquidity risk

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

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

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

The Balkan Region Special Fund

Notes to the financial statements

1. Creation of the Special Fund

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

The Fund's principal office is located in London at 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:

	2023 € 000	2022 € 000
Audit fees	22	19
Negative interest expense	-	23
Year to 31 December	**22**	**42**

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditors' remuneration of €21,500 (2022: €19,100). The Bank pays the auditors' remuneration on behalf of the Fund, who in turn reimburses the Bank in full. At 31 December 2023, €21,500 is payable to the Bank in relation to the 2023 external audit (2022: 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

	2023 € 000	2022 € 000
Fee income receivable from financial guarantees	5	5
Interest receivable on placements	17	-
Unamortised inception value of TFP financial guarantees	4	3
At 31 December	26	8

5. Other financial liabilities

	2023 € 000	2022 € 000
Financial guarantee liability	4	50
Audit fees payable	22	-
At 31 December	26	50

6. Contributions

Contributions received are set out below.

Cumulative contributions received	2023 € 000	2023 %	2022 € 000	2022 %
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 2023 € 000	Non-current 2023 € 000	Total 2023 € 000	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000
Placements with credit institutions	8,019	-	8,019	7,835	-	7,835
Other financial assets	25	1	26	8	-	8
Total assets	8,044	1	8,045	7,843	-	7,843
Liabilities						
Other financial liabilities	(26)	-	(26)	(50)	-	(50)
Total contributors' resources	(8,018)	(1)	(8,019)	(7,793)	-	(7,793)
Total liabilities	(8,044)	(1)	(8,045)	(7,843)	-	(7,843)

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 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 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 2023, there were no management fees paid by the Fund to the Bank (2022: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2023 (2022: nil). Also during 2023, the Fund earned fees from the Bank in relation to TFP guarantees of €20,000 (2022: €25,000), of which €4,600 are receivable as at 31 December 2023 (2022: €5,100).

Audit fees payable 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The Baltic Investment Special Fund

Annual Financial Report
31 December 2023

Contents

Statement of comprehensive income

For the year ended 31 December 2023	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest income		10	-
Net (losses)/gains from share investments	3	(46)	109
Other operating expenses	4	(22)	(19)
Net (loss)/profit and comprehensive (expense)/income for the year		(58)	90
Attributable to:			
Contributors		(58)	90

Balance sheet

At 31 December 2023	Note	31 December 2023	31 December 2023 € 000	31 December 2022	31 December 2022 € 000
Assets					
Placements with credit institutions			652		3
Share investments	5		-		686
Interest receivable			1		-
Total assets			653		689
Liabilities					
Audit fees payable			22		-
Contributors' resources					
Contributions	6	27		27	
Reserves and retained earnings	7	604		662	
Total contributors' resources			631		689
Total liabilities			653		689

Statement of changes in contributors' resources

For the year ended 31 December 2023	Contributions € 000	Special reserve € 000	Retained earnings € 000	Total € 000
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
Net loss and total comprehensive expense for the year	-	-	(58)	(58)
At 31 December 2023	**27**	**173**	**431**	**631**

Statement of cash flows

For the year ended 31 December 2023	Year to 31 December 2023		Year to 31 December 2022	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(58)		90	
Adjustment to reconcile net (loss)/profit to net cash flows:				
Non-cash items in the Statement of Comprehensive Income				
Net loss/(gains) from share investments	46		(109)	
	(12)			
Working capital adjustment				
Movement in interest receivable	(1)		-	
Movement in accrued expenses	22		-	
Net cash generated from/(used in) operating activities		9		(19)
Cashflow from financing activities				
Disposal of shares	640		-	
Net cash generated from financing activities		640		-
Net increase/(decrease) in cash and cash equivalents		9		(19)
Cash and cash equivalents at the beginning of the year		3		22
Cash and cash equivalents at 31 December		652		3

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

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. 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 Bank's financial statements, namely:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 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 derecognizes 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.

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. 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:

- 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

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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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 2023 and 31 December 2022.

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

B. Market risk

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

Market risk management and measurement

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

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

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

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

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

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

As at 31 December 2023 the Fund has no equity investments and therefore no equity price 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 is not considered to be exposed to liquidity risk as it has no material liabilities other than the obligation to return to contributors their pro rata share of net assets as they become available for distribution in accordance with the Rules of the Fund.

D. Fair value of financial assets and liabilities

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

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

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

Share investments

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

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

The Fund has no share investments as at 31 December 2023.

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

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 line with instruction 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. (Losses)/Gains in share investments

	2023 € 000	2022 € 000
Net unrealised (losses)/gains from share investments	(149)	109
Net realised gains from share investments	103	-
At 31 December	(46)	109

4. Other operating expenses

Other operating expenses are comprised of the following:

	2023 € 000	2022 € 000
Audit fees	22	19
Year to 31 December	22	19

Other operating expenses comprise of external auditors' remuneration of €21,500 (2022: €19,100). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2023 €21,500 (2022: €nil) is payable to the Bank in relation to the 2023 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.

5. Share investments

	2023	2022
	€ 000	€000
Outstanding disbursements		
At 1 January	536	536
Disposals	(536)	-
At 31 December	-	536
Fair value adjustment		
At 1 January	150	41
Movement in fair value revaluation	(150)	109
At 31 December	-	150
Fair value at 31 December	-	686

6. Contributions

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

	Contributions	Share of reserves	Contributions	Share of reserves
	2023	2023	2022	2022
Cumulative contributions and share of reserves	€ 000	€ 000	€ 000	€ 000
Denmark	-	132	-	140
Finland	-	128	-	136
Iceland	27	17	27	17
Norway	-	115	-	122
Sweden	-	234	-	247
At 31 December	27	626	27	662

7. 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.

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

All assets and liabilities on the balance sheet are classified as current for both 2023 and 2022 due to the fact that the financial statements are prepared on a basis other than that of a going concern.

9. Undrawn commitments

The Fund had no undrawn share commitments at 31 December 2023 (2022: nil).

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 2023.

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 10 April 2024 there had been no material events after the reporting period to disclose.

On 10 April 2024 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.

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, 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 2023 the Fund paid the Bank no management fee for operating the Fund (2022: nil) and there was no accrued management fee payable by the Fund as at 31 December 2023 (2022: nil).

Audit fees are paid by the bank as outlined in note 4.

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 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 2023 and of its financial performance and its 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 2023;
- 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 Accounting Policies 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 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 the Bank 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 of the Bank 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 1992, and in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The Central Asia Risk Sharing Special Fund

Annual Financial Report
31 December 2023

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 2023

	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest income		167	3
Fee income		22	8
Financial guarantees movement		6	4
Foreign exchange movement		(16)	24
Other operating expenses	3	(22)	(38)
Net gain and comprehensive income for the year		157	1
Attributable to:			
Contributors		157	1

Balance sheet

As at 31 December 2023

	Note	31 December 2023 € 000	31 December 2023 € 000	31 December 2022 € 000	31 December 2022 € 000
Assets					
Placements with credit institutions			7,250		7,098
Other financial assets	4		43		5
Total assets			7,293		7,103
Liabilities					
Other financial liabilities	5		44		11
Contributors' resources					
Contributions	6	5,553		5,553	
Reserves and retained earnings		1,696		1,539	
Total contributors' resources			7,249		7,092
Total liabilities			7,293		7,103
Memorandum items					
Guarantees*			3,611		808

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

Statement of changes in contributors' resources

For the year ended 31 December 2023

	Contributions	Retained earnings	Total
	€ 000	**€ 000**	**€ 000**
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
Net gain and total comprehensive income for the year	-	157	157
At 31 December 2023	**5,553**	**1,696**	**7,249**

Statement of cash flows

	Year to 31 December 2023		Year to 31 December 2022	
	€ 000	**€ 000**	€ 000	€ 000
Cash flows from operating activities				
Net profit for the year	157		1	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Financial guarantees movement	(6)		(4)	
Foreign exchange movement	16		(24)	
	167		(27)	
Working capital adjustment				
Movement in fee income	(7)		-	
Movement in interest receivable	(14)		-	
Movement in other payables	22		(3)	
Net cash generated from/(used in) operating activities		**168**		(30)
Net increase/(decrease) in cash and cash equivalents		**168**		(30)
Cash and cash equivalents at the beginning of the year		**7,098**		7,105
Effect of foreign exchange rate changes		(16)		23
Cash and cash equivalents at 31 December		**7,250**		7,098

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

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 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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

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 2023 or 2022. The Fund's guarantees are provided on a first-loss basis.

Initial recognition and measurement

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.

Subsequent measurement

The carrying value of the asset is subsequently measured at initial fair value less any fee income received.

The carrying value of the liability is subsequently measured at the higher of:

- the initial fair value recognised when the guarantees were issued less cumulative amortisation, and
- the expected credit loss allowance with the financial guarantee

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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions

2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness

2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

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

Sustainable Infrastructure

2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions

2022 PD rating[2]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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 2023 (2022: 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.

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

Loss given default rates

A loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[3], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[4]	20%	30%

Exposure at default

EAD represents the EBRD exposure at the time of calculation.

Sensitivity analysis

Financial guarantee liability
A 3 notch PD upgrade or downgrade on the Bank's TFP investments would cause no decrease on the financial guarantee liability (2022: €8,000) or increase the financial guarantee liability by €18,000 (2022: €14,000).

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.

[3] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €10,000 on the date of application on 30 September 2023.

[4] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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).

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

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.

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.

Guarantees
At 31 December 2023, 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 2023, the Fund’s maximum exposure under such guarantees was €3,611,000 (2022: €808,000).

There is no other guarantee exposure at 31 December 2023 (2022: nil).

Fee income receivable from financial guarantees is recognised in Other financial assets

No amounts are currently recognised as required to settle a guarantee commitment (2022: 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 2023 € 000	United States dollars 2023 € 000	Total € 000
Total assets	6,866	427	7,293
Total liabilities	(7,293)	-	(7,293)
Net currency position at 31 December	(427)	427	-

	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	-

Based on the average five-year absolute rolling average movement in the USD to euro exchange rate, the potential impact on the funds net loss from a 8 per cent strengthening or weakening (2022: 7 per cent) is €26,000 (2022: €30,000).

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:

	2023 € 000	2022 € 000
Audit fees	22	19
Negative interest rate expense	-	19
Year to 31 December	**22**	**38**

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditors' remuneration of €21,500 (2022: €19,100). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2023 no fee was payable in relation to the 2023 external audit (2022: 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

	2023 € 000	2022 € 000
Fee income receivable from financial guarantees	8	1
Interest receivable on placements	14	-
Unamortised fair value of TFP financial guarantees	21	4
At 31 December	**43**	**5**

5. Other financial liabilities

	2023 € 000	2022 € 000
Financial guarantee liability	22	11
Audit fees payable	22	-
At 31 December	44	11

6. Contributions

Contributions received are set out below.

Cumulative contributions received	TFP € 000	Total € 000	Total %
Germany	2,389	2,389	43.0
Switzerland	3,164	3,164	57.0
At 31 December 2023	5,553	5,553	100.0

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

No contributions were transferred during 2023 (2022: 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 2023 and 2022.

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 2023.

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 10 April 2024 there had been no material events after the reporting period to disclose.

On 10 April 2024 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 2023 (2022: nil), no management fees were paid by the Fund to the Bank (2022: nil). There was no accrued management fee payable by the Fund to the Bank at 31 December 2023 (2022: nil). Also, during 2023, the Fund earned fees from the Bank in relation to TFP guarantees of €22,000 (2022: €8,000), of which €8,000 are receivable as at 31 December 2023 (2022: €1,400).

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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The EBRD Community Special Fund

Annual Financial Report
31 December 2023

The EBRD Community Special Fund

Contents

The EBRD Community Special Fund

Statement of comprehensive income

For the year ended 31 December 2023

	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Gift income	-	1
Interest Income	32	-
Interest expense	-	(1)
Donations	(1,579)	(896)
Management fees	(90)	(90)
Net loss and comprehensive expense for the year	(1,637)	(986)
Attributable to:		
Contributors	(1,637)	(986)

Balance sheet

At 31 December 2023

	Note	31 December 2023 € 000	31 December 2022 € 000
Assets			
Placements with credit institutions		967	372
Prepaid expenses		-	8
Contributions receivable		3,000	2,250
Interest Receivable		2	-
Total assets		3,969	2,630
Liabilities and contributors' resources			
Accrued expenses	3	152	176
Total liabilities		152	176
Contributions	4	9,000	6,000
Reserves and accumulated loss		(5,183)	(3,546)
Total contributors' resources		3,817	2,454
Total liabilities and contributors' resources		3,969	2,630

The EBRD Community Special Fund

Statement of changes in contributors' resources

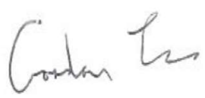
For the year ended 31 December 2023

	Contributions	Accumulated loss	Total
	€ 000	€ 000	€ 000
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
Contributions received and receivable	3,000	-	3,000
Net loss and total comprehensive expense for the year	-	(1,637)	(1,637)
At 31 December 2023	**9,000**	**(5,183)**	**3,817**

Statement of cash flows

		Year to 31 December 2023		Year to 31 December 2022
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	(1,637)		(986)	
Adjustment to reconcile net loss to net cash flows:				
Working capital adjustment				
Movement in prepaid expenses	8		2	
Movement in accrued expenses	(24)		113	
Movement in accrued income	(2)		-	
Net cash used in operating activities		(1,655)		(871)
Cash flows from financing activities				
Contributions received	2,250		750	
Net cash from financing activities		2,250		750
Net increase/(decrease) in cash and cash equivalents		595		(121)
Cash and cash equivalents at the beginning of the year		372		493
Cash and cash equivalents at 31 December		967		372

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



Gordon Jones, Director - Financial Control
Date: 10 April 2024

The EBRD Community Special Fund

Fund purpose

The EBRD Community Special Fund ("the Fund") was established to support staff engagement in philanthropic, social and cultural activities relating to 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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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. 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

Contributors' resources

The Fund recognises contributions received from the contributor as equity on the basis that the residual assets are only available to be 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 have 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 gifts received by Bank personnel, in the course of Bank duties, as resources of the Fund. 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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 2023 and 31 December 2022.

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

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 2023 € 000	British pound 2023 € 000	Total 2023 € 000
Total assets	969	-	969
Total liabilities	(152)	-	(152)
Net currency position as at 31 December	817	-	817

	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

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 (2022: 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 2023	31 December 2022
	€ 000	€ 000
Donations payable	**62**	108
Accrued Management Fees	**90**	68
Total Accrued expenses	**152**	176

4. Contributions

A contribution of EUR 2,250,000 was received in 2023 (2022: EUR 750,000). A contribution of EUR 3,000,000 was receivable as at 31 December 2023 (2022: EUR 2,250,000).

5. Fair value of financial assets and liabilities

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

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

All assets and liabilities presented on the balance sheet are classified as current for 2022 and 2023.

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 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 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 (2022: EUR 90,000). There was an accrued management fees payable of EUR 90,000 by the Fund to the Bank at 31 December 2023 (2022: EUR 67,500).

External auditors' remuneration of €21,500 is payable by the Bank from the management fee (2022: €19,100). 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The EBRD GEF Investment Special Fund

Annual Financial Report
31 December 2023

The EBRD GEF Investment Special Fund

Contents

The EBRD GEF Investment Special Fund

Income statement

For the year ended 31 December 2023

	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest and other similar income			
From loans		50	20
From credit institutions		824	194
Net interest income		874	214
Commitment fees		3	-
Negative interest expense		-	(8)
Technical cooperation and investment grant expenses	3	(1,117)	(1,080)
Foreign exchange movements		57	(134)
Management fee expense		-	(26)
Impairment (charge)/release on loan investments	4	(7)	2
Change in concessional loan discount	5	-	(181)
Net loss for the year		(190)	(1,213)
Attributable to:			
Contributor		(190)	(1,213)

Statement of comprehensive income

For the year ended 31 December 2023

	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Net loss for the year	(190)	(1,213)
Foreign exchange movement between functional and presentational currencies	(1,044)	1,725
Total comprehensive (expense)/income	(1,234)	512
Attributable to:		
Contributor	(1,234)	512

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

Balance sheet

At 31 December 2023

	Note	€ 000	31 December 2023 € 000	€ 000	31 December 2022 € 000
Assets					
Placements with credit institutions			27,308		28,684
Interest receivable			4		5
Loan investments					
Loans	6	654		446	
Less: Provisions for impairment	4	(19)		(13)	
			635		433
Total assets			27,947		29,122
Liabilities					
Technical cooperation expense payable			359		131
Concessional loan discount	5		-		169
Contributor's resources			27,588		28,822
Total liabilities			27,947		29,122
Memorandum items					
Undrawn commitments	7		1,010		686

Statement of changes in contributor's resources

For the year ended 31 December 2023

	Contributed resources	General reserve	Total
	€ 000	€ 000	€ 000
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
Net loss for the year	(190)	-	(190)
Other comprehensive expense for the year	-	(1,044)	(1,044)
At 31 December 2023	**27,541**	**47**	**27,588**

Statement of cash flows

For the year ended 31 December 2023

		Year to 31 December 2023		Year to 31 December 2022
	€ 000	€ 000	€ 000	€ 000
Cash flows used in from operating activities				
Net loss for the year	(190)		(1,213)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	(44)		(15)	
Unwinding of concessional discount[1]	-		-	
Foreign exchange movement	(57)		134	
Provisions and change in concessional loan discount	7		179	
	(284)		(915)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan	157		134	
Funds advanced for loans	(518)		-	
Working capital adjustment				
Movement in interest receivable	1		(3)	
Movement in accrued expenses	228		(107)	
Net cash used in operating activities		(416)		(891)
Cash flows generated from financing activities				
Contributions received	-		425	
Distribution of funds to contributor	-		(153)	
Net cash from financing activities		-		272
Net decrease in cash and cash equivalents		(416)		(619)
Cash and cash equivalents at the beginning of the year		28,684		27,755
Effect of foreign exchange rate changes		(960)		1,548
Cash and cash equivalents at 31 December		27,308		28,684

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €42,000. This, with loan interest income, make up the interest income from loans figure in the Income statement.

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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
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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 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 ceased from 31

December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform. There were no accounting implications of this transition.

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.

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

[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 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 the cost 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.

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 earned in respect of services provided over a period of time, including loan commitment fees, are recognised as income as the services are provided and the performance obligations met.

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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions						
2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

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

Industry, Commerce and Agribusiness						
2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure						
2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

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						
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%

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

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

was 84 per cent at the end of 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[6], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[7]	20%	30%

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.

[6] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €18,000 on the date of application on 30 September 2023.

[7] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

Sensitivity analysis

The sensitivity of portfolio provisions at 31 December 2023 and 31 December 2022 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2023 €000	Change in provision 2023 €000	Change in provision 2023 %	Recalculated provision 2022 €000	Change in provision 2022 €000	Change in provision 2022 %
Portfolio provision (Stages 1 and 2)	19			13		
Staging [1]						
All loans in Stage 1	6	(13)	-68%	13	-	0%
All loans in Stage 2	19	-	0%	41	28	215%
PD Ratings [2]						
All loans upgraded 1 notch	10	(9)	-47%	7	(6)	-46%
All loans downgraded 1 notch	21	2	10%	15	2	15%
All loans upgraded 3 notches	3	(16)	-84%	2	(11)	-85%
All loans downgraded 3 notches	26	7	36%	19	6	46%
Projected GDP [3]						
Projected GDP increased by 1%	19	-	0%	13	-	0%
Projected GDP decreased by 1%	19	-	0%	13	-	0%
Projected GDP increased by 5%	19	-	0%	12	(1)	-8%
Projected GDP decreased by 5%	29	10	50%	21	8	62%
LGD						
All loans decreased by 10%	10	(9)	-50%	10	(3)	-23%
All loans increased by 10%	26	7	34%	15	2	15%
EAD						
All undrawn commitments cancelled	19	-	0%	7	(6)	-46%
All undrawn commitments disbursed within one month	19	-	0%	22	9	69%

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"[8] 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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.

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

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.

Risk rating category	Amortised cost carrying value Stage 1 € 000	Stage 2 € 000	Total € 000	Total %	Impairment Stage 1 € 000	Stage 2 € 000	Total net of impairment Total net of impairment € 000	Impairment provisions coverage %
7: Special Attention	-	654	654	100%	-	(19)	635	2.9%
At 31 December 2023	**-**	**654**	**654**	**100%**	**-**	**(19)**	**635**	

Risk rating category	Amortised cost carrying value Stage 1 € 000	Stage 2 € 000	Total € 000	Total %	Impairment Stage 1 € 000	Stage 2 € 000	Total net of impairment 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	

At 31 December 2023 the Fund had security arrangements in place for €324,000 of its disbursed loan investments (2022: €428,000). 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[9] at 31 December 2023 (2022: none).

Undrawn loan commitments

As at 31 December 2023 the Fund had no undrawn loan commitments (31 December 2022: undrawn loan commitments were €515,000 had an internal risk rating of 7 and were in Stage 1).

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 2023 € 000	**Loans 2023 € 000**	Undrawn loan commitments 2022 € 000	Loans 2022 € 000
Egypt	-	**654**	515	386
Lebanon	-	**-**	-	60
At 31 December	-	**654**	515	446

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

	Undrawn loan commitments 2023 € 000	**Loans 2023 € 000**	Undrawn loan commitments 2022 € 000	Loans 2022 € 000
Power and energy	-	**654**	515	446
At 31 December	-	**654**	515	446

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.

[9] 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.

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

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

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

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

	Euro 2023 € 000	United States dollars 2023 € 000	Total € 000
Total assets	1,060	26,887	27,947
Total liabilities	-	(27,947)	(27,947)
Net currency position at 31 December	1,060	(1,060)	-

	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)	-

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 6 percent strengthening or weakening (2022: 7 percent) is +/- €64,000 (2022: +/- €126,000).

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 Trust Fund on 6 November 2006. A new FPA was signed on 30 September 2009 superseding the previous version, and further amended on 9 March 2014.

All contributions into the GEF Investment Special Fund come directly from the Global Environment Facility Trust Fund ("the Contributor").

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[8]

	Commitments approved € 000	Technical Cooperation expenses € 000	Undrawn commitments € 000
Total projects			
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
Movement in the year	1,956	(1,117)	839
At 31 December 2023	**10,622**	**(9,612)**	**1,010**

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

4. Provisions for impairment of loan investments

(Charge)/release for the year	2023 € 000	2022 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	(7)	2
Provisions for impairment of loan investments	**(7)**	**2**

Movement in provisions		
At 1 January	(13)	(14)
(Charge)/credit for the year to the income statement	(7)	2
Foreign exchange adjustments	1	(1)
At 31 December	**(19)**	**(13)**

Analysed between:		
Stage 1 and 2 provisions for loan investments at amortised cost	(19)	(13)
At 31 December	**(19)**	**(13)**

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) 2023 € 000	Lifetime ECL (Stage 2) 2023 € 000	Total 2023 € 000
As at 1 January	(12)	(1)	(13)
Transfer to stage 2 - significant increase in credit risk	9	(38)	(29)
Repayments	-	1	1
Changes in model or risk parameters	3	18	21
Foreign exchange and other movements	-	1	1
As at 31 December	**-**	**(19)**	**(19)**

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 loans at amortised cost	Loans Stage 1 2023 € 000	Loans Stage 2 2023 € 000	Total 2023 € 000
As at 1 January	383	63	446
Loan disbursements	-	519	519
Transfer to stage 2 - significant increase in credit risk	(287)	287	-
Day one fair value adjustments	-	(170)	(170)
Repayments	(91)	(66)	(157)
Release of concessional loan discount	-	42	42
Movement in effective interest rate adjustment	(1)	(10)	(11)
Foreign exchange and other movements	(4)	(11)	(15)
As at 31 December	**-**	**654**	**654**

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

5. Concessional loan discount

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

	2023 € 000	2022 € 000
At 1 January	(169)	-
Day one fair value adjustment	-	(181)
Derecognition of liability on loan disbursement	170	-
Foreign exchange movements	(1)	12
At 31 December	-	(169)

There was no change in concessional loan discount recognised in the income statement for the year to 2023 (2022: Day one fair value adjustment of - €181,000).

6. Loan investments

Operating assets	2023 € 000	2022 € 000
At 1 January	446	533
Disbursements	519	-
Concessional loan discount movement	42	-
Repayments/settlements	(157)	(134)
Day one fair value adjustment	(170)	-
Movement in effective interest rate adjustment	(11)	15
Foreign exchange movements	(15)	32
At 31 December	654	446
Provisions for impairment at 31 December	(19)	(13)
Total loan investments net of impairment at 31 December	635	433

7. Undrawn commitments

Undrawn commitments	2023 € 000	2022 € 000
Loan investments at amortised cost	-	515
Technical cooperation and investment grants	1,010	171
At 31 December	1,010	686

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 2023 € 000	Non-current 2023 € 000	Total 2023 € 000	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000
Placements with credit institutions	27,308	-	27,308	28,684	-	28,684
Loan investments	50	585	635	139	294	433
Interest receivable	4	-	4	5	-	5
Total assets	27,362	585	27,947	28,828	294	29,122
Liabilities						
Technical cooperation expense payable	(359)	-	(359)	(131)	-	(131)
Concessional loan discount	-	-	-	(169)	-	(169)
Total contributor's resources	(27,003)	(585)	(27,588)	(28,528)	(294)	(28,822)
Total liabilities	(27,362)	(585)	(27,947)	(28,828)	(294)	(29,122)

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 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 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 2023 there were no fees payable to the Bank (2022: Nil).

External auditors' remuneration of €21,500 is payable by the Bank from the management fee (2022: €19,100). 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. 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 2023 and of its financial performance and its 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 2023;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control in relation to the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund.
- Conclude on the appropriateness of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The Special Fund for the High Impact Partnership on Climate Action

Annual Financial Report
31 December 2023

The Special Fund for the High Impact Partnership on Climate Action

Contents

The Special Fund for the High Impact Partnership on Climate Action

Statement of comprehensive income
For the year ended 31 December 2023

	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest income			
From loans		4,895	1,834
From credit institutions		8,812	280
Total interest		13,707	2,114
Fee income		18	56
Operating expenses	3	(5,168)	(1,482)
Technical cooperation expenses	4	(3,925)	(3,816)
Foreign exchange movement		(5,245)	1,821
Impairment release on loans	5	1,234	266
Change in concessional loan discount	6	(1,093)	105
Net loss and comprehensive expense for the year		(472)	(936)
Attributable to:			
Contributors		(472)	(936)

Balance sheet
At 31 December 2023

	Note	31 December 2023 € 000	31 December 2023 € 000	31 December 2022 € 000	31 December 2022 € 000
Assets					
Placements with credit institutions			355,096		114,764
Interest receivable			1,283		232
Commitment fees receivable			2		3
Loan investments					
Loans	7	45,796		36,130	
Less: Provisions for impairment	5	(1,182)		(2,416)	
			44,614		33,714
Total assets			400,995		148,713
Liabilities					
Other liabilities	8		2,053		644
Concessional loan discount	6		1,612		1,848
Contributors' resources			397,330		146,221
Total liabilities			400,995		148,713
Memorandum items					
Undrawn loan commitments			10,154		6,769
Pledged contributions not yet due	11		29,739		64,418

The Special Fund for the High Impact Partnership on Climate Action

Statement of changes in contributors' resources

For the year ended 31 December 2023

	Contributions € 000	Accumulated loss € 000	Total € 000
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
Net loss and total comprehensive expense for the year	-	(472)	(472)
Contributors' resource transactions			
Contributions received	253,711	-	253,711
Distribution of funds to the contributors	(2,130)	-	(2,130)
At 31 December 2023	**410,460**	**(13,130)**	**397,330**

Statement of cash flows

For the year ended 31 December 2023

	Year to 31 December 2023 € 000	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000	Year to 31 December 2022 € 000
Cash flows used in operating activities				
Net loss for the year	(472)		(936)	
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]	(3,152)		(1,446)	
Change in concessional loan discount	1,093		(105)	
Foreign exchange movement	5,245		(1,821)	
Impairment release on loan investments	(1,234)		(266)	
	1,480		(4,574)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	3,390		2,517	
Funds advanced for loans	(11,322)		(10,379)	
Working capital adjustment				
Movement in interest income	(1,051)		(210)	
Movement in fee income	1		6	
Movement in accrued expenses	1,409		(216)	
Net cash used in operating activities		(6,093)		(12,856)
Cash flows from financing activities				
Contributions received	253,711		44,224	
Distribution of funds to the contributors	(2,130)		(1,732)	
Net cash from financing activities		251,581		42,492
Net increase in cash and cash equivalents		245,488		29,636
Cash and cash equivalents at the beginning of the year		114,764		83,483
Effect of foreign exchange rate changes		(5,156)		1,645
Cash and cash equivalents at 31 December		355,096		114,764

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €1,473,000. 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.

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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform. There were no accounting implications of this transition.

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, 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.

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[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.

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.

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.

Technical cooperation expenses

The cost of Technical cooperation expenses, which represent the cost 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.

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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions

2023 PD rating[2]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	0.09%	0.16%	0.23%
2.0	AA	0.02%	0.04%	0.11%	0.17%	0.26%
3.0	A	0.04%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness

2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure

2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%

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

6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions

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%	0.02%	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%

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 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[3], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

[3] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €1.1 million on the date of application on 30 September 2023.

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[4]	20%	30%

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 2023 €000	Change in provision 2023 €000	Change in provision 2023 %	Recalculated provision 2022 €000	Change in provision 2022 €000	Change in provision 2022 %
Portfolio provision (Stages 1 and 2)	1,182			2,416		
Staging						
All loans in Stage 1	407	(775)	(66)%	866	(1,551)	(64)%
All loans in Stage 2	1,394	212	18%	2,876	459	19%
PD Ratings						
All loans upgraded 1 notch	935	(247)	(21)%	1,995	(422)	(17)%
All loans downgraded 1 notch	1,415	233	20%	3,217	800	33%
All loans upgraded 3 notches	246	(936)	(79)%	587	(1,830)	(76)%
All loans downgraded 3 notches	2,204	1,022	86%	3,538	1,121	46%
Projected GDP						
Projected GDP increased by 1%	1,124	(58)	(5)%	2,302	(115)	(5)%
Projected GDP decreased by 1%	1,252	70	6%	2,547	130	5%
Projected GDP increased by 5%	990	(192)	(16)%	2,005	(412)	(17)%
Projected GDP decreased by 5%	1,582	400	34%	3,140	723	30%
LGD						
All loans decreased by 10%	643	(539)	(46)%	1,874	(543)	(22)%
All loans increased by 10%	1,724	542	46%	2,960	543	22%
EAD						
All undrawn commitments cancelled	1,153	(29)	(2)%	2,338	(79)	(3)%
All undrawn commitments disbursed within one month	1,240	58	5%	2,734	317	13%

[4] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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"[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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

A. Credit risk

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

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the fund's investments could become credit-impaired. In addition, the Fund is exposed to credit risk for contributions pledged by the contributors.

The Fund's maximum exposure to credit risk from financial instruments is approximated on the balance sheet, inclusive of the undrawn commitments related to loans.

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

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 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.

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 %
4: Good	872	-	872	1.9%	(2)	-	870	0.2%
5: Fair	4,385	-	4,385	9.6%	(3)	-	4,382	0.1%
6: Weak	11,124	-	11,124	24.3%	(36)	-	11,088	0.3%
7: Special Attention	-	29,415	29,415	64.2%	-	(1,141)	28,274	3.9%
At 31 December 2023	**16,381**	**29,415**	**45,796**	**100.0%**	**(41)**	**(1,141)**	**44,614**	

	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	

At 31 December 2023 the Fund had no security arrangements for disbursed loan investments (2022: none).

Credit risk in the loan portfolio
As at 31 December 2023 there were distressed restructured loans[6] with a disbursed value of €4.2 million (2022: €4.2 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 2023 € 000	Stage 2 2023 € 000	Total 2023 € 000	Stage 1 2022 € 000	Stage 2 2022 € 000	Total 2022 € 000
4: Good	6,677	-	6,677	-	-	-
6: Weak	1,458	-	1,458	-	-	-
7: Special Attention	-	2,019	2,019	2,348	4,421	6,769
At 31 December	8,135	2,019	10,154	2,348	4,421	6,769

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 2023 € 000	Loans 2023 € 000	Undrawn loan commitments 2022 € 000	Loans 2022 € 000
Bosnia and Herzegovina	2,213	13,456	3,101	12,522
Bulgaria	-	2,314	-	2,660
Jordan	-	2,418	-	2,718
Lithuania	6,677	872	-	-
Moldova	-	-	82	-
Poland	-	7,123	-	-
Romania	-	4,385	-	5,023
Serbia	1,265	15,227	3,586	13,207
At 31 December	10,154	45,796	6,769	36,130

[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 2023 € 000	Loans 2023 € 000	Undrawn loan commitments 2022 € 000	Loans 2022 € 000
Agribusiness	-	7,124	-	-
Manufacturing and Services	-	4,705	-	4,491
Municipal and environmental infrastructure	7,942	25,216	3,668	23,609
Power and energy	2,212	8,751	3,101	8,030
At 31 December	10,154	45,796	6,769	36,130

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 2023 € 000	United States dollars 2023 € 000	Total 2023 € 000
Total assets	202,673	198,322	400,995
Total liabilities	(400,995)	-	(400,995)
Net currency position at 31 December	(198,322)	198,322	-

	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	-

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 6 per cent strengthening or weakening (2022: 7 per cent) is €11.9 million (2022: €2.8 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

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 2023, the Fund had eleven Sub-accounts:

- The EBRD Green Energy Special Fund (Taiwan ICDF) Sub-account;
- 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.
- The Department of Foreign Affairs, Trade and Development of Canada (Canada) Sub-account.
- The United States Department of State (USA) Sub-account.
- The Ministry of Economy and Finance of the Republic of Korea

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.

Three Sub-accounts were opened during 2023. The Department of Foreign Affairs, Trade and Development of Canada (Canada), The United States Department of State (USA) Sub-accounts and The Ministry of Economy and Finance of the Republic of Korea. At 31 December 2023, €216.4 million contributions were received in relation to The Department of Foreign Affairs, Trade and Development of Canada (Canada).

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

	2023 € 000	2022 € 000
Interest expense	5	270
Management fees	5,163	1,212
At 31 December	5,168	1,482

4. Technical cooperation expenses[7]

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
At 31 December 2022	5,569	(3,816)	1,753
Movement in the year	4,864	(3,925)	939
At 31 December 2023	10,433	(7,741)	2,692

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 2023.

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

5. Provisions for impairment of loan investments

Release for the year	€ 000	€ 000
Impairment of loan investments at amortised cost in stages 1 and 2	1,234	266
Provisions for impairment of loan investments	**1,234**	**266**

Movement in provisions		
At 1 January	(2,416)	(2,682)
Release for the year to the income statement	1,234	266
At 31 December	**(1,182)**	**(2,416)**
Representing:		
Impairment of loan investments at amortised cost in stages 1 and 2	(1,182)	(2,416)
At 31 December	**(1,182)**	**(2,416)**

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) 2023 € 000	Lifetime ECL (Stage 2) 2023 € 000	Total 2023 € 000
As at 1 January	(116)	(2,300)	(2,416)
New loans originated	(16)	-	(16)
ECL release - repayments	25	158	183
Changes in model or risk parameters	66	1,001	1,067
As at 31 December	(41)	(1,141)	(1,182)

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 2023 € 000	Loans Stage 2 2023 € 000	Total 2023 € 000
As at 1 January	8,518	27,612	36,130
Loan disbursements	9,246	2,077	11,323
Repayments	(1,009)	(2,380)	(3,389)
Day one fair value adjustment	(1,004)	(325)	(1,329)
Movement in effective interest rate adjustment	630	2,522	3,152
Foreign exchange and other movements	-	(91)	(91)
As at 31 December	16,381	29,415	45,796

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

6. Concessional loan discount

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

	2023 € 000	2022 € 000
Day one fair value adjustment	(1,093)	95
Release of discount on loan repayment	-	10
Change in concessional loan discount	(1,093)	105

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

	2023 € 000	2022 € 000
At 1 January	(1,848)	(3,678)
Day one fair value adjustment	(1,093)	95
Derecognition of liability on loan disbursement	1,329	1,725
Release of discount on loan repayment	-	10
At 31 December	(1,612)	(1,848)

7. Loan investments

Operating assets	2023 € 000	2022 € 000
At 1 January	36,130	28,371
Disbursements	11,323	10,379
Day one fair value adjustment	(1,329)	(1,725)
Movement in effective interest rate adjustment	3,152	1,446
Repayments	(3,389)	(2,517)
Foreign exchange movements	(91)	176
At 31 December	**45,796**	**36,130**
Impairment at 31 December	(1,182)	(2,416)
Total loan investments net of impairment at 31 December	**44,614**	**33,714**

8. Other liabilities

	2023 € 000	2022 € 000
Management fees payable	158	51
Technical Cooperation expense payable	1,895	593
At 31 December	**2,053**	**644**

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

Assets	Current 2023 € 000	Non-current 2023 € 000	Total 2023 € 000	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000
Placements with credit institutions	355,096	-	355,096	114,764	-	114,764
Interest receivable	1,283	-	1,283	232	-	232
Commitment fees receivable	2	-	2	3	-	3
Loan investments						
Loans	4,627	41,169	45,796	4,311	31,819	36,130
Less: Provisions for impairment	(119)	(1,063)	(1,182)	(287)	(2,129)	(2,416)
Total assets	**360,889**	**40,106**	**400,995**	**119,023**	**29,690**	**148,713**
Liabilities						
Other liabilities	(2,053)	-	(2,053)	(644)	-	(644)
Concessional loan discount	(1,612)	-	(1,612)	(1,848)	-	(1,848)
Contributor's resources	(357,224)	(40,106)	(397,330)	(116,531)	(29,690)	(146,221)
Total liabilities	**(360,889)**	**(40,106)**	**(400,995)**	**(119,023)**	**(29,690)**	**(148,713)**

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	2023 € 000	2022 € 000
Total pledged	ICDF	113,400	114,328
Total received	ICDF	(95,344)	(76,863)
Total pledged	Netherlands	20,000	20,000
Total received	Netherlands	(15,000)	(10,000)
Total pledged	Austria	7,000	7,000
Total received	Austria	(7,000)	(7,000)
Total pledged	Finland	41,730	41,730
Total received	Finland	(40,730)	(40,730)
Total pledged	SECO	10,177	9,969
Total received	SECO	(8,557)	(5,857)
Total pledged	UK	34,529	35,207
Total received	UK	(34,529)	(23,366)
Total pledged	Spain	8,000	8,000
Total received	Spain	(8,000)	(8,000)
Total pledged	Canada	192,794	-
Total received	Canada	(192,794)	-
Total pledged	USA	23,574	-
Total received	USA	(23,574)	-
Total pledged	Korea	4,063	-
Total received	Korea	-	-
At 31 December		29,739	64,418

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 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 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, The Ministry of Economic Affairs and Digital Transformation of Spain, the Department of Foreign Affairs, Trade and Development of Canada, the United States Department of State and the Ministry of Economy and Finance of the Republic of Korea.

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 €253,711,000 were received in 2023, and management fees of €5,056,000 were paid by the Fund to the Bank (2022: €2,005,000) and there was €158,000 accrued management fees payable by the Fund to the Bank as at 31 December 2023 (2022: €51,000).

External auditors' remuneration of €21,500 (2022: €19,100) 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 Special Fund for the High Impact Partnership on Climate Action

Report on the audit of the financial statements

Opinion

In our opinion, 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The Italian Investment Special Fund

Annual Financial Report
31 December 2023

The Italian Investment Special Fund

Contents

Statement of comprehensive income

For the year ended 31 December 2023	Note		Year to 31 December 2023 € 000		Year to 31 December 2022 € 000
Interest income					
From loans	3	33		222	
From credit institutions		171		-	
Net interest income			204		222
Dividend income			105		97
Fee income			14		5
Net (loss)/gains from share investments	4		(1)		392
Financial guarantees movement	5		633		(413)
Foreign exchange movement			-		1
Operating expenses	6		(22)		(41)
Impairment release on loan investments	7		65		41
Net profit and comprehensive income for the year			998		304
Attributable to:					
Contributor			998		304

Balance sheet

At 31 December 2023	Note		31 December 2023		31 December 2022
Assets					
Placements with credit institutions			7,599		6,899
Interest receivable			18		-
Loan investments					
Loans at amortised cost	8	251		521	
Less: Provisions for impairment	7	(29)		(94)	
			222		427
Share investments	9		2,684		2,813
Financial guarantee assets			13		24
Total assets			10,536		10,163
Liabilities					
Other financial liabilities	10		61		43
Financial guarantee liabilities	11		422		1,065
Total liabilities			483		1,108
Contributions			13,524		13,524
Reserves and accumulated loss			(3,471)		(4,469)
Total contributor's resources			10,053		9,055
Total liabilities and contributor's resources			10,536		10,163
Memorandum items					
Undrawn commitments	13		1,620		1,790

Statement of changes in contributor's resources

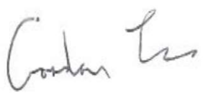
For the year ended 31 December 2023	Note	Net contributions € 000	Accumulated loss € 000	Total € 000
At 31 December 2021		14,524	(4,773)	9,751
Distribution to other donor funds	12	(1,000)	-	(1,000)
Net profit and total comprehensive income for the year		-	304	304
At 31 December 2022		13,524	(4,469)	9,055
Net profit and total comprehensive income for the year		-	998	998
At 31 December 2023		**13,524**	**(3,471)**	**10,053**

Statement of cash flows

For the year ended 31 December 2023

	Year to 31 December 2023 € 000	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000	Year to 31 December 2022 € 000
Cash flows from operating activities				
Net profit for the year	998		304	
Adjustment to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	(15)		(9)	
Net loss/(gains) on share investments	1		(392)	
Foreign exchange movement	-		(1)	
Financial guarantees movement	(633)		413	
Remeasurement of previously impaired loans	-		(207)	
Impairment release on loan investments	(65)		(41)	
	286		67	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan investments	286		143	
Proceeds from return of capital on share investments	124		303	
Settlement of financial guarantee liabilities	-		(211)	
Working capital adjustment				
Movement in interest receivable	(18)		-	
Movement in other financial liabilities	22		(3)	
Net cash from operating activities		700		299
Cash flows from financing activities				
Distribution to other donor funds	-		(1,000)	
Net cash used in financing activities		-		(1,000)
Net increase/(decrease) in cash and cash equivalents		700		(701)
Cash and cash equivalents at the beginning of the year		6,899		7,601
Effect of foreign exchange rate changes		-		(1)
Cash and cash equivalents at 31 December		7,599		6,899

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



Gordon Jones, Director - Financial Control
Date: 10 April 2024

[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.

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. 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 10 April 2024, 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 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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.

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

When an instrument which is required to be measured at fair value through profit or loss has characteristics of both a debt and equity instrument, the Fund determines its classification as a debt or an equity instrument on the basis of the legal rights and obligations attaching to the instrument in accordance with IFRS.

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

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

Derecognition of financial assets

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

Financial liabilities

All financial liabilities are measured at amortised cost, except for derivative instruments, which must be measured at fair value, and financial guarantees which are measured in accordance with IFRS 9, as described under "Financial guarantees" below.

Interest rate benchmark reforms

A number of interest rate benchmarks to which the Fund is exposed 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform. There were no accounting implications of this transition.

Impairment of financial assets

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

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

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

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

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

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

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.

[2] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[3] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an offsetting impairment account and the amount of the loss is recognised in the 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 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 the residual assets are only available to be distributed to the contributors upon the winding up 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, 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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions						
2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness						
2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure						
2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

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

Financial Institutions						
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%	0.02%	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%

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 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[5], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

[5] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €146,000 on the date of application on 30 September 2023.

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[6]	20%	30%

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 2023 (2022: 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 2023 €000	Change in provision 2023 €000	Change in provision 2023 %	Recalculated provision 2022 €000	Change in provision 2022 €000	Change in provision 2022 %
Portfolio provision (Stage 1 and 2)	29			39		
Staging						
All loans in Stage 1	20	(9)	-31%	26	(13)	(34)%
All loans in Stage 2	29	0	0%	39	-	0%
PD Ratings						
All loans upgraded 1 notch	22	(7)	-24%	31	(8)	(21)%
All loans downgraded 1 notch	29	0	0%	39	-	0%
All loans upgraded 3 notches	9	(20)	-69%	16	(23)	(59)%
All loans downgraded 3 notches	29	0	0%	39	-	0%
Projected GDP						
Projected GDP increased by 1%	28	(1)	-3%	37	(2)	(6)%
Projected GDP decreased by 1%	31	2	7%	41	2	4%
Projected GDP increased by 5%	24	(5)	-17%	32	(7)	(19)%
Projected GDP decreased by 5%	39	10	34%	51	12	30%
LGD						
All loans decreased by 10%	21	(8)	-28%	31	(8)	(21)%
All loans increased by 10%	37	8	28%	48	9	22%
EAD						
All undrawn commitments cancelled	29	0	0%	39	-	0%
All undrawn commitments disbursed within one month	29	0	0%	39	-	0%

There are no Stage 3 provisions at 31 December 2023. An increase or decrease of ten percent on the 31 December 2022 provision cover level would have had a +/-€23,000 impact.

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 €7,000 (2022: €331,000). Conversely, a 3 notch PD downgrade would have increased the ECL of the financial guarantee liability €188,000 (2022: €120,000).

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 +€56,000/-€56,000 (2022: +€70,000/-€70,000) on the Fund's financial guarantee liability.

[6] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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"[7] 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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).

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

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.

<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>
</table>

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.

	2023	2022
Risk rating category	**€ 000**	€ 000
2: Very strong	7,599	6,899
At 31 December	**7,599**	6,899

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 (2022: 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 2023, the Fund has no loan investments in Stage 1 (2022: 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	251	-	251	100.0%	(29)	-	222	12%
At 31 December 2023	**251**	**-**	**251**	**100.0%**	**(29)**	**-**	**222**	

	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	

At 31 December 2023 the Fund had security arrangements in place for €224,000 of its disbursed loan investments (2022: €509,000). 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.

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.[8]

	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**
7: Special Attention	9	413	-	422	548	191	-	739
At 31 December 2023	**9**	**413**	**-**	**422**	**548**	**191**	**-**	**739**

	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
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

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 2023 the relevant amounts outstanding were €5.1 million (2022: €11.5 million). At 31 December 2023, the Fund's maximum exposure under such guarantees was €1.1 million (2022: €1.9 million). An amount of €39,000 (2022: €43,000) is recognised as "Derivative financial instrument liabilities" in relation to the share investments and an amount of €1.3 million (2022: €1.1 million) is recognised as "Financial guarantee liabilities" in relation to the loan operating assets on the balance sheet.

[8] 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 2023 € 000	Financial guarantee liabilities 2023 € 000	Undrawn loan and guarantee commitments 2023 € 000	Total 2023 € 000	Loans 2022 € 000	Financial guarantee liabilities 2022 € 000	Undrawn loan and guarantee commitments 2022 € 000	Total 2022 € 000
Albania	-	-	-	-	233	500	-	733
Bulgaria	-	9	547	556	-	153	526	679
Croatia	-	3	168	171	-	6	233	239
Egypt	-	10	24	34	-	6	151	157
Serbia	251	400	-	651	288	400	-	688
At 31 December	251	422	739	1,412	521	1,065	910	2,496

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

	Loans 2023 € 000	Financial guarantee liabilities 2023 € 000	Undrawn loan and guarantee commitments 2023 € 000	Total 2023 € 000	Loans 2022 € 000	Financial guarantee liabilities 2022 € 000	Undrawn loan and guarantee commitments 2022 € 000	Total 2022 € 000
Agribusiness	-	10	23	33	-	6	151	157
Manufacturing and Services	251	412	716	1,379	521	1,059	759	2,339
At 31 December	251	422	739	1,412	521	1,065	910	2,496

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 2023 € 000	Euro 2023 € 000	Total € 000
Total assets	-	10,536	**10,536**
Total liabilities	(10)	(473)	**(483)**
Net currency position at 31 December	**(10)**	**10,063**	**10,053**

	British Pounds 2022 € 000	Euro 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

Based on the average five year absolute rolling average movement in the British pound to euro exchange rate, the potential impact on comprehensive income from a 5.4 per cent strengthening or weakening in (2022: 5.7 per cent) is €1,000 (2022: €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 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 2023 € 000	Equities 2022 € 000
Albania	53	68
Bosnia and Herzegovina	92	119
Croatia	395	510
Kosovo	1,671	1,504
North Macedonia	105	136
Serbia	368	476
At 31 December	2,684	2,813

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 10 per cent movement (2022: 8 per cent) in equity prices is €264,000 (2022: €222,000).

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 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 2023 € 000	Derivative financial instruments 2023 € 000	Total 2023 € 000	Share investments 2022 € 000	Derivative financial instruments 2022 € 000	Total 2022 € 000
Balance as at 1 January	2,813	(43)	2,770	2,758	(77)	2,681
Net (losses)/gains recognised in:						
- Net (losses)/gains from share investments at fair value through profit or loss	(5)	4	(1)	358	34	392
Sales	(124)	-	(124)	(303)	-	(303)
Balance at 31 December	**2,684**	**(39)**	**2,645**	2,813	(43)	2,770
Net (losses)/gains recognised for the year for Level 3 instruments held at 31 December recognised in:						
- Net (losses)/gains from share investments at fair value through profit or loss	(5)	4	(1)	358	34	392

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2023 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2023	
	Carrying amount	Favourable change	Unfavourable change
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments and associated derivatives	2,645	896	(487)
At 31 December 2023	2,645	896	(487)

		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)

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 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 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 €nil of interest recognised as a result of the remeasurement of previously impaired Stage 3 loans returning to Stage 2 (2022: €207,000).

4. Net (losses)/gains from share investments

	2023 € 000	2022 € 000
Net unrealised (losses)/gains from share investments	(5)	358
Net unrealised gains from equity related derivatives	4	34
Net (losses)/gains from share investments	(1)	392

5. Financial guarantees movement

	2023 € 000	2022 € 000
Movement in financial guarantee for Stage 1 and Stage 2 loans	133	(106)
Change in guarantee on loan transfer from Stage 3 to Stage 2	-	(33)
Change in guarantee on loan transfer from Stage 2 to Stage 3	-	(229)
Charge for estimated settlement of credit impaired guaranteed loans	-	(45)
Financial guarantees released	500	-
Financial guarantees movement	633	(413)

6. Operating expenses

	2023 € 000	2022 € 000
Audit fees	22	19
Negative interest rate expense on placements	-	22
Year to 31 December	**22**	**41**

Other operating expenses comprise administrative expenses directly related to the Fund and include external auditor's remuneration of €21,500 (2022: €19,100). The Bank pays the external auditor’s remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2023 €21,500 (2022: no fee) is payable to the Bank in relation to the 2023 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	2023 € 000	2022 € 000
Impairment of loan investments at amortised cost in stage 2	10	(22)
Impairment of loan investments at amortised cost in stage 3	55	63
Provisions for impairment of loan investments	**65**	**41**

Movement in provisions		
As at 1 January	(94)	(337)
Release for the year to the income statement	65	41
Release against amounts written off	-	200
Unwinding of the discount on expected future cash flows of stage 3 assets	-	2
At 31 December	**(29)**	**(94)**

Analysed between		
Stage 2 provisions for loan investments at amortised cost	(29)	(39)
Stage 3 provisions for loan investments at amortised cost	-	(55)
At 31 December	**(29)**	**(94)**

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 2023, the Fund has no loan investments in Stage 1 (2022: no loans in Stage 1).

Movement in provisions	Lifetime ECL (Stage 2) 2023 € 000	Lifetime ECL (Stage 3) 2023 € 000	Total 2023 € 000
As at 1 January	(39)	(55)	(94)
ECL release - repayments	-	55	55
Changes in model or risk parameters	10	-	10
As at 31 December	(29)	-	(29)

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 increase 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 loans at amortised cost	Loans Stage 2 2023 € 000	Loans Stage 3 2023 € 000	Total 2023 € 000
As at 1 January	288	233	521
Repayments	(56)	(230)	(286)
Movement in effective interest rate adjustment	19	(3)	16
As at 31 December	251	-	251

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 increase in credit risk	85	(85)	-
Transfer to stage 3 - credit impaired	(255)	255	-
Repayments	(32)	(111)	(143)
Interest previously classified as principal	207	-	207
Write offs	-	(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

8. Loan investments

	2023	2022
	€ 000	€ 000
At 1 January	521	651
Repayments	(286)	(143)
Remeasurement of previously impaired loans	-	207
Write offs	-	(200)
Movement in effective interest rate adjustment	16	7
Foreign exchange movement	-	(1)
At 31 December	251	521
Impairment at 31 December	(29)	(94)
Total loan investments net of impairment at 31 December	222	427

9. Share investments

	2023	2022
	€ 000	€ 000
Outstanding disbursements		
At 1 January	2,191	2,494
Disposals	(124)	(303)
At 31 December	2,067	2,191
Fair value adjustment		
At 1 January	622	264
Movement in fair value revaluation	(5)	358
At 31 December	617	622
Fair value at 31 December	2,684	2,813

10. Other financial liabilities

	2023	2022
	€ 000	€ 000
Fair value of equity related derivatives	39	43
Audit fee payable	22	-
At 31 December	61	43

11. Financial guarantee liabilities

	2023	2022
	€ 000	€ 000
At 1 January	1,065	880
Financial guarantee movement	(633)	413
Unamortised fair value of loan guarantee	(11)	(14)
Settlement of financial guarantee liabilities	-	(211)
Foreign exchange movement	1	(3)
At 31 December	422	1,065

	2023	2022
Represented by:	€ 000	€ 000
Guarantees on Stage 1 and Stage 2 loans	422	565
Guarantees on credit impaired loans	-	500
At 31 December	422	1,065

12. Contributions

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

	2023	2022
Distribution to other donor funds	**€ 000**	**€ 000**
Small Business Impact Fund	-	1,000
At 31 December	-	1,000

13. Undrawn commitments

	2023	2022
	€ 000	**€ 000**
Guarantees	**739**	910
Undrawn share commitments	**880**	880
Undrawn commitments and guarantees at 31 December	**1,619**	1,790

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 2023	Non-current 2023	Total 2023	Current 2022	Non-current 2022	Total 2022
Assets	**€ 000**	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Placements with credit institutions	7,599	-	7,599	6,899	-	6,899
Interest receivable	18	-	18	-	-	-
Loans at amortised cost	63	188	251	58	463	521
Provisions for impairment	(7)	(22)	(29)	(8)	(86)	(94)
Share investments	-	2,684	2,684	-	2,813	2,813
Financial guarantee assets	5	8	13	5	19	24
Total assets	7,678	2,858	10,536	6,954	3,209	10,163
Liabilities						
Other financial liabilities	22	39	61	-	43	43
Financial guarantee liabilities	506	(84)	422	506	559	1,065
Total liabilities	528	(45)	483	506	602	1,108

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 2023. 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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 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 2023, there were no management fees paid by the Fund to the Bank (2022: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2023 (2022: 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 2023 nothing was owing to the Fund from the Bank (2022: Nil). At 31 December 2023 no amounts were owing from the Bank to the Fund. (2022: 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 15/16 September 1998, and in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The SME Local Currency Special Fund

Annual Financial Report
31 December 2023

The SME Local Currency Special Fund

Contents

The SME Local Currency Special Fund

Income statement

For the year ended 31 December 2023	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest income		2,808	781
Financial guarantees movement	3	(726)	(9,013)
Net profit/(loss) for the year		2,082	(8,232)
Attributable to:			
Contributors		2,082	(8,232)

Statement of comprehensive income

For the year ended 31 December 2023	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Net profit/(loss) for the year	2,082	(8,232)
Other comprehensive (expense)/ income		
Foreign exchange movement between functional and presentational currencies	(2,167)	3,888
Total comprehensive expense for the year	(85)	(4,344)
Attributable to:		
Contributors	(85)	(4,344)

Balance sheet

As at 31 December 2023	Note	31 December 2023 € 000	31 December 2022 € 000
Assets			
Placements with credit institutions		72,628	72,547
Interest receivable		70	22
Total assets		72,698	72,569
Liabilities and contributors' resources			
Financial guarantee liability	3	13,928	13,714
Total liabilities		13,928	13,714
Contributions	4	60,731	60,731
Reserves and accumulated loss		(1,961)	(1,876)
Total contributors' resources		58,770	58,855
Total liabilities and contributors' resources		72,698	72,569
Memorandum items			
Undrawn guarantees		185,913	222,016

The SME Local Currency Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2023

	Contributions	General reserve	Accumulated loss	Total
	€ 000	€ 000	€ 000	€ 000
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
Net profit and total comprehensive expense for the year	-	(2,167)	2,082	(85)
At 31 December 2023	**60,731**	**6,598**	**(8,559)**	**58,770**

Statement of cash flows

For the year ended 31 December 2023

	Year to 31 December 2023		Year to 31 December 2022	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit/(loss) for the year	2,082		(8,232)	
Adjustment to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the statement of comprehensive income				
Financial guarantees movement	726		9,013	
Working capital adjustment				
Movement in interest receivable	(48)		(22)	
	2,760		759	
Net cash from operating activities		2,760		759
Net increase in cash and cash equivalents		2,760		759
Cash and cash equivalents at the beginning of the year		72,547		67,742
Effect of foreign exchange rate changes		(2,679)		4,046
Cash and cash equivalents at 31 December		72,628		72,547

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

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. 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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform. There were no accounting implications of this transition.

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 only available to be 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 relies on the inputs and methodology employed in the calculation of the underlying loan's ECL. 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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions						
2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness						
2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

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

Sustainable Infrastructure						
2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions						
2022 PD rating[2]	External rating equivalent	1-year horizon	2-year horizon	3-year horizon	4-year horizon	5-year horizon
1.0	AAA	0.01%	0.02%	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%

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 2023 (2022: 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.

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

Loss given default rates

A loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[3], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[4]	20%	30%

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 2023.

Adjusted risk parameter	Recalculated ECL 2023 €000	Change in ECL 2023 €000	Change in ECL 2023 %	Recalculated ECL 2022 €000	Change in ECL 2022 €000	Change in ECL 2022 %
Financial guarantee liability on stage 1 and 2 loans	2,360			2,028		
PD Ratings						
All loans upgraded 3 notches	302	(2,058)	(87%)	280	(1,748)	(86%)
All loans downgraded 3 notches	5,492	3,132	133%	5,919	3,891	192%
LGD						
All loans decreased by 10%	1,885	(475)	(20%)	1,579	(449)	(22%)
All loans increased by 10%	2,835	475	20%	2,477	449	22%

With respect to the portion of the guarantee liability related to Stage 3 loans (€11.6 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 €1.4 million in 2023 (2022: €1.1 million).

[3] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €1.2 million on the date of application on 30 September 2023.

[4] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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"[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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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 2023 and 31 December 2022. 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.

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

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.

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

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 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 2023, the Bank had outstanding loans and guarantees amounting to €200 million (2022: €236 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 2023, the Fund’s maximum exposure under such guarantees is limited to the total assets of the Fund of €72.7 million (2022: €72.6 million).

At 31 December 2023, the guarantee liability on the balance sheet is €13.9 million (2022: €13.7 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 (2022: 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
	2023	2023	2023	2023	2022	2022	2022	2022
Risk rating category	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
5: Fair	60,953	-	-	60,953	63,401	-	-	63,401
6: Weak	45,240	-	-	45,240	83,016	-	-	83,016
7: Special Attention	54,888	21,215	-	76,103	56,330	15,303	-	71,633
8: Non-performing	-	-	3,617	3,617	-	-	3,966	3,966
At 31 December	161,081	21,215	3,617	185,913	202,747	15,303	3,966	222,016

	Financial guarantee liability				Financial guarantee liability			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	2023	2023	2023	2023	2022	2022	2022	2022
Risk rating category	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
5: Fair	68	-	-	68	72	-	-	72
6: Weak	249	-	-	249	403	-	-	403
7: Special Attention	1,042	1,001	-	2,043	970	583	-	1,553
8: Non-performing	-	-	11,568	11,568	-	-	11,686	11,686
At 31 December	1,359	1,001	11,568	13,928	1,445	583	11,686	13,714

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 2023 € 000	Financial guarantee liability 2023 € 000	Undrawn guarantees 2022 € 000	Financial guarantee liability 2022 € 000
Armenia	33,477	223	46,317	314
Azerbaijan	8,766	11,663	16,917	11,281
Egypt	2,513	20	2,453	8
Georgia	19,011	43	22,769	120
Kyrgyz Republic	19,712	210	12,834	111
Moldova	397	10	13,280	61
Mongolia	7,215	132	6,425	88
Morocco	10,314	599	13,471	527
Serbia	42,356	46	57,750	67
Tajikistan	15,958	307	16,320	282
Tunisia	21,350	636	7,322	152
Ukraine	-	-	224	640
Uzbekistan	4,844	39	5,934	63
At 31 December	185,913	13,928	222,016	13,714

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

	Undrawn guarantees 2023 € 000	Financial guarantee liability 2023 € 000	Undrawn guarantees 2022 € 000	Financial guarantee liability 2022 € 000
Manufacturing and services	10,520	10,408	9,819	11,781
Depository credit (banks)	137,237	899	184,036	1,112
Agribusiness	11,084	1,942	15,226	620
Leasing finance	5,169	101	6,998	132
Non-depository credit (non-bank)	21,742	569	5,937	69
Property and Tourism	161	9	-	-
At 31 December	185,913	13,928	222,016	13,714

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 2023 € 000	Total financial liabilities 2023 € 000	Net currency position 2023 € 000	Total financial assets 2022 € 000	Total financial liabilities 2022 € 000	Net currency position 2022 € 000
United States dollar	72,698	-	72,698	72,569	(5)	72,564
Azerbaijani manat	-	(11,663)	(11,663)	-	(11,283)	(11,283)
Ukraine hryvna	-	-	-	-	(640)	(640)
Morrocan dirham	-	(599)	(599)	-	(527)	(527)
Armenian dram	-	(222)	(222)	-	(314)	(314)
Tajik somoni	-	(307)	(307)	-	(268)	(268)
Tunisian dinar	-	(636)	(636)	-	(152)	(152)
Kyrgyz som	-	(180)	(180)	-	(109)	(109)
Georgian lari	-	(43)	(43)	-	(105)	(105)
Euro	-	(10)	(10)	-	(89)	(89)
Other non-euro	-	(268)	(268)	-	(222)	(222)
	72,698	(13,928)	58,770	72,569	(13,714)	58,855

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 6 per cent strengthening or weakening (2022: 7 per cent) is €3.5 million (2022: €3.8 million).

C. Liquidity risk

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

The Fund's Rules and Regulations require that guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund's guarantees are limited to the resources of the Fund, and contributions received are recognised as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. The exposure to liquidity risk is managed by limiting the level of guarantees to 8 times the available resources of the 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

	2023 € 000	2022 € 000
At 1 January	13,714	4,543
Financial guarantee movement	726	9,013
Movement in functional currency	(512)	158
At 31 December	**13,928**	13,714

4. Contributions

Cumulative contributions received	2023 € 000	2022 € 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 2023 € 000	Non-current 2023 € 000	Total 2023 € 000	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000
Placements with credit institutions	72,628	-	72,628	72,547	-	72,547
Interest receivable	70	-	70	22	-	22
Total assets	72,698	-	72,698	72,569	-	72,569
Liabilities						
Financial guarantee liability	12,958	970	13,928	12,592	1,122	13,714
Total liabilities	12,958	970	13,928	12,592	1,122	13,714

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 2023.

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 10 April 2024 there had been no material events after the reporting period to disclose.

On 10 April 2024 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.

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 (2022: nil). At 31 December 2023 there was no management fee payable to the Bank (2022: nil).

External auditors' remuneration of €21,500 (2022: €19,100) 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 2021, and in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The EBRD SME Special Fund

Annual Financial Report
31 December 2023

The EBRD SME Special Fund

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The EBRD SME Special Fund

Income statement

For the year ended 31 December 2023

		Year to 31 December 2023		Restated* Year to 31 December 2022	
	Note	€ 000	€ 000	€ 000	€ 000
Interest income			259		35
Accrued technical cooperation expenses release		-		53	
Technical cooperation expenses		(4)		(13)	
Net technical cooperation expenses			(4)		40
Net loss from share investments*	3 & 5		-		(3,943)
Foreign exchange movement			(17)		225
Other operating expenses	4		(22)		(96)
Net profit/(loss) for the year			216		(3,739)
Attributable to:					
Contributors			216		(3,739)

*Net loss from share investments in 2022 have been restated. Refer to note 3 for further detail

Statement of comprehensive income

For the year ended 31 December 2023

	Year to 31 December 2023	Restated* Year to 31 December 2022
	€ 000	€ 000
Net profit/(loss) for the year	216	(3,739)
Other comprehensive expense		
Items that will not be reclassified subsequently to profit or loss		
Foreign exchange movement between functional and presentational currencies**	(270)	-
Total comprehensive expense for the year	(54)	(3,739)
Attributable to:		
Contributors	(54)	(3,739)

*Share investments have in 2022 have been restated. Refer to note 3 for further detail.

** Refer to the Accounting policy for Foreign currencies

Balance sheet

At 31 December 2023

		31 December 2023		Restated* 31 December 2022	
	Note	€ 000	€ 000	€ 000	€ 000
Assets					
Placements with credit institutions			8,247		8,370
Interest receivable			21		1
Share investment*	3 & 5		-		-
Total assets			8,268		8,371
Liabilities					
Other financial liabilities	6		26		75
Contributors' resources					
Contributions	7	45,902		45,902	
Reserves and accumulated losses		(37,660)		(37,606)	
Total contributors' resources			8,242		8,296
Total liabilities			8,268		8,371

*Share investments in 2022 have been restated. Refer to note 3 for further detail.

The EBRD SME Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2023

	Notes	Contributions	General reserve **	Reserves and accumulated losses	Total
		€ 000	€ 000	€ 000	€ 000
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
Equity fair value restatement*	3	-	-	(3,650)	(3,650)
Restated at 31 December 2022	3	45,902	-	(37,606)	8,296
Net profit and total comprehensive expense for the year **		-	(270)	216	(54)
At 31 December 2023		**45,902**	**(270)**	**(37,390)**	**8,242**

*Refer to note 3 for further detail

** Refer to the Accounting policy for Foreign currencies

Statement of cash flows

For the year ended 31 December 2023

	Year to 31 December 2023		Restated* Year to 31 December 2022	
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net profit/(loss) for the year	216		(3,739)	
Adjustment to reconcile profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Net loss from share investments	-		3,943	
Foreign exchange movement	17		(225)	
	233		(21)	
Working capital adjustment				
Movement in interest receivable	(19)		(1)	
Movement in accrued expenses	(49)		(13)	
Net cash from/(used in) operating activities		165		(35)
Cash flows from financing activities				
Contributions received	-		3,755	
Net cash from financing activities		-		3,755
Net increase in cash and cash equivalents		165		3,720
Cash and cash equivalents at the beginning of the year		8,370		4,425
Effect of foreign exchange rate changes		(288)		225
Cash and cash equivalents at 31 December		8,247		8,370

*Net loss from share investments in 2022 have been restated. Refer to note 3 for further detail

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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. 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

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 functional currency of the Fund has been amended to the United States dollar (USD) as at 1 January 2023 as this better reflects the transactions, events and conditions under which the Fund conducts its business from this date. For financial statement reporting purposes the unit of measurement and presentation currency is the euro (€).

For the year ended 31 December 2023
For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities denominated in currencies other than USD are re-translated into USD at the year-end exchange rate with the resultant exchange gains or losses taken to the income statement.

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

For the year ended 31 December 2022
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.

General reserve

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

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.

Technical cooperation expenses

Technical cooperation expenses, which represent the cost of 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 and contractual terms being met.

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 section D. Where unobservable market data has been used, a sensitivity analysis has been included on page 9.

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.
- The Functional currency of the Fund: The functional currency of the Fund has been amended in 2023 as USD better reflects the underlying transactions, events and conditions relevant to the Fund from 1 January 2023.

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"[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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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 2023 and 31 December 2022.

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

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 2023 € 000	United States dollars 2023 € 000	Total € 000
Total assets	496	7,772	8,268
Total liabilities	(26)	(8,242)	(8,268)
Net currency position at 31 December 2023	470	(470)	-

	Restated* Euro 2022 € 000	Restated* United States dollars 2022 € 000	Restated* Total € 000
Total assets	472	7,899	8,371
Total liabilities	(8,371)	-	(8,371)
Net currency position at 31 December 2022	(7,899)	7,899	-

*Refer to note 3

Based on the average five year absolute rolling average movement in the Euro to USD exchange rate on the Euro Assets and Liabilities, the potential impact on the Fund's net loss from a 6 per cent strengthening or weakening (2022: 7 per cent) is +/- €23,000 (2022 €755,000).

The potential impact on other comprehensive income based on the average five year absolute rolling average movement, on USD assets and liabilities, from a 6 per cent (2022: 7 per cent) strengthening or weakening of USD relative to EUR is +/- €45,000 (2022: nil; as the functional currency change occurred in 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 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).

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2023 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net loss in 2023	
Assets	**Carrying amount € 000**	**Favourable change € 000**	**Unfavourable change € 000**
Share investments	-	175	-
At 31 December 2023	-	175	-

		Impact on net gain in 2022	
Assets	Restated* Carrying amount € 000	Restated* Favourable change € 000	Restated* Unfavourable change € 000
Share investments	-	110	-
At 31 December 2022	-	110	-

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. Restatement

The value of the Fund's share investment held as at 31 December 2022 has been restated. The value of this investment was overstated owing to an error whereby the value of the underlying investee was incorrectly apportioned between its contributors, one of which was the Fund. Losses in the investee are required to be apportioned amongst contributors based on the operations they specifically funded. The previous incorrect allocation, incorrectly assumed an even apportionment amongst the contributors. The corrected investment value is €nil, rather than €3.65 million previously reported. This restatement has affect the 2022 income statement, statement of comprehensive income, balance sheet and statement of changes in contributors' resources. The impact of the restatement is summarised in the table below.

	Previous 2022 € 000	Adjustment 2022 € 000	Restated 2022 € 000
Share Investment	3,650	(3,650)	-
Net loss from share investments	(293)	(3,650)	(3,943)
Contributors resources	11,946	(3,650)	8,296

4. Other operating expenses

	2023 € 000	2022 € 000
Management fees	-	75
Audit fees	22	19
Negative interest rate expense	-	2
Year to 31 December	22	96

Other operating expenses comprise of administrative expenses directly related to the Fund and include external auditors' remuneration of €21,500 (2022: €19,100). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2023 €21,500 (2022: nil) is payable in relation to the 2023 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.

5. Share investment

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

	2023 € 000	Restated* 2022 € 000
Outstanding disbursements		
At 1 January	3,747	3,747
At 31 December	3,747	3,747
Fair value adjustment		
At 1 January	(3,747)	196
Movement in fair value revaluation	-	(3,943)
At 31 December	(3,747)	(3,747)
Fair value at 31 December	-	-

*Refer to note 3

6. Other financial liabilities

	2023 € 000	2022 € 000
Technical cooperation expenses	4	-
Management fees payable	-	75
Audit fees payable	22	-
At 31 December	26	75

7. Contributions

No contributions were received during the year (2022: €3,755,000).

8. Undrawn commitments

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

	2023 € 000	2022 € 000
Total commitments approved	31,202	31,183
Total technical cooperation expenses[2]	(31,173)	(31,169)
Undrawn commitments at 31 December	29	14

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

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

All assets and liabilities in 2023 were current (2022: All assets and liabilities were current).

10. Fair value of financial assets and financial liabilities

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

11. Events after the reporting period

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 2023.

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 10 April 2024 there had been no material events after the reporting period to disclose.

On 10 April 2024 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

12. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 2.0 per cent of contributions received. 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 €75,000 were paid by the Fund to the Bank in 2023 (2022: €35,000) and there is no balance payable by the Fund to the Bank at 31 December 2023 (2022: €75,000). Audit fees paid to the bank 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 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

EBRD-EU Special Fund

Annual Financial Report
31 December 2023

Contents

EBRD-EU Special Fund

Statement of comprehensive income

For the year ended 31 December 2023	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest income			
From loans		3,639	1,374
From credit institutions		777	141
Total Interest		4,416	1,515
Technical cooperation expenses	3	(234)	(186)
Net (loss)/gains from share investments	4	(5,230)	1,248
Foreign exchange movements		(221)	546
Other operating expenses	5	(94)	(4,528)
Impairment charge on loans	6	(92)	(267)
Impairment release/(charge) on placements with credit institutions		100	(192)
Concessional loan discounts	7	(596)	(15,239)
Net loss and comprehensive expense for the year		(1,951)	(17,103)
Attributable to:			
Contributors		(1,951)	(17,103)

Balance sheet

At 31 December 2023	Note	31 December 2023 € 000	31 December 2023 € 000	31 December 2022 € 000	31 December 2022 € 000
Assets					
Placements with credit institutions					
Placements with credit institutions		81,058		133,304	
Less: Provisions for impairment	8	(92)		(192)	
			80,966		133,112
Share investments	4		5,717		7,689
Deferred management fees			722		258
Loan investments					
Loans		121,317		89,968	
Less: Provisions for impairment	6	(389)		(297)	
			120,928		89,671
Other financial assets	9		545		391
Total assets			208,878		231,121
Liabilities					
Other liabilities	10		92		545
Concessional loan discounts	7		232		2,451
Contributors' resources			208,554		228,125
Total liabilities			208,878		231,121
Memorandum items					
Undrawn commitments	11		24,475		21,177

Statement of changes in contributors' resources

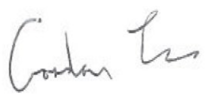
For the year ended 31 December 2023

	Contributions € 000	Accumulated losses € 000	Total € 000
At 31 December 2021	145,260	(5,032)	140,228
Contributions receivable	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
Contributions refunded	(21,010)	-	(21,010)
Contributions received	3,390	-	3,390
Net loss and total comprehensive expense for the year	-	(1,951)	(1,951)
At 31 December 2023	**232,640**	**(24,086)**	**208,554**

Statement of cash flows

For the year ended 31 December 2023	Year to 31 December 2023		Year to 31 December 2022	
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	(1,951)		(17,103)	
Non-cash items in the income statement				
Net losses/(gains) from share investments	5,230		(1,248)	
Movement in effective interest rate adjustment[1]	(2,227)		(1,005)	
Foreign exchange movement	(221)		546	
Concessional loan discount	596		15,239	
Impairment (release)/charge on placements with credit institutions	(100)		192	
Impairment charge on loans	92		267	
	1,419		(3,112)	
Cash flows from the sale and purchase of operating assets				
Proceeds from return of capital on share investments	24		217	
Funds advanced for share investments	(3,282)		(1,607)	
Funds advanced for loans	(32,229)		(103,660)	
Fund repayments for loans	294		-	
Working capital adjustment				
Deferred management fee	(464)		34	
Movement in accrued interest	(154)		(391)	
Other liabilities	(453)		50	
Net cash used in operating activities		**(34,845)**		(108,469)
Cash flows from financing activities				
Contributions received	3,390		205,000	
Contributions refunded	(21,010)		-	
Net cash (used)/generated from financing activities		**(17,620)**		205,000
Net (decrease)/increase in cash and cash equivalents		**(52,465)**		96,531
Cash and cash equivalents at the beginning of the year		**133,304**		37,318
Effect of foreign exchange rate changes		219		(545)
Cash and cash equivalents at 31 December		**81,058**		133,304

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



Gordon Jones, Director - Financial Control
Date: 10 April 2024

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €2,221,000. 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.

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 Bank on 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.

Pronouncement	Nature of change	Potential impact
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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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.

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 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

[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.

- 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.

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 have 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.

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[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.

Technical cooperation expenses

Technical cooperation expenses, which represent the cost 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.

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. The management fees have been paid in advance to the Bank and are released over the life of those agreements as the underlying performance obligations have been carried out. The remaining unreleased balance in respect of these agreements is included as a prepaid management fee asset. The EISF agreement states that the related management 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.

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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions						
2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness						
2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure						
2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions						
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%	0.02%	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%

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

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 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[6], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[7]	20%	30%

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.

[6] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €103,000 on the date of application on 30 September 2023.

[7] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

Sensitivity analysis

The sensitivity of portfolio provisions at 31 December 2023 to the key variables used in determining the level of impairment is provided below.

Adjusted risk parameter	Recalculated provision 2023 €000	Change in provision 2023 €000	Change in provision 2023 %	Recalculated provision 2022 €000	Change in provision 2022 €000	Change in provision 2022 %
Portfolio provision (Stages 1 and 2)	389			297		
Staging						
All loans in Stage 1	389	-	-	297	-	-
All loans in Stage 2	3,330	2,941	756%	3,931	3,634	1,224%
PD Ratings						
All loans upgraded 1 notch	153	(236)	(61)%	234	(63)	(21)%
All loans downgraded 1 notch	816	427	110%	410	113	38%
All loans upgraded 3 notches	101	(288)	(74)%	109	(188)	(63)%
All loans downgraded 3 notches	2,468	2,079	534%	5,835	5,538	1,865%
Projected GDP						
Projected GDP increased by 1%	362	(27)	(7)%	277	(20)	(7)%
Projected GDP decreased by 1%	421	32	8%	320	23	8%
Projected GDP increased by 5%	306	(83)	(21)%	233	(64)	(22)%
Projected GDP decreased by 5%	549	160	41%	411	114	38%
LGD						
All loans decreased by 10%	280	(109)	(28)%	231	(66)	(22)%
All loans increased by 10%	499	109	28%	363	66	22%
EAD						
All undrawn commitments cancelled	386	(3)	(1)%	256	(41)	(14)%
All undrawn commitments disbursed within one month	392	3	1%	324	27	9%

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 to 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 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"[8] 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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).

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

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	
5	4.7 5.0 5.3	BB+ BB BB-	Fair	Risk range 5
6	5.7	B+	Weak	Risk range 6

EBRD risk rating category	EBRD risk rating	External rating equivalent	Category name	Broader category
	6.0 6.3	B 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 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	6,516	-	6,516
3: Strong	708	-	708
5: Weak	73,834	(92)	73,742
At 31 December 2023	81,058	(92)	80,966

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

A 1 notch PD upgrade or downgrade on the placement with credit institution risk rated 5 would decrease the impairment by €60,000, or increase the impairment by €35,000 (2022: €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	
	Stage 1	Total	Total	Stage 1	Total net of impairment	Impairment provisions
Risk rating category	**€ 000**	**€ 000**	**%**	**€ 000**	**€ 000**	**%**
4: Good	81,634	81,634	67.3%	(121)	81,513	0.1%
6: Weak	37,928	37,928	31.3%	(245)	37,683	0.6%
7: Special Attention	1,755	1,755	1.4%	(23)	1,732	1.3%
At 31 December 2023	121,317	121,317	100%	(389)	120,928	

	Amortised cost carrying value			Impairment	Total net of impairment	
	Stage 1	Total	Total	Stage 1	Total net of impairment	Impairment provisions
Risk rating category	**€ 000**	**€ 000**	**%**	**€ 000**	**€ 000**	**%**
5: Fair	79,971	79,971	88.8%	(208)	79,763	0.3%
6: Weak	9,228	9,228	10.3%	(47)	9,181	0.5%
7: Special Attention	769	769	0.9%	(42)	727	5.5%
At 31 December 2022	89,968	89,968	100%	(297)	89,671	

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	
	Stage 1	**Total**	Stage 1	Total
	2023	**2023**	2022	2022
Risk rating category	**€ 000**	**€ 000**	€ 000	€ 000
6: Weak	1,860	1,860	11,548	11,548
7: Special Attention	-	-	1,714	1,714
At 31 December	**1,860**	**1,860**	13,262	13,262

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 2023 € 000	Loans 2023 € 000	Undrawn loan commitments 2022 € 000	Loans 2022 € 000
Bulgaria	-	8,467	11,402	2,908
Greece	1,860	112,850	1,860	87,060
At 31 December	1,860	121,317	13,262	89,968

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

	Undrawn loan commitments 2023 € 000	Loans 2023 € 000	Undrawn loan commitments 2022 € 000	Loans[7] 2022 € 000
Municipal and environmental infrastructure	-	8,468	11,402	2,908
Telecommunications, media and technology	-	81,633	-	79,972
Manufacturing and Services	1,860	31,216	1,860	7,088
At 31 December	1,860	121,317	13,262	89,968

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.

[9] Restatement adjusts the 2022 disclosure to reflect the telecommunications, media and technology loan balances in the 2022 year.

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

	Egyptian Pound 2023 € 000	Euro 2023 € 000	Polish Zloty 2023 € 000	United States Dollar 2023 € 000	Total 2023 € 000
Total assets	4,323	197,698	341	6,516	208,878
Total liabilities	-	(208,787)	(91)	-	(208,878)
Net currency position at 31 December	4,323	(11,089)	250	6,516	-

	Egyptian Pound 2022 € 000	Euro 2022 € 000	Polish Zloty 2022 € 000	United States Dollar 2022 € 000	Total[10] 2022 € 000
Total assets	7,691	214,439	694	8,297	231,121
Total liabilities	-	(230,840)	(281)	-	(231,121)
Net currency position at 31 December	7,691	(16,401)	413	8,297	-

The overall potential impact on the Fund's net loss is €1,211,000 (2022: €2,017,000) based on the average five year absolute rolling average movement in the below currencies:

- 23 per cent (2022: 24 per cent) strengthening or weakening in the Egyptian pound to euro exchange rate;
- 3 per cent (2022: 3 per cent) strengthening or weakening in the Polish zloty to euro exchange rate;
- 6 per cent (2022: 7 per cent) strengthening or weakening in the United States dollar to euro exchange rate.

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

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

	2023 € 000	2022 € 000
Egypt	4,323	7,689
Bosnia and Herzegovina	349	-
Kosovo	349	-
Serbia	349	-
Albania	139	-
North Macedonia	139	-
Montenegro	69	-
At 31 December	5,717	7,689

The overall potential impact on the Fund's fair value of share investments is €1,144,000 (2022: €1,153,000) based on the average five year absolute rolling average movement in equity prices in the following indexes:

- 6 per cent (2022: 15 per cent) movement in Egyptian Stock Market EGX 30 Equity index
- 29 per cent movement in a benchmark of indices of regional countries[11].

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.

[10] Restatement adjusts the 2022 disclosure to include the impairment provision reconciling to the 2022 assets and liabilities.
[11] As there is no active stock exchange in a number of the Western Balkan countries, a benchmark of indices of similar regions has been used.

D. Fair value of financial assets and liabilities

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

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

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

At 31 December 2023, 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 2023 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net loss in 2023	
	Carrying amount	Favourable change	Unfavourable change
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments	5,717	1,354	(1,078)
At 31 December 2023	**5,717**	**1,354**	**(1,078)**

		Impact on net gain in 2022	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 000
Share investments	7,689	782	(1,016)
At 31 December 2022	7,689	782	(1,016)

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 2023 there were six 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	Technical cooperation expenses[10]	Undrawn commitments
	€ 000	€ 000	€ 000
Total projects			
As at 31 December 2022	1004	(874)	130
Movement in the year	187	(234)	(47)
As at 31 December 2023	**1,191**	**(1,108)**	**83**

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.

10 Total technical cooperation expenses includes amounts accrued on the balance sheet

4. Share investments

	2023	2022
	€ 000	€ 000
Outstanding disbursements		
At 1 January	6,625	5,237
Disbursements	3,282	1,605
Return of capital	(24)	(217)
At 31 December	9,883	6,625
Fair value adjustment		
At 1 January	1,064	(184)
Movement in fair value revaluation	(5,230)	1,248
At 31 December	(4,166)	1,064
Fair value at 31 December	5,717	7,689

5. Other operating expenses

	2023	2022
	€ 000	€ 000
Management fees	94	4,343
Negative interest expense on placements	-	185
At 31 December	94	4,528

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

6. Provisions for impairment of loan commitments

	2023	2022
Charge for the year	€ 000	€ 000
Impairment of loan investments at amortised cost in stages 1 and 2	(92)	(267)
Provisions for impairment of loan commitments	(92)	(267)
Movement in provisions		
At 1 January	(297)	(30)
Charge for the year to the income statement	(92)	(267)
At 31 December	(389)	(297)

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 2023, all loan commitments are in Stage 1 (2022: all Stage 1).

	12 month ECL Stage 1 and total	
	2023	2022
Movement in provisions	€ 000	€ 000
As at 1 January	(297)	(30)
New loan commitments	(244)	(234)
Changes in model or risk parameters	152	(33)
As at 31 December	(389)	(297)

	12 month ECL Stage 1 and total	
	2023	2022
Movement in loans amortised cost	€ 000	€ 000
As at 1 January	89,968	776
Disbursements	32,229	103,660
Repayments	(294)	-
Day one fair value adjustment	(2,815)	(15,473)
Movement in effective interest rate adjustment	2,229	1,005
As at 31 December	121,317	89,968

7. Concessional loan discounts

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

	2023	2022
	€ 000	€ 000
Day one fair value charge	(1,335)	(15,239)
Release of discount on loan expiration	739	-
Net loan discount movement	(596)	(15,239)

	2023	2022
	€ 000	€ 000
At 1 January	(2,451)	(2,685)
Day one fair value adjustment	(596)	(15,239)
Derecognition of liability on loan disbursement	2,815	15,473
At 31 December	(232)	(2,451)

8. Provisions for impairment of placements with credit institutions

	2023	2022
Release/(charge) for the year	€ 000	€ 000
Impairment of placements with credit institutions	100	(192)
Provisions for impairment of placements with credit institutions	100	(192)

Movement in provisions		
At 1 January	(192)	-
Release/(charge) for the year to the income statement	100	(192)
At 31 December	(92)	(192)

9. Other financial assets

	2023	2022
	€ 000	€ 000
Loan interest receivable	535	356
Placements with credit institutions interest receivable	10	35
As at 31 December 2023	545	391

10. Other liabilities

	2023	2022
	€ 000	€ 000
Accrued expenses	-	31
Technical cooperation expenses	92	283
Management fee payable	-	231
At 31 December	92	545

11. Undrawn commitments

	2023	2022
	€ 000	€ 000
Undrawn share commitments	22,532	7,786
Loan commitments	1,860	13,262
Technical cooperation expenses	83	129
Undrawn commitments at 31 December	24,475	21,177

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

12. Contributions received and refunded

Window	Contributor	Contributions received € 000	Contributions refunded € 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	9,974	-	9,974
Bulgaria ESIF Water Framework - Debt Window	Bulgaria FMFIB	22,171	(21,010)	1,161
Hellenic Republic Deployment of Financing Under the Corporate Lending Facility	Hellenic Republic	200,000	-	200,000
Enterprise Expansion Fund II under the Western Balkans Enterprise Development and Innovation Facility	EU	5,000	-	5,000
Total contributions 31 December 2023		**253,650**	**(21,010)**	**232,640**

Window	Contributor	Contributions received € 000	Contributions refunded € 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	200,000	-	200,000
Enterprise Expansion Fund II under the Western Balkans Enterprise Development and Innovation Facility	EU	5,000	-	5,000
Total contributions 31 December 2022		250,260	-	250,260

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 2023 € 000	Non-current 2023 € 000	Total 2023 € 000
Placements with credit institutions	81,058	-	81,058
Provisions for impairment with credit instituitions	(92)	-	(92)
Share investments	-	5,717	5,717
Deferred management fee	81	641	722
Loan investments	3,925	117,392	121,317
Provisions for impairment of loan commitments	-	(389)	(389)
Interest receivable	545	-	545
Total assets	85,517	123,361	208,878

Liabilities			
Other liabilities	92	-	92
Concessional loan discounts	232	-	232
Contributors' resources	85,193	123,361	208,554
Total liabilities	85,517	123,361	208,878

Assets	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000
Placements with credit institutions	133,304	-	133,304
Provisions for impairment with credit instituitions	(192)	-	(192)
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)
Contributions receivable	391	-	391
Total assets	133,537	97,584	231,121
Liabilities			
Other liabilities	545	-	545
Concessional loan discounts	2,451	-	2,451
Contributors' resources	130,541	97,584	228,125
Total liabilities	133,537	97,584	231,121

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 2023.

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 10 April 2024 there had been no material events after the reporting period to disclose.

On 10 April 2024 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 fee 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. This management fee is recognised in line with the accounting policy outlined on page 7.

External auditors' remuneration of €39,300 is payable by the Bank from the management fee (2022: €34,900). 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 EBRD-EU Special Fund

Report on the audit of the financial statements

Opinion

In our opinion, 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The EBRD CIF Special Fund

Annual Financial Report
31 December 2023

Contents

The EBRD CIF Special Fund

Income statement
For the year ended 31 December 2023

	Note	Year to 31 December 2023 € million	Year to 31 December 2022 € million
Interest income from loans		10	7
Technical cooperation expenses		(2)	(3)
Impairment release/(charge) on loan investments	5	13	(20)
Net losses from loans	6	(7)	-
Change in concessional loan discount	8	(4)	-
Foreign exchange movement		2	(2)
General administration expenses		(1)	(1)
Net profit/(loss) for the year		11	(19)
Attributable to:			
Contributors		11	(19)

Statement of comprehensive income
For the year ended 31 December 2023

	Year to 31 December 2023 € million	Year to 31 December 2022 € million
Net profit/(loss) for the year	11	(19)
Other comprehensive (expense)/income		
Foreign exchange movement between functional and presentational currencies	(7)	10
Total comprehensive income /(expense)	4	(9)
Attributable to:		
Contributors	4	(9)

Balance sheet
At 31 December 2023

	Note	€ million	31 December 2023 € million	€ million	31 December 2022 € million
Assets					
Placements with credit institutions			104		92
Contributions receivable	3		30		28
Loan investments					
Loans at amortised cost	4	120		133	
Less: Provisions for impairment at amortised cost	5	(16)		(32)	
Loans at fair value through profit or loss	7	18		-	
			122		101
Total assets			256		221
Liabilities					
Other financial liabilities	9		2		1
Concessional loan discount	8		13		12
Contributors' resources			241		208
Total Liabilities			256		221
Memorandum items					
Undrawn commitments	11		40		39

The EBRD CIF Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2023

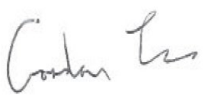
	Contributed Resources € million	General reserve € million	Total € million
At 31 December 2021	166	21	187
Net loss for the year	(19)	-	(19)
Other comprehensive income in the period	-	10	10
Contributors' resource transactions			
Contributions received/receivable	49	-	49
Distribution of funds to contributors	(19)	-	(19)
At 31 December 2022	177	31	208
Net profit for the year	11	-	11
Other comprehensive expense in the period	-	(7)	(7)
Contributors' resource transactions			
Contributions received/receivable	53	-	53
Distribution of funds to contributors	(24)	-	(24)
At 31 December 2023	**217**	**24**	**241**

Statement of cash flows

For the year ended 31 December 2023

For the year ended 31 December 2023	€ million	Year to 31 December 2023 € million	€ million	Year to 31 December 2022 € million
Cash flows from operating activities				
Net profit/(loss) for the year	11		(19)	
Adjustments to reconcile net profit/(loss) to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	(5)		(5)	
Change in concessional loan discount	4		-	
Net losses from loans	7		-	
Foreign exchange movement	(2)		2	
Impairment (release)/charge on loan investments	(13)		20	
	2		(2)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	21		16	
Funds advanced for loans	(35)		(4)	
	(14)		12	
Movement in working capital				
Other financial liabilities	1		1	
Net cash (used in)/generated from operating activities		(11)		11
Cash flows from financing activities				
Contributions received	53		24	
Distribution of funds to contributors	(24)		(19)	
Net cash generated from financing activities		29		5
Net increase in cash and cash equivalents		18		16
Cash and cash equivalents at the beginning of the period		92		72
Effect of foreign exchange rate changes		(6)		4
Cash and cash equivalents at 31 December		104		92

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



Gordon Jones, Director - Financial Control
Date: 10 April 2024

[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 support of technical assistance and investment grants.

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared 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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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.

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’.

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.

The Fund holds loans that are linked to sustainability linked targets where the interest amounts payable by the borrower are subject to sustainability milestones. These cashflows do not solely reflect the compensation for the credit risk of the borrower and the time value of money and are therefore measured at fair value through profit or loss.

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. 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has no exposure to significant benchmark interest rates subject to reform that have yet to transition (2022: nil) (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[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 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[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 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 received on investment, principal repayments on loan investments and investment income received 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.

[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.

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, both of these conditions entitle the Fund to recognise the asset and corresponding Contributor resources. 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 the cost 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.

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 2023, 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 €4.7 million at year end (2022: €7.0 million). 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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions						
2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness						
2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure						
2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions						
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%	0.02%	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 11 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%

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 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[5], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[6]	20%	30%

[5] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €1.5 million on the date of application on 30 September 2023.
[6] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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 2023 € million**	**Change in provision 2023 € million**	**Change in provision 2023 %**	Recalculated provision 2022 € million	Change in provision 2022 € million	Change in provision 2022 %
Portfolio provision (Stages 1 and 2)	6	-	-	12	-	-
Staging						
All loans in Stage 1	6	-	-	9	(3)	(25)%
All loans in Stage 2	9	3	50%	15	3	25%
PD Ratings						
All loans upgraded 1 notch	6	-	-	10	(2)	(17)%
All loans downgraded 1 notch	8	2	33%	14	2	17%
All loans upgraded 3 notches	5	(1)	(17)%	9	(3)	(25)%
All loans downgraded 3 notches	12	6	100%	19	7	58%
Projected GDP						
Projected GDP increased by 1%	7	1	17%	11	(1)	(8)%
Projected GDP decreased by 1%	7	1	17%	12	-	-
Projected GDP increased by 5%	6	-	-	11	(1)	(8)%
Projected GDP decreased by 5%	7	1	17%	13	1	8%
LGD						
All loans decreased by 10%	6	-	-	11	(1)	(8)%
All loans increased by 10%	7	1	17%	13	1	8%
EAD						
All undrawn commitments cancelled	6	-	-	11	(1)	(8)%
All undrawn commitments disbursed within one month	7	1	17%	12	-	-

With respect to Stage 3 provisions, a decrease of 10 percentage points on the current provision cover level would have an impact of €1.1 million (2022: €2.0 million).

With respect to the PMA due to The weighting of the three scenarios envisioned is the most significant assumption in this estimate. Increased weighting towards a stressed scenario with an emphasis on significant deterioration in affected portfolios would have increased the PMA by €1.4 million (2022: €2.0 million) whilst a higher emphasis on a prolonged, but less severe outcome would have decreased it by €1.1 million (2022: €1.5 million). the war in Ukraine, reasonable plausible alternative scenarios for the outcome of the war on Ukraine were modelled.

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"[7] 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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 11).

Credit risk management and measurement

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

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

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

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 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.

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 impairment approach. Fixed percentage ECLs have been applied depending on the sector of the business and the geographical location 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 (approximately AA- to AA+ in terms of the S&P equivalent).

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

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

Risk rating category	2023 € million	2022 € million
2: Very strong	103	91
7: Special attention	1	1
At 31 December	**104**	**92**

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	**€ million**	**€ million**	**€ million**	**€ million**	**Total %**	**€ million**	**€ million**	**€ million**	**€ million**	**%**
5: Fair	3	10	-	13	10.8%	-	-	-	13	-
6: Weak	50	20	-	70	58.4%	-	-	-	70	0.0%
7: Special Attention	3	19	-	22	18.3%	-	(6)	-	16	27.3%
8: Non-performing	-	-	15	15	12.5%	-	-	(10)	5	66.7%
At 31 December 2023	**56**	**49**	**15**	**120**	**100.0%**	**-**	**(6)**	**(10)**	**104**	

	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	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**	

At 31 December 2023 the Fund had security arrangements in place for €66.0 million of its disbursed loan investments (2022: €68.0 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.

Credit risk in the loan portfolio
As at 31 December 2023 there were distressed restructured loans[8] with a disbursed value of €10.0 million (2022: €13.0 million).

Loan at fair value through profit or loss

	Fair value 2023	Fair value 2022
Risk rating category	**€ million**	€ million
4: Good	10	-
6: Weak	8	-
At 31 December	**18**	-

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	Stage 3	Total
	2023	**2023**	**2023**	**2023**	2022	2022	2022	2022
Risk rating category	**€ million**	**€ million**	**€ million**	**€ million**	€ million	€ million	€ million	€ million
6: Weak	11	-	-	11	5	-	-	5
7: Special Attention	13	9	-	22	11	15	-	26
8: Non-performing	-	-	4	4	-	-	4	4
At 31 December	**24**	**9**	**4**	**37**	16	15	4	35

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.

[8] 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 2023 € million	**Loans 2023 € million**	Undrawn loan commitments 2022 € million	Loans 2022 € million
Kazakhstan	**2**	**31**	1	33
Morocco	**4**	**14**	5	7
Tajikistan	**9**	**-**	9	-
Türkiye	**9**	**64**	-	62
Ukraine	**13**	**29**	20	31
At 31 December	**37**	**138**	35	133

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

	Undrawn loan commitments 2023 € million	**Loans 2023 € million**	Undrawn loan commitments 2022 € million	Loans 2022 € million
Agribusiness	**2**	**16**	-	11
Depository credit (banks)	**2**	**49**	-	43
Manufacturing and Services	**-**	**2**	5	21
Municipal and environmental infrastructure	**14**	**22**	13	14
Power and energy	**19**	**42**	15	34
Transport	**-**	**7**	2	10
At 31 December	**37**	**138**	35	133

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 2023, the Fund has fixed rate loan investments of €126.0 million (2022: €109.0 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 2023 € million	United States Dollars 2023 € million	Tajikistani Somoni 2023 € million	Total € million
Total assets	**72**	**183**	**1**	**256**
Total liabilities	**(117)**	**(139)**	**-**	**(256)**
Net currency position at 31 December	**(45)**	**44**	**1**	**-**

	Euro 2022 € million	United States dollars 2022 € million	Tajikistani Somoni 2022 € million	Total € million
Total assets	55	165	1	221
Total current liabilities	(126)	(95)	-	(221)
Net currency position at 31 December	(71)	70	1	-

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentation currency movement, from a 6 per cent strengthening or weakening (2022: 7 per cent) is €2.0 million (2022: €4.0 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 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.

D. Fair value of financial assets

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 fair value loans through profit or loss 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 2023, the Fund's balance sheet approximates to fair value in all financial asset and liability categories.

The table below provides a reconciliation of the fair values of the Fund's Level 3 financial assets.

	Loans 2023 € million	Loans 2022 € million
Balance as at 1 January	-	-
Net losses recognised in:		
- Day one fair value adjustment	(2)	-
Issuances	20	-
Balance at 31 December	**18**	-
Net losses recognised for the year for Level 3 instruments held at 31 December recognised in:		
- Net losses from loans at fair value through profit or loss	(2)	-

Level 3 - sensitivity analysis

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2023 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2023	
Assets	Carrying amount € million	Favourable change € million	Unfavourable change € million
Fair value loans through profit and loss	18	-	-
At 31 December 2023	18	-	-

Fair value loans through profit and loss

Loans at fair value through profit or loss comprise loans with an element of performance-based return. The valuation models/ techniques used to derive the fair value of these instruments are DCF models. The inputs into the models include interest rates and discount rates. Reasonable possible alternative valuations have been determined based on changes to assumptions in underlying DCF models, for example, amending the discount rate.

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 or the Bank.

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. Contributions

	2023 € million	2023 $ million	2022 € million	2022 $ million
Cumulative contributions received net of amounts refunded				
Clean Technology Fund	370	504	344	456
Strategic Climate Fund	46	51	40	43
Contributions received net of amounts refunded at 31 December	416	555	384	499
Contributions receivable				
Clean Technology Fund	29	32	27	28
Strategic Climate Fund	1	1	1	1
Contributions receivable at 31 December	30	33	28	29
Total contributions				
Clean Technology Fund	399	536	371	484
Strategic Climate Fund	47	52	41	44
Total contributions at 31 December	446	588	412	528

During 2023, €20 million was distributed to contributors (2022: €19 million).

4. Loan investments at amortised cost

	2023 € million	2022 € million
At 1 January	133	136
Disbursements	15	4
Day one fair value adjustment	(5)	-
Movement in effective interest rate adjustment	6	5
Repayments	(21)	(16)
Write offs	(5)	(2)
Foreign exchange movements	(3)	6
At 31 December	120	133
Impairment at 31 December	(16)	(32)
Total loan investments net of impairment at 31 December	104	101

5. Provision for impairment of loan investments

Release/(charge) for the year	2023 € million	2022 € million
Impairment of loan investments at amortised cost in stages 1 and 2	6	(6)
Impairment of loan investments at amortised cost in stage 3	10	(14)
Provisions for impairment of loan investments	16	(20)
Movement in provisions		
At 1 January	(32)	(12)
Release/(charge) for the year to the income statement	16	(20)
At 31 December	(16)	(32)
Analysed between		
Stage 1 and 2 provisions for loan investments at amortised cost	(6)	(12)
Stage 3 provisions for loan investments at amortised cost	(10)	(20)
At 31 December	(16)	(32)

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

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

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

Movement in provisions - amortised cost loans	12-month ECL (Stage 1) 2023 € million	Lifetime ECL (Stage 2) 2023 € million	Lifetime ECL (Stage 3) 2023 € million	Total 2023 € million
As at 1 January	(1)	(11)	(20)	(32)
ECL release - repayments	-	2	1	3
ECL release - write offs	-	-	5	5
Changes in model or risk parameters	1	3	4	8
As at 31 December	-	(6)	(10)	(16)

Movement in provisions - amortisied cost loans	12-month ECL (Stage 1) 2022 € million	Lifetime ECL (Stage 2) 2022 € million	Lifetime ECL (Stage 3) 2022 € million	Total 2022 € 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)

Movement in loans at amortised cost	Loans Stage 1 2023 € million	Loans Stage 2 2023 € million	Loans Stage 3 2023 € million	Total 2023 € million
As at 1 January	49	59	25	133
Loan disbursements	12	3	-	15
Transfer to stage 2 - significant increase in credit risk	1	(1)	-	-
Repayments	(2)	(12)	(7)	(21)
Write offs	-	-	(5)	(5)
Day one fair value adjustment	(5)	-	-	(5)
Movement in effective interest rate adjustment	2	2	2	6
Foreign exchange and other movements	(1)	(2)	-	(3)
As at 31 December	56	49	15	120

Movement in loans at amortised cost	Loans Stage 1 2022 € million	Loans Stage 2 2022 € million	Loans Stage 3 2022 € million	Total 2022 € million
As at 1 January	54	67	15	136
Loan disbursements	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

6. Losses from loans

	2023 € million	2022 € million
Losses from loans at fair value through profit or loss	(2)	-
Losses from loans at amortised cost	(5)	-
Losses from loans	(7)	-

7. Loan investments at fair value

Movement in loans at fair value through profit or loss	2023 € million	2022 € million
As at 1 January	-	-
Loan disbursements	20	-
Day one fair value adjustment	(2)	-
As at 31 December	18	-

8. Concessional loan discount

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

	2023 € million	2022 € million
Day one fair value	(7)	-
Release of discount on loan cancellation	1	-
Change in concessional loan discount	(6)	-

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

	2023 € million	2022 € million
At 1 January	12	12
Day one fair value adjustment	7	-
Derecognition of liability on loan disbursement	(5)	-
Release of discount on loan cancellation	(1)	-
At 31 December	13	12

9. Other financial liabilities

	2023 € million	2022 € million
Technical cooperation expenses payable	1	1
General administration expenses payable	1	-
At 31 December	**2**	**1**

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

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

Assets	Current 2023 € million	Non-current 2023 € million	Total 2023 € million	Current 2022 € million	Non-current 2022 € million	Total 2022 € million
Placements with credit institutions	104	-	104	92	-	92
Contributions receivable	30	-	30	23	5	28
Loans	11	127	138	9	124	133
Provisions for impairment	(1)	(15)	(16)	(2)	(30)	(32)
Total assets	**144**	**112**	**256**	122	99	221
Liabilities						
Other financial liabilities	(2)	-	(2)	(1)	-	(1)
Concessional loan discount	(13)	-	(13)	(12)	-	(12)
Contributors' resources	(129)	(112)	(241)	(109)	(99)	(208)
Total liabilities	**(144)**	**(112)**	**(256)**	(122)	(99)	(221)

11. Undrawn commitments

	2023 € million	2022 € million
Loan investments	37	35
Technical cooperation expenses	3	4
Undrawn commitments at 31 December	**40**	**39**

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 2023.

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

12. 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.

13. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that would require adjustment to these financial statements are those that provide evidence of conditions that existed at 31 December 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

14. Related parties

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

Fees are paid to the Bank based on budgeted expenditure as approved by the Trustee for the CIF. During 2023 the Bank incurred €1.0 million of reimbursable expenses on behalf of the Fund (2022: €0.8 million), of which €1.0 million remain payable at year end (2022: €0.4 million). Included in this amount are audit fees of €30,000 (2022: €26,000). Audit fees of €30,000 remain payable to the Bank at year end (2022 €26,000). 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. 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 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The EBRD Crisis Response Special Fund

Annual Financial Report
31 December 2023

The EBRD Crisis Response Special Fund

Contents

The EBRD Crisis Response Special Fund

Statement of comprehensive income

For the year ended 31 December 2023

	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest and other similar income			
From loans		1,243	902
From credit institutions		19,501	1,800
Fee income		16	29
Foreign exchange movement		(4,988)	2,329
Other operating expenses	3	(5,687)	(14,987)
Impairment release on loan investments	4	191	710
Change in concessional loan discount	5	(121)	-
Financial guarantees movement	6	(117,552)	(70,496)
Net unrealised losses from equity related derivatives		(2,385)	-
Disbursements for investment grants		(226,951)	-
Net loss and total comprehensive expense for the year		(336,733)	(79,713)
Attributable to:			
Contributors		(336,733)	(79,713)

Balance sheet

At 31 December 2023

	Note	31 December 2023 € 000	31 December 2023 € 000	31 December 2022 € 000	31 December 2022 € 000
Assets					
Placements with credit institutions			895,420		833,148
Interest receivable			1,668		586
Loan investments					
Loans	4	27,608		27,770	
Less: Provisions for impairment	4	(7,679)		(8,163)	
			19,929		19,607
Contributions receivable			-		4,034
Total assets			917,017		857,375
Liabilities and contributors' resources					
Concessional loan discount	5		62		-
Negative interest expense payable			-		-
Management fee payable			106		3,852
Financial guarantee liability	6		188,027		70,491
Fair value of equity related derivatives			2,385		-
Total liabilities			190,580		74,343
Contributions			1,142,079		861,941
Reserves and accumulated loss			(415,642)		(78,909)
Total contributors' resources			726,437		783,032
Total liabilities and contributors' resources			917,017		857,375
Memorandum items					
Undrawn commitments	7		556,173		215,374

The EBRD Crisis Response Special Fund

Statement of changes in contributors’ resources

For the year ended 31 December 2023

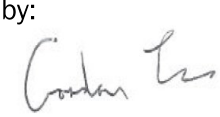
		Contributions	Retained earnings / (Accumulated losses)	Total
		€ 000	€ 000	€ 000
Balance at 31 December 2021		46,797	804	47,601
Net loss and total comprehensive expense for the year		-	(79,713)	(79,713)
Contributions received and receivable		837,008	-	837,008
Distribution to other donor funds	8	(21,864)	-	(21,864)
Balance at 31 December 2022		861,941	(78,909)	783,032
Net loss and total comprehensive expense for the year		-	(336,733)	(336,733)
Contributions received and receivable		280,138	-	280,138
Balance at 31 December 2023		**1,142,079**	**(415,642)**	**726,437**

Statement of cash flows

For the year ended 31 December 2023

		Year to 31 December 2023		Year to 31 December 2022
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	(336,733)		(79,713)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[1]	33		(217)	
Change in concessional loan discount	121		-	
Financial guarantees movement	117,552		70,496	
Net unrealised losses from equity related derivatives	2,385		-	
Foreign exchange movement	4,988		(2,329)	
Impairment release on loan investments	(191)		(710)	
	(211,845)		(12,473)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loans	7,372		8,484	
Funds advanced for loans	(7,819)		(4,313)	
Front end fees received	15		17	
Working capital adjustment				
Movement in interest receivable	(1,082)		(494)	
Movement in interest payable	-		(2)	
Movement in management fee payable	(3,746)		3,852	
Net cash used in operating activities		(217,105)		(4,929)
Cash flows from financing activities				
Contributions received	284,172		832,974	
Distributed to other donor funds	-		(21,864)	
Net cash from financing activities		284,172		811,110
Net increase in cash and cash equivalents		67,067		806,181
Cash and cash equivalents at the beginning of the year		833,148		24,622
Effect of foreign exchange rate changes		(4,795)		2,345
Cash and cash equivalents at 31 December		895,420		833,148

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



Gordon Jones, Director – Financial Control
Date: 10 April 2024

[1] Movement in effective interest rate adjustment includes the interest income unwinding discount of €63,000. This, with loan interest income, make up the interest income from loans figure in the income statement.

Fund purpose

The EBRD Crisis Response 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 and 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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform. There were no accounting implications of this transition.

Impairment of financial assets

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

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the statement of comprehensive income.
Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

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

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.

[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 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.

Derivative financial instruments

The Fund makes use of derivatives 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.

All derivatives are measured at fair value through the Statement of comprehensive income. Fair values are derived from option-pricing models. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Financial guarantees

The Fund'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 off the lifetime expected credit loss associated with the financial guarantee.

This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement.

Subsequent measurement
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 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 have 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 received 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.

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 and relevant contractual performance obligations are met.

Investment grants

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.

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 the financial guarantee liability relies on the inputs and methodology employed in the calculation of the underlying loan's ECL. 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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions

2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness

2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure

2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions

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%	0.02%	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 12 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%

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 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[5], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

[5] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €11.5 million on the date of application on 30 September 2023.

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[6]	20%	30%

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 2023 €000	Change in provision 2023 €000	Change in provision 2023 %	Recalculated provision 2022 €000	Change in provision 2022 €000	Change in provision 2022 %
Portfolio provision (Stage 1 & 2)	572			276		
Staging						
All loans in Stage 1	515	(57)	(10)%	174	(102)	(37)%
All loans in Stage 2	670	98	17%	316	40	15%
PD Ratings						
All loans upgraded 1 notch	475	(97)	(17)%	180	(96)	(35)%
All loans downgraded 1 notch	666	94	16%	367	91	33%
All loans upgraded 3 notches	413	(159)	(28)%	42	(234)	(85)%
All loans downgraded 3 notches	1,036	464	81%	505	229	83%
Projected GDP						
Projected GDP increased by 1%	556	(16)	(3)%	256	(20)	(7)%
Projected GDP decreased by 1%	577	5	1%	298	22	8%
Projected GDP increased by 5%	533	(39)	(7)%	213	(63)	(23)%
Projected GDP decreased by 5%	628	56	10%	379	103	38%
LGD						
All loans decreased by 10%	515	(57)	(10)%	214	(62)	(22)%
All loans increased by 10%	617	45	8%	337	61	22%
EAD						
All undrawn commitments cancelled	566	(6)	(1)%	275	(1)	(0)%
All undrawn commitments disbursed within one month	567	(5)	(1)%	276	0	0%

With respect to Stage 3 provisions, a decrease of ten percent on the current provision cover level would reduce the ECL by - €711,000 (2022: - €790,000).

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.

[6] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

Adjusted risk parameter	Recalculated ECL 2023 €000	Change in ECL 2023 €000	Change in ECL 2023 %	Recalculated ECL 2022 €000	Change in ECL 2022 €000	Change in ECL 2022 %
Financial guarantee liability on stage 1 and 2 loans	60,937			4,489		
PD Ratings						
All loans upgraded 3 notches	61,703	766	1%	4,902	413	9%
All loans downgraded 3 notches	50,008	(10,929)	(18%)	4,076	(413)	(9%)
LGD						
All loans decreased by 10%	65,739	4,802	8%	5,629	1,140	25%
All loans increased by 10%	57,667	(3,270)	(5%)	2,269	(2,220)	(49%)

With respect to guarantee liabilities on Stage 3 loans, a decrease of ten percent on the current provision cover level would reduce the ECL by -€12,700,000 (2022: -€6,400,000).

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 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 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"[7] 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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).

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

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	2023 € 000	2022 € 000
2: Very strong	314,541	217,116
3: Strong	580,879	616,032
At 31 December	**895,420**	833,148

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

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

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

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

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

	Amortised cost carrying value					Impairment			Total net of impairment	
Risk rating category	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Credit impaired Stage 3 € 000	Total net of impairment € 000	Impairment provisions coverage %
4: Good	915	-	-	915	3.3%	-	-	-	915	0.0%
5: Fair	4,305	-	-	4,305	15.6%	(1)	-	-	4,304	-
6: Weak	11,021	-	-	11,021	39.9%	(59)	-	-	10,962	0.5%
7: Special Attention	565	3,270	-	3,835	13.9%	(6)	(506)	-	3,323	13.4%
8: Non-performing	-	-	7,532	7,532	27.3%	-	-	(7,107)	425	94.4%
At 31 December 2023	**16,806**	**3,270**	**7,532**	**27,608**	**100.0%**	**(66)**	**(506)**	**(7,107)**	**19,929**	

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

At 31 December 2023 the Fund had security arrangements in place for €3.5 million of its disbursed loan investments (2022: €4.7 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			
Risk rating category	Stage 1 € 000	Stage 2 € 000	Stage 3 € 000	Total € 000	Stage 1 € 000	Stage 2 € 000	Stage 3 € 000	Total € 000
6: Weak	-	-	-	-	903	-	-	903
7: Special Attention	2,333	58,605	-	60,938	13,467	251,234	-	264,701
8: Non-performing	-	-	127,089	127,089	-	-	242,273	242,273
At 31 December 2023	**2,333**	**58,605**	**127,089**	**188,027**	**14,370**	**251,234**	**242,273**	**507,876**

	Financial guarantee liabilities				Undrawn loan and guarantee commitments			
Risk rating category	Stage 1 € 000	Stage 2 € 000	Stage 3 € 000	Total € 000	Stage 1 € 000	Stage 2 € 000	Stage 3 € 000	Total € 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 2022	3,016	3,116	64,359	70,491	39,759	26,557	149,058	215,374

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. At 31 December 2023, the total eligible loans and guarantee commitments outstanding under the Bank guarantees is €1,619 million (2022: €741 million), At 31 December 2023, the maximum exposure of eligible operations covered by the guarantees is €699 million (2022: €285 million). The guarantee liability on the balance sheet of €188 million (2022: €70 million) represents the initial fair value of the liability recognised when the guarantees were issued adjusted for amortisation and expected credit losses. An amount of €2.4 million (2022: nil) is recognised as "Derivative financial instrument liabilities" in relation to share investments. 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 2023 € 000	Financial guarantee liabilities 2023 € 000	Undrawn loan and guarantee commitments 2023 € 000	Total 2023 € 000	Loans 2022 € 000	Financial guarantee liabilities 2022 € 000	Undrawn loan and guarantee commitments 2022 € 000	Total 2022 € 000
Azerbaijan	2,608	-	-	2,608	2,706	-	-	2,706
Israel	3,815	-	-	3,815	-	-	-	-
Italy	3,494	-	-	3,494	-	-	-	-
Lebanon	4,247	-	-	4,247	5,092	-	-	5,092
Lithuania	2,291	-	-	2,291	-	-	-	-
Moldova	565	-	-	565	975	-	-	975
Romania	1,726	-	-	1,726	9,161	-	-	9,161
Türkiye	6,349	-	-	6,349	1,727	-	-	1,727
Turkmenistan	-	-	-	-	154	-	-	154
Uzbekistan	1,534	-	903	2,437	3,866	-	900	4,766
Ukraine	979	188,027	506,973	695,979	4,089	70,491	214,474	289,054
At 31 December	27,608	188,027	507,876	723,511	27,770	70,491	215,374	313,635

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

	Loans 2023 € 000	Financial guarantee liabilities 2023 € 000	Undrawn loan and guarantee commitments 2023 € 000	Total 2023 € 000	Loans 2022 € 000	Financial guarantee liabilities 2022 € 000	Undrawn loan and guarantee commitments 2022 € 000	Total 2022 € 000
Agribusiness	14,676	17,643	67,832	100,151	10,810	614	9,959	21,383
Depository credit (banks)	12,932	25,060	85,499	123,491	16,960	4,041	35,458	56,459
Energy	-	64,828	158,534	223,362	-	60,000	90,000	150,000
Leasing finance	-	2,255	22,620	24,875	-	1,249	13,627	14,876
Manufacturing & Services	-	1,465	1,035	2,500	-	-	-	-
Municipal and environmental infrastructure	-	14,466	15,834	30,300	-	228	7,272	7,500
Natural resources	-	55,333	85,346	140,679	-	4,359	59,058	63,417
Property and Tourism	-	431	569	1,000	-	-	-	-
Transport	-	6,546	70,607	77,153	-	-	-	-
At 31 December	27,608	188,027	507,876	723,511	27,770	70,491	215,374	313,635

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 2023, the Fund has fixed rate loan investments of €3,260,000 (2022: €3,870,000). 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 2023 € 000	Romanian Leu 2023 € 000	United States dollars 2023 € 000	Danish krone 2023 € 000	Ukrainian Hryvnia 2023 € 000	Uzbekistani Som 2023 € 000	Total € 000
Total assets	844,528	3,510	68,125	-	-	854	917,017
Total liabilities	(179,438)	-	(11,032)	-	(110)	-	(190,580)
Net currency position at 31 December 2023	665,090	3,510	57,093	-	(110)	854	726,437

	Euro 2022 € 000	Romanian Leu 2022 € 000	United States dollars 2022 € 000	Danish krone 2022 € 000	Ukrainian Hryvnia 2022 € 000	Uzbekistani Som 2022 € 000	Total € 000
Total assets	704,851	5,787	142,703	4,034	-	-	857,375
Total liabilities [6]	(73,941)	-	(338)	-	(64)	-	(74,343)
Net currency position at 31 December 2022	(152,122)	5,787	142,365	4,034	(64)	-	-

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

- €2,587,000 (2022: €9,982,000) from a 6 per cent strengthening or weakening in the United States dollar to Euro exchange rate (2022: 7 per cent)
- €49,000 (2022: €77,000) from a 1 per cent strengthening or weakening in the Romanian Leu to Euro exchange rate (2022: 1 per cent).
- Nil (2022: €13,000) from a 0.2 per cent strengthening or weakening in the Danish Krone to Euro exchange rate (2022: 0.2 per cent).
- €9,000 (2022: €98,000) from a 9 per cent strengthening or weakening in the Ukrainian Hryvnia to Euro exchange rate (2022: 19 per cent).
- €183,000 (2022: nil) from a 21 per cent strengthening or weakening in the Uzbekistani Som to Euro exchange rate (2022: 8 per cent).

C. Liquidity risk

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

The Fund's Rules and Regulations require that 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. Fair value of financial 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 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 liabilities.

[8] Restatement adjusts the 2022 disclosure to exclude the contributiors resources from the 2022 liabilities.

The table below provides a reconciliation of the fair values of the Fund's Level 3 financial liabilities.

	Derivative financial instruments 2023 € 000	Derivative financial instruments 2022 € 000
Balance as at 1 January	-	-
Net losses recognised in:		
- Net losses from derivative financial instruments at fair value through profit or loss	(2,385)	-
Balance at 31 December	**(2,385)**	-
Net losses recognised for the year for Level 3 instruments held at 31 December recognised in:		
- Net losses from derivative financial instruments at fair value through profit or loss	(2,385)	-

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2023 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2023	
Liabilities	**Carrying amount € 000**	**Favourable change € 000**	**Unfavourable change € 000**
Derivative financial instruments	(2,385)	489	(98)
At 31 December 2023	**(2,385)**	**489**	**(98)**

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

Share investments associated derivatives

The Fund's unlisted equity portfolio comprises equity derivatives. 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.

E. Management of contributors' resources

At 31 December 2023, the Fund had ten 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 Ukraine Response Platform – Individual Sub-Account Italy**

*The USAID have chosen to withdraw from the Fund but have some remaining resources to be distributed.
**The Italy Sub-account was opened during 2023.

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:

	2023	2022
	€ 000	€ 000
Management fees	5,683	14,974
Interest expense	4	13
Year to 31 December	5,687	14,987

4. Loan investments

(Charge)/release for the year	2023 € 000	2022 € 000
Impairment of loan investments at amortised cost in stages 1 and 2	(298)	53
Impairment of loan investments at amortised cost in stage 3	489	657
Provisions for impairment of loan investments	**191**	**710**

Movement in provisions	2023 € 000	2022 € 000
At 1 January	(8,163)	(8,377)
Release for the year to the income statement	191	710
Unwinding of the discount on expected future cash flows of stage 3 assets	6	-
Foreign exchange adjustments	287	(496)
At 31 December	**(7,679)**	**(8,163)**

Analysed between	2023 € 000	2022 € 000
Stage 1 and 2 provisions for loan investments at amortised cost	(572)	(276)
Stage 3 provisions for loan investments at amortised cost	(7,107)	(7,887)
At 31 December	**(7,679)**	**(8,163)**

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) 2023 € 000	Lifetime ECL (Stage 2) 2023 € 000	Lifetime ECL (Stage 3) 2023 € 000	Total 2023 € 000
As at 1 January	(33)	(243)	(7,887)	(8,163)
New loans originated	(52)	-	-	(52)
Transfer to stage 1	(6)	35	-	29
Transfer to stage 3 - credit impaired	8	-	(272)	(264)
ECL release - repayments	-	-	766	766
Changes in model or risk parameters	17	(298)	-	(281)
Foreign exchange and other movements	-	-	286	286
As at 31 December	(66)	(506)	(7,107)	(7,679)

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	(33)	(243)	(7,887)	(8,163)

Movement in loans at amortised cost	Loans Stage 1 2023 € 000	Loans Stage 2 2023 € 000	Loans Stage 3 2023 € 000	Total 2023 € 000
As at 1 January	14,754	5,064	7,952	27,770
Loan disbursements	7,819	-	-	7,819
Transfer to stage 1	682	(682)	-	-
Transfer to stage 3 - credit impaired	(710)	-	710	-
Repayments	(5,374)	(1,202)	(796)	(7,372)
Day one fair value adjustment	(56)	-	-	(56)
Movement in effective interest rate adjustment	(98)	86	(42)	(54)
Foreign exchange and other movements	(211)	4	(292)	(499)
As at 31 December	16,806	3,270	7,532	27,608

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	14,754	5,064	7,952	27,770

5. Concessional loan discount

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

	2023 € million	2022 € million
Day one fair value	(121)	-
Concessional loan discount charge to the income statement	(121)	-

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

	2023 € 000	2022 € 000
At 1 January	-	-
Day one fair value adjustment	(121)	-
Derecognition of liability on loan disbursement	56	-
Foreign exchange movements	3	-
As at 31 December	(62)	-

6. Financial guarantees movements

	2023 € 000	2022 € 000
Movement in financial guarantee for Stage 1 and Stage 2 loans	(54,822)	(6,132)
Charge for estimated settlement of credit impaired guaranteed loans	(62,730)	(64,359)
Financial guarantees movement	(117,552)	(70,491)

	2023 € 000	2022 € 000
At 1 January	70,491	-
Financial guarantee movement	117,552	70,496
Foreign exchange movements	-	(5)
As at 31 December	188,043	70,491

7. Undrawn Commitments

	2023 € 000	2022 € 000
Financial guarantees	506,973	214,474
Undrawn loan commitments	903	900
Investment grant commitments	48,297	-
At 31 December	556,173	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 2023.

8. Contributions transferred

During the year no contributions were distributed to other funds. (2022: 21.9 million).

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 2023 € 000	Non-current 2023 € 000	Total 2023 € 000	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000
Placements with credit institutions	895,420	-	895,420	833,148	-	833,148
Interest receivable	1,668	-	1,668	586	-	586
Loans	7,148	20,460	27,608	7,148	20,622	27,770
Provisions for impairment	(1,918)	(5,761)	(7,679)	(1,918)	(6,245)	(8,163)
Contributions receivable[7]	-	-	-	4,034	-	4,034
Total assets	902,318	14,699	917,017	842,998	14,377	857,375
Liabilities and contributors' resources						
Concessional loan discount	62	-	62	-	-	-
Management fee payable	106	-	106	3,852	-	3,852
Financial guarantee liability	188,027	-	188,027	70,491	-	70,491
Fair value of equity related derivatives	2,385	-	2,385	-	-	-
Contributors' resources[7]	711,738	14,699	726,437	768,655	14,377	783,032
Total liabilities and contributors' resources	902,318	14,699	917,017	842,998	14,377	857,375

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 2023.

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 10 April 2024 there had been no material events after the reporting period to disclose.

On 10 April 2024 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 €5.6 million management fee was charged by the Bank to the Fund (2022: €14.8 million). There was €0.1 million accrued management fee payable by the Fund to the Bank at 31 December 2023 (2022: €3.9 million).

External auditors’ remuneration of €21,500 is payable by the Bank from the management fee (2022: €19,100). 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.

[9] Restatement adjusts the 2022 disclosure to include the contributions receivable to the 2022 assets and contributors resources.

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

- present fairly, in all material respects, the financial position of the Fund as at 31 December 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 July 2022, and in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The EBRD Green Climate Fund Special Fund

Annual Financial Report
31 December 2023

The EBRD Green Climate Fund Special Fund

Contents

The EBRD Green Climate Fund Special Fund

Income statement

For the year ended 31 December 2023	Note	Year to 31 December 2023 € million	Year to 31 December 2022 € million
Interest income			
From loans		12	11
From credit institutions		9	2
Net interest income		21	13
Technical cooperation expenses	3	(3)	(4)
Disbursements for investment grants		(3)	(1)
Foreign exchange movements		4	(4)
Accredited entity fee expense		(2)	(7)
Change in concessional loan discount	4	(26)	(3)
Net loss for the period		(9)	(6)

Statement of comprehensive income

For the year ended 31 December 2023	Year to 31 December 2023 € million	Year to 31 December 2022 € million
Net loss for the period	(9)	(6)
Other comprehensive (expense)/income		
Foreign exchange movement between functional and presentational currencies	(12)	21
Total comprehensive (expense)/income	(21)	15
Attributable to:		
Contributor	(21)	15

Balance sheet

As at 31 December 2023	Note	€ million	31 December 2023 € million	€ million	31 December 2022 € million
Assets					
Placements with credit institutions			224		146
Interest Receivable			2		1
Loan investments					
Loans	5	172		160	
Less: Provisions for impairment	5	(1)		(1)	
			171		159
Contributions receivable			1		14
Total assets			398		320
Liabilities					
Other financial liabilities	6		7		11
Concessional loan discount	4		22		9
Contributor's resources			369		300
Total liabilities and contributors resources			398		320
Memorandum items					
Undrawn commitments[1]	7		111		77

[1] The 2022 figure has been restated to reflect an adjustment to the Technical cooperation expenses balance, see note 7.

The EBRD Green Climate Fund Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2023	Contributed Resources € million	General reserve € million	Total € million
As at 31 December 2021	330	2	332
Net loss for the year	(6)	-	(6)
Other comprehensive income in the year	-	21	21
Contributions received and receivable	17	-	17
Distribution of funds to contributor	(64)	-	(64)
As at 31 December 2022	277	23	300
Net loss for the year	(9)	-	(9)
Other comprehensive expense in the year	-	(12)	(12)
Contributions received and receivable	127	-	127
Distribution of funds to contributor	(37)	-	(37)
As at 31 December 2023	**358**	**11**	**369**

Statement of cash flows

For the year ended 31 December 2023	€ million	Year to 31 December 2023 € million	€ million	Year to 31 December 2022 € million
Cash flows from operating activities				
Net loss for the period	(9)		(6)	
Adjustment to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Effective interest rate adjustment on loans[2]	(5)		(7)	
Change in concessional loan discount	26		3	
Foreign exchange movement	(4)		4	
	8		(6)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayment of loan investments	29		70	
Funds advanced for loans	(55)		(54)	
Front end fees received	1		-	
Working capital adjustment				
Movement in interest receivable	(1)		-	
Movement in fee receivable	-		-	
Movement in other financial liabilities	(4)		4	
Net cash (used in)/generated from operating activities		(22)		14
Cash flows from financing activities				
Contributions received	141		7	
Distribution of funds to contributor	(35)		(64)	
Net cash generated from/(used in) financing activities		106		(57)
Net increase/(decrease) in cash and cash equivalents		84		(43)
Cash and cash equivalents at the beginning of the period		146		181
Effect of foreign exchange rate changes		(6)		8
Cash and cash equivalents at 31 December		224		146

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

[2] Movement in effective interest rate adjustment includes the interest income unwinding discount of €4 million. 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. 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 10 April 2024, 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 Fund's financial statements, namely:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The majority of the Fund’s trades that referenced interest rate benchmarks subject to these reforms have now transitioned, with those yet to transition limited to non-derivative financial assets of €10 million (€32.6 million in 2022) (USD LIBOR). These assets are subject to fallback provisions which are designed to address the transition related issues for those contracts that continue to reference the previous benchmarks.

Impairment of financial assets

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

The EBRD Green Climate Fund Special Fund

A "three-stage" model for impairment is applied based on changes in credit quality since origination[3], 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.[4]

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 other 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 contributor' 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.

[3] 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.
[4] 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 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.

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 the cost 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.

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 10).

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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions

2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness

2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

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

Sustainable Infrastructure

2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions

2022 PD rating[6]	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%

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 2023 (2022: 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.

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

The EBRD Green Climate Fund Special Fund

Loss given default rates

A loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[7], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[8]	20%	30%

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 2023 € million	Change in provision 2023 € million	Change in provision 2023 %	Recalculated provision 2022 € million	Change in provision 2022 € million	Change in provision 2022 %
Portfolio provision (Stages 1 and 2)	1			1		
Staging						
All loans in Stage 1	1	-	-	1	-	-
All loans in Stage 2	5	4	400%	5	4	400%
PD Ratings						
All loans upgraded 1 notch	1	-	-	1	(1)	(100)%
All loans downgraded 1 notch	3	2	200%	2	1	100%
All loans upgraded 3 notches	-	(1)	(100)%	-	(1)	(100)%
All loans downgraded 3 notches	9	8	800%	11	10	1000%
Projected GDP						
Projected GDP increased by 1%	1	-	-	1	-	-
Projected GDP decreased by 1%	1	-	-	1	-	-
Projected GDP increased by 5%	1	-	-	1	-	-
Projected GDP decreased by 5%	2	1	100%	1	-	-
LGD						
All loans decreased by 10%	1	-	-	1	-	-
All loans increased by 10%	1	-	-	1	-	-
EAD						
All undrawn commitments cancelled	1	-	-	1	-	-
All undrawn commitments disbursed within one month	1	-	-	1	-	-

[7] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €698,000 on the date of application on 30 September 2023.

[8] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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.

The EBRD Green Climate Fund Special Fund

Risk management

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

Risk governance

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

The Bank's overall framework for identification and management of risks is underpinned by independent "second line of defence"[9] 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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.

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

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 € million	Stage 2 € million	Total € million	Total %	Stage 1 € million	Stage 2 € million	Total net of impairment € million	Impairment provisions coverage %
5: Fair	26	-	26	15.1%	-	-	26	0.0%
6: Weak	113	-	113	65.7%	-	-	113	0.0%
7: Special Attention	22	11	33	19.2%	-	(1)	32	3.0%
At 31 December 2023	161	11	172	100.0%	-	(1)	171	

	Amortised cost carrying value				Impairment		Total net of impairment	
Risk rating category	Stage 1 € million	Stage 2 € million	Total € million	Total %	Stage 1 € million	Stage 2 € million	Total net of impairment € million	Impairment provisions coverage %
5: Fair	30	-	30	18.8%	-	-	30	0.0%
6: Weak	104	11	115	71.8%	-	(1)	114	0.9%
7: Special Attention	15	-	15	9.4%	-	-	15	0.0%
At 31 December 2022	149	11	160	100.0%	-	(1)	159	

At 31 December 2023 the Fund had security arrangements in place for loan investments with a disbursed value of €79 million (2022: €55 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	Stage 2	Total	Stage 1	Stage 2	Total
	2023	2023	2023	2022	2022	2022
Risk rating category	€ million	€ million	€ million	€ million	€ million	€ million
5: Fair	1	-	1	11	-	11
6: Weak	34	-	34	29	-	29
7: Special Attention	41	3	44	14	-	14
At 31 December	76	3	79	54	-	54

Concentration of credit risk exposure

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

	Undrawn loan commitments 2023 € million	Loans 2023 € million	Undrawn loan commitments 2022 € million	Loans 2022 € million
Armenia	-	3	-	4
Egypt	47	43	22	47
Georgia	-	4	10	5
Jordan	7	3	6	0
Kazakhstan	9	42	-	47
Moldova	1	1	1	1
Mongolia	6	17	-	12
Morocco	1	31	1	33
Qatar	-	13	-	-
Republic of Serbia	-	4	-	3
Tajikistan	8	11	14	8
At 31 December	79	172	54	160

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

	Undrawn loan commitments 2023 € million	Loans 2023 € million	Undrawn loan commitments 2022 € million	Loans 2022 € million
Depository credit (banks)	11	87	4	93
Leasing finance	-	5	-	4
Municipal and environmental infrastructure	3	-	13	-
Power and energy	65	80	37	63
At 31 December	79	172	54	160

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 2023, the Fund has fixed rate loan investments of €128 million (2022: €106 million). 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 2023 € million	United States dollars 2023 € million	Total 2023 € million
Total assets	**105**	**293**	**398**
Total liabilities	**(118)**	**(280)**	**(398)**
Net currency position at 31 December 2023	**(13)**	**13**	**-**

	Euro 2022 € million	United States dollars 2022 € million	Total 2022 € million
Total assets	84	236	320
Total liabilities	(106)	(214)	(320)
Net currency position at 31 December 2022	(22)	22	-

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 6 per cent strengthening or weakening (2022: 7 per cent) is €1 million (2022: €1 million).

Interest rate benchmark reforms
In March 2021, the Intercontinental Exchange (ICE) Benchmark Administration in conjunction with the UK's Financial Conduct Authority (FCA) announced that it would stop publishing the following LIBOR settings after 31 December 2021: all GBP, EUR, CHF and JPY LIBOR setting, and one-week and two-month USD LIBOR settings. All remaining USD LIBOR settings (i.e. the overnight, one-month, three-month, six-month and 12-month settings) were no longer 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 governs the circumstances that allows either the Bank or the GCF to terminate the AMA, with either Party giving 180 days' notice to the other. 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[10]

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 2023.

	Commitments approved € million	Technical cooperation expenses € million	Undrawn commitments € million
Total projects			
As at 31 December 2021[12]	18	(12)	6
Movement in the year	2	(4)	(2)
As at 31 December 2022	20	(16)	4
Movement in the year	2	(3)	(1)
As at 31 December 2023	**22**	**(19)**	**3**

[10] Total technical cooperation expenses includes amounts accrued on the balance sheet.
[11] The 2022 opening balance figure has been restated to reflect an adjustment to the Technical cooperation expenses balance, see note 7.

4. Concessional loan discount

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

	2023 € million	2022 € million
Day one fair value	(27)	(3)
Release of discount on loan cancellation	1	-
Change in concessional loan discount	**(26)**	(3)

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

	2023 € million	2022 € million
At 1 January	9	12
Day one fair value adjustment	27	3
Derecognition of liability on loan disbursement	(13)	(7)
Foreign exchange movements	-	1
Release of discount on loan cancellation	(1)	-
At 31 December	**22**	9

5. Loan investments

Operating assets	2023 € million	2022 € million
At 1 January	160	166
Disbursements	55	54
Repayments	(29)	(70)
Day one fair value adjustment	(13)	(7)
Effective interest rate adjustment movement	4	7
Foreign exchange movements	(5)	10
At 31 December	**172**	160
Impairment at 31 December	(1)	(1)
Total loan investments net of impairment at 31 December	**171**	159

Provisions for impairment

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. There were no movements in the associated impairment provisions for each of the stages of impairment (2022: no movement).

As at 31 December 2023, the Fund has no loan investments or undrawn commitments in Stage 3 (2022: none in Stage 3).

The EBRD Green Climate Fund Special Fund

Movement in loans at amortised cost	Loans Stage 1 2023 € million	Loans Stage 2 2023 € million	Total 2023 € million
As at 1 January	149	11	160
New banking loans originated	54	1	55
Repayments	(28)	(1)	(29)
Day one fair value adjustment	(13)	-	(13)
Movement in effective interest rate adjustment	4	-	4
Foreign exchange and other movements	(5)	-	(5)
As at 31 December	161	11	172

Movement in loans at amortised cost	Loans Stage 1 2022 € million	Loans Stage 2 2022 € million	Total 2022 € million
As at 1 January	166	-	166
New banking loans originated	54	-	54
Transfer to stage 2 - significant increase in credit risk	(12)	12	-
Repayments	(69)	-	(69)
Day one fair value adjustment	(7)	-	(7)
Movement in effective interest rate adjustment	6	-	6
Foreign exchange and other movements	11	(1)	10
As at 31 December 2022	149	11	160

6. Other financial liabilities

	2023 € million	2022 € million
Technical cooperation expenses	6	7
Accredited entity fees payable	1	4
As at 31 December	7	11

7. Undrawn commitments

	2023 € million	2022 € million
Loan commitments	79	54
Technical cooperation expenses[13]	3	4
Investment grants	29	19
Undrawn commitments at 31 December	111	77

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

[13] The 2022 opening balance figure has been restated to reflect an adjustment to the Technical cooperation expenses balance, see note 7.

8. Contributions

Pledged contributions not yet due	2023 € million	2022 € million
Total pledged	939	929
FX on amounts pledged	76	118
Total received	(573)	(432)
FX on contributions received	(13)	(31)
Contributions receivable	(1)	(14)
As at 31 December	428	570

As at 31 December 2023 the total contributions pledged per the signed FAAs is equivalent to €1,015 million (2022: €1,047 million). The next tranche of contributions can be called when conditions precedent stipulated in the relevant FAA have been met.

During 2023, €37 million was distributed to the contributor (2022: €63 million).

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 2023 € million	Non-current 2023 € million	Total 2023 € million	Current 2022 € million	Non-current 2022 € million	Total 2022 € million
Placements with credit institutions	224	-	224	146	-	146
Other financial assets	2	-	2	1	-	1
Loans	40	132	172	30	130	160
Provisions for impairment	-	(1)	(1)	-	(1)	(1)
Contributions receivable	1	-	1	14	-	14
Total assets	267	131	398	191	129	320
Liabilities						
Other financial liabilities	7	-	7	11	-	11
Concessional loan discount	22	-	22	9	-	9
Total contributor's resources	238	131	369	171	129	300
Total liabilities	267	131	398	191	129	320

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. 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 2023.

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 10 April 2024 there had been no material events after the reporting period to disclose.

On 10 April 2024 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

12. Related parties

The Fund's related parties are the Bank and the 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 payable during the year are disclosed in the income statement as accredited fee expense.

External auditors' remuneration of €21,500 is payable by the Bank from the accredited entity fee (2022: €19,100). 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 6.

Contributions received and receivable from the contributor and amounts returned to the contributor are outlined in note 8.

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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, 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
11 April 2024

European Bank
for Reconstruction and Development

The EBRD Shareholder Special Fund

Annual Financial Report
31 December 2023

The EBRD Shareholder Special Fund

Contents

The EBRD Shareholder Special Fund

Statement of comprehensive income

For the year ended 31 December 2023

	Note	Year to 31 December 2023 € million	Year to 31 December 2023 € million	Year to 31 December 2022 € million	Year to 31 December 2022 € million
Interest Income			14		1
Technical cooperation expenses	3	(49)		(41)	
Client cost sharing for technical cooperation		-		1	
Net technical cooperation expenses			(49)		(40)
Disbursements for investment grants			(29)		(17)
Incentive fees			(3)		(2)
Net gain/(loss) from share investments	4		5		(3)
Foreign exchange movement			(2)		2
Financial guarantees movement	5		(6)		(6)
Other operating expenses			(3)		(5)
Net loss and comprehensive expense for the year			(73)		(70)
Total comprehensive expense attributable to:					
Contributors			(73)		(70)

Balance sheet

At 31 December 2023

	Note	31 December 2023 € million	31 December 2023 € million	31 December 2022 € million	31 December 2022 € million
Assets					
Placements with credit institutions	6		535		520
Contributions receivable	7		105		94
Share investments	4		53		48
Other receivables			1		2
Total assets			694		664
Liabilities and contributors' resources					
Accrued technical cooperation expenses			30		40
Financial guarantee liability	5		12		7
Total liabilities			42		47
Contributions	7	1,417		1,309	
Reserves and accumulated loss		(765)		(692)	
Total contributors' resources			652		617
Total liabilities and contributors' resources			694		664
Memorandum items					
Undrawn commitments	8		141		156

Statement of changes in contributors' resources

For the year ended 31 December 2023

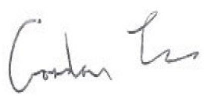
	Contributions € million	Accumulated loss € million	Total € million
At 31 December 2021	1,200	(622)	578
Contributions received and receivable	109	-	109
Total comprehensive expense for the year	-	(70)	(70)
At 31 December 2022	1,309	(692)	617
Contributions received and receivable	108	-	108
Total comprehensive expense for the year	-	(73)	(73)
At 31 December 2023	**1,417**	**(765)**	**652**

Statement of cash flows

For the year ended 31 December 2023

		Year to 31 December 2023		Year to 31 December 2022
	€ million	€ million	€ million	€ million
Cash used in operating activities				
Net loss for the year	(73)		(70)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the statement of comprehensive income				
Net (gain)/loss on share investments	(5)		3	
Foreign exchange movement	2		(2)	
Financial guarantees movement	5		6	
Management fees	3		2	
	(68)		(61)	
Cash flows from the sale and purchase of operating assets				
Net placements to credit institutions	-		(10)	
Working capital adjustment				
Movement in accrued expenses	(10)		(12)	
Net cash used in operating activities		(78)		(83)
Cash flows from financing activities				
Contributions received	94		122	
Net cash from financing activities		94		122
Net increase in cash and cash equivalents		16		39
Effect of foreign exchange rate changes		(1)		1
Cash and cash equivalents at the beginning of the year		320		280
Cash and cash equivalents at 31 December		335		320

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



Gordon Jones, Director - Financial Control
Date: 10 April 2024

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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform. There were no accounting implications of this transition.

Impairment of financial assets

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

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

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

For Stage 1 and Stage 2 assets impairment is deducted from the asset categories on the balance sheet and charged to the income statement.
Assets that have been modified will continue to be assessed for staging purposes against the PD from the original inception of the asset, unless the modified cash flows are sufficiently different that the original asset has been derecognised and a new asset, with a new inception PD, has been recognised in its place.

Stage assessment

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

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

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

Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate. 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

[1] For calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[2] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

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 off the lifetime expected credit loss associated with the financial guarantee.

This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement.

Subsequent measurement

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 from the contributor as equity on the basis that the residual assets are only available to be 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 have 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 and contractual terms being met.

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 relies on the inputs and methodology employed in the calculation of the underlying loan's ECL. 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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions

2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness

2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure

2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions

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%	0.02%	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%

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

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 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[4], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[5]	20%	30%

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 €0.2 million (2022: €1.0 million). Conversely, a 3-notch PD downgrade would have increased the amount of the financial guarantees provided by €0.5 million (2022: €0.3 million).

[4] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €3.2 million on the date of application on 30 September 2023.
[5] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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 +€136,000/-€136,000 (2022:+€179,000/-€179,000) 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 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"[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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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 €150 million (2022: €100 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.

The Fund is not entitled to sell or repledge the collateral outside of a default by the credit institution. The Fund has not taken possession of any securities held as collateral during the year.

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

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	
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 "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.

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

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 2023, the total eligible loans outstanding under the Bank and PB guarantees is €460 million (2022: €235 million). At 31 December 2023, the maximum exposure of eligible operations covered by the guarantees is €49 million (2022: €41 million). The guarantee liability on the balance sheet of €12 million (2022: €7 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.

	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	-	-	-	-	5	-	-	5
6: Weak	-	-	-	-	2	-	-	2
7: Special attention	-	11	-	11	2	27	-	29
8: Non-performing	-	-	1	1	-	-	1	1
At 31 December 2023	-	11	1	12	9	27	1	37

Risk rating category	Financial guarantee liabilities Stage 1 € million	Stage 2 € million	Stage 3 € million	Total € million	Undrawn guarantee commitments Stage 1 € million	Stage 2 € million	Stage 3 € million	Total € 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

Concentration of credit risk exposure

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

	Financial guarantee liabilities 2023 € million	Undrawn guarantee commitments 2023 € million	Financial guarantee liabilities 2022 € million	Undrawn guarantee commitments 2022 € million
Albania	-	1	-	-
Armenia	-	1	-	1
Azerbaijan	-	1	-	1
Georgia	-	-	-	1
Kosovo	-	1	-	-
Montenegro	-	1	-	1
Morocco	-	2	-	3
Serbia	-	3	-	2
Tunisia	-	1	-	1
Ukraine	12	26	7	24
At 31 December	12	37	7	34

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

	Financial guarantee liabilities 2023 € million	Undrawn guarantee commitments 2023 € million	Financial guarantee liabilities 2022 € million	Undrawn guarantee commitments 2022 € million
Agribusiness	-	3	4	11
Depository Credit (banks)	9	26	-	14
Energy	1	1	1	1
Leasing Finance	-	1	-	1
Manufacturing & Services	-	4	1	4
Non-depository Credit (non-bank)	-	1	-	1
Transport	2	1	1	2
At 31 December	12	37	7	34

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 2023 € million	United States dollars 2023 € million	Total € million
Total assets	**601**	**93**	**694**
Total liabilities	**(34)**	**(8)**	**(42)**
Net currency position at 31 December 2023	**567**	**85**	**652**

	Euro 2022 € million	United States dollars 2022 € million	Total € million
Total assets	559	105	664
Total liabilities[7]	(41)	(6)	(47)
Net currency position at 31 December 2022	518	99	617

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 6 per cent strengthening or weakening (2022: 7 per cent) is +/- €5 million (2022: +/- €7 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

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, since they 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.

[7] Restatement adjusts the 2022 Euro liabilities disclosure, now reconciling to the 2022 liabilities as presented on the balance sheet.

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 million (2022:€1.4 million) and an unfavourable change in value of €1.5 million (2022: €3.1 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 allow 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[8]

	Commitments approved € million	Technical cooperation expenses[8] € million	Undrawn commitments € million
Total projects			
As at 31 December 2021	566	(515)	51
Movement in the year	46	(41)	5
As at 31 December 2022	612	(556)	56
Movement in the year	44	(49)	(5)
As at 31 December 2023	**656**	**(605)**	**51**

The undrawn commitments amount represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2023.

4. Share investments

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

	2023 € million	2022 € million
Outstanding disbursements		
At 1 January	48	48
Disbursements	-	-
At 31 December	**48**	48

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

	2023 € million	2022 € million
Fair value adjustment		
At 1 January	-	3
Movement in fair value revaluation	5	(3)
At 31 December	5	-
Fair value at 31 December	53	48

	2023 € million	2022 € million
Net unrealised gain/(loss) from share investments	5	(3)
Net gain/(loss) from share investments	5	(3)

5. Financial guarantee movement

	2023 € million	2022 € million
Movement in financial guarantee for Stage 1 and Stage 2 loans	(5)	(5)
Settlements	(1)	-
Charge for estimated settlement of credit impaired guaranteed loans	-	(1)
Financial guarantees movement	(6)	(6)

	2023 € million	2022 € million
At 1 January	7	1
Movement in financial guarantee for Stage 1 and Stage 2 loans	5	6
At 31 December	12	7

6. Placements with credit institutions

	2023 € million	2022 € million
Cash and cash equivalents	335	320
Other current placements	200	200
At 31 December	535	520

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.

7. Contributions received and receivable

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

	2023 € million	2022 € million
Cumulative contributions received	1,309	1,209
Contributions pledged by EBRD		
Contributions receivable	105	94
Accrued Management fee	3	6
Total contributions at 31 December	1,417	1,309

8. Undrawn commitments

	2023 € million	2022 € million
Technical cooperation expenses	**51**	56
Incentive fees	**10**	10
Financial guarantees	**37**	33
Investment grants	**43**	57
At 31 December	**141**	156

This represents amounts for which the Fund has contracted but for which the transaction or service was not yet performed at 31 December 2023. Undrawn commitments for technical cooperation expenses excludes amounts accrued on the balance sheet.

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

Assets	**Current 2023 € million**	**Non-current 2023 € million**	**Total 2023 € million**	Current 2022 € million	Non-current 2022 € million	Total 2022 € million
Placements with credit institutions	**535**	**-**	**535**	520	-	520
Contributions receivable	**105**	**-**	**105**	94	-	94
Share investments	**-**	**53**	**53**	-	48	48
Other receivables	**1**	**-**	**1**	2	-	2
Total assets	**641**	**53**	**694**	616	48	664
Liabilities						
Accrued expenses	**30**	**-**	**30**	40	-	40
Financial guarantee liability	**12**	**-**	**12**	12	-	12
Total liabilities	**42**	**-**	**42**	52	-	52

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 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 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 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 were charged during the year (2022: €3 million). There was an accrued management fee payable of €3 million by the Fund to the Bank at 31 December 2023 (2022: €6 million), offset against contributions receivable.

External auditors' remuneration of €21,500 (2022: €19,100) is payable by the Bank from the management fee. 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. 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 2023, €17,000 is receivable from the Bank for bank charges incurred (2022: €16,100).

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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
For Reconstruction and Development

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

Annual Financial Report
31 December 2023

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

Contents

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

Statement of comprehensive income

For the year ended 31 December 2023

	Note		Year to 31 December 2023 € 000		Year to 31 December 2022 € 000
Interest income			33		-
Client cost sharing for technical cooperation		-		17	
Technical cooperation expenses	3	(121)		(561)	
Net technical cooperation expenses			(121)		(544)
Operating expenses	4		-		(5)
Net loss and total comprehensive expense for the year			(88)		(549)
Attributable to:					
Contributors			(88)		(549)

Balance sheet

As at 31 December 2023

	Note	31 December 2023 € 000	31 December 2022 € 000
Assets			
Placements with credit institutions		1,408	1,254
Other financial assets	5	3	11
Total assets		1,411	1,265
Liabilities and contributors' resources			
Other financial liabilities	6	250	516
Total liabilities		250	516
Contributions	7	2,862	2,362
Reserves and accumulated loss		(1,701)	(1,613)
Total contributors' resources		1,161	749
Total liabilities and contributors' resources		1,411	1,265

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

Statement of changes in contributors' resources

For the year ended 31 December 2023

	Contributions	Reserves and accumulated loss	Total
	€ 000	€ 000	€ 000
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
Contribution Received	500	-	500
Net loss and total comprehensive expense for the year	-	(88)	(88)
At 31 December 2023	**2,862**	**(1,701)**	**1,161**

Statement of cash flows

For the year ended 31 December 2023

	Year to 31 December 2023		Year to 31 December 2022	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the year	(88)		(549)	
Adjustments to reconcile net loss to net cash flows:				
Working capital adjustment				
Movement in accrued expenses	(266)		57	
Movement in other financial assets	8		(11)	
Net cash used in operating activities		(346)		(503)
Cash flows from financing activities				
Contributions received	500		-	
Net cash generated from financing activities		500		-
Net increase/(decrease) in cash and cash equivalents		154		(503)
Cash and cash equivalents at the beginning of the period		1,254		1,757
Cash and cash equivalents at 31 December		1,408		1,254

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

Gordon Jones, Director – Financial Control
Date: 10 April 2024

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

Fund purpose

The purpose of the Multi-Donor Trust Fund for the West Bank and Gaza ("the Fund") is to provide financial assistance to support the economic development of West Bank and Gaza ("WB&G") and thereby contribute to the stability and prosperity of the southern and eastern Mediterranean region.

The resources of the Fund may be used to finance:

- Technical cooperation 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 cooperation 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.

B. 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 10 April 2024, 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:

- *IFRS 17: Insurance Contracts*
- *Amendments to IAS 1: Presentation of Financial Statements*
- *Amendments to IAS 8: Definition of Accounting Estimates*
- *Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies*
- *Amendments to IAS 12 on deferred tax*

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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.

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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

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 only available to be 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

The cost of Technical cooperation expenses, which represent the cost 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 and contractual terms being met.

Interest

Interest is recorded on an accruals basis. All 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 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"[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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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 BaFdenking 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 2023 and 31 December 2022.

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

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	1,411	-	1,411
Total liabilities	119	131	250
Net currency position at 31 December 2023	**1,530**	**131**	**1,661**

	Euro	United States	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

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 6.0 per cent strengthening or weakening (2022: 7.55 percent) is +/- €7,360 (2022: +/- €8,440).

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 is 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 2021	1,359	(973)	386
Movement in the period	433	(561)	(128)
At 31 December 2022	**1,792**	**(1,534)**	**258**
Movement in the period	5	(121)	(116)
At 31 December 2023	**1,797**	**(1,655)**	**142**

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 2023.

4. Operating expenses

Operating expenses comprised the following:

	2023 € 000	2022 € 000
Negative interest rate expense	-	(5)
Year to 31 December	-	(5)

5. Other financial assets

	2023	2022
	€ 000	€ 000
Client cost sharing for technical cooperation receivable	-	11
Interest receivable	3	-
At 31 December	**3**	11

6. Other financial liabilities

Other financial liabilities consist of accrued technical cooperation expenses of €250,000 (2022: €516,000).

7. Contributions

	2023	2022
Cumulative contributions received	**€ 000**	€ 000
Netherlands	1,200	1,200
Spain	500	500
United Kingdom	662	662
Luxembourg	500	-
At 31 December	**2,862**	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 2023 and 2022.

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 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 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. The management fee due on the contribution received in 2023 was waived. Therefore no management fees were paid during the period (2022: Nil) and there were no management fees payable to the Bank at period end (2022: Nil).

External auditors' remuneration of €21,500 (2022: €19,100) 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The Russia Small Business Investment Special Fund

Annual Financial Report
31 December 2023

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 2023	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest from credit institutions		38	133
Dividend income		-	42
Net loss from share investments		(69)	(846)
Foreign exchange movement		(9)	175
Financial guarantees movement		-	(31)
Other operating expenses	3	(22)	(19)
Net loss for the year		(62)	(546)
Attributable to:			
Contributors		(62)	(546)

Statement of comprehensive income

For the year ended 31 December 2023	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Net loss for the year	(62)	(546)
Other comprehensive (expense)/income		
Items that will not be reclassified subsequently to profit or loss		
Foreign exchange movement between functional and presentational currencies	(46)	7,066
Total comprehensive (expense)/income for the year	(108)	6,520
Attributable to:		
Contributors	(108)	6,520

Balance sheet

At 31 December 2023	Note	31 December 2023 € 000	31 December 2023 € 000	31 December 2022 € 000	31 December 2022 € 000
Assets					
Placements with credit institutions			1,276		1,293
Share investments	6		225		294
Total assets			1,501		1,587
Liabilities and contributors' resources					
Audit fee payable			22		-
Total liabilities			22		-
Reserves and retained earnings		1,479		1,587	
Total contributors' resources			1,479		1,587
Total liabilities and contributors' resources			1,501		1,587
Memorandum items					
Guarantees			820		820

The Russia Small Business Investment Special Fund

Statement of changes in contributors’ resources

For the year ended 31 December 2023	Contributions	General reserve	Retained earnings/ (accumulated losses)	Total
	€ 000	€ 000	€ 000	€ 000
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
Net loss and total comprehensive expense for the year	-	(46)	(62)	(108)
At 31 December 2023	-	**2,403**	**(924)**	**1,479**

Statement of cash flows

For the year ended 31 December 2023	Year to 31 December 2023		Year to 31 December 2022	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net loss for the year	(62)		(546)	
Adjustments to reconcile net loss to net cash flows:				
Non-cash items in the income statement				
Net loss from share investments	69		846	
Foreign exchange movement	9		(175)	
Financial guarantees movement	-		31	
	16		156	
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	
Movement in accrued expenses	22		-	
Net cash generated/(used in) from operating activities		38		(96)
Cash flows used in financing activities				
Distribution of contributors resources	-		(72,855)	
Net cash used in financing activities		-		(72,855)
Net increase/(decrease) in cash and cash equivalents		38		(72,951)
Cash and cash equivalents at the beginning of the year		1,293		67,185
Effect of foreign exchange rate changes		(55)		7,059
Cash and cash equivalents at 31 December		1,276		1,293

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

Gordon Jones, Director – Financial Control
Date: 10 April 2024

The Russia Small Business Investment Special Fund

Fund purpose

The Russia Small Business Investment Special Fund ("the Fund") was established to assist the development of small businesses in the private sector in the Russian Federation. To achieve this, the resources of the Fund may be used to:

- participate alongside the European Bank for Reconstruction and Development ("the Bank") in providing loans to small businesses;
- participate alongside the Bank in equity investments; and
- provide guarantees on a first loss basis on the Bank's parallel loans and investments.

Accounting policies

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

A. Basis of preparation

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

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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 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. 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

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.

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.

[1] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[2] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

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.

Derivative financial instruments

The Fund makes use of derivatives 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.

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.

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 only available to be 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.

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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions						
2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness						
2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure						
2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

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%

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

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 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[5], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[6]	20%	30%

[5] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €90 million on the date of application on 30 September 2023.

[6] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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.

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:

- 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 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.

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"[7] 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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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 2023 and 31 December 2022, without taking account of any collateral held or other credit enhancements.

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

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.

Risk rating category	**2023** **€ 000**	2022 € 000
2: Very strong	**1,253**	1,260
7: Special Attention	**23**	33
At 31 December	**1,276**	1,293

Guarantees and derivative financial instrument liabilities
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 2023, 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 (2022; €0.8 million). At 31 December 2022, the Fund's maximum exposure under such derivatives was €0.8 million (2022: €0.8 million).

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, 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 2023 € 000	**Russian rouble 2023 € 000**	**United States dollar 2023 € 000**	**Total € 000**
Placements with credit institutions	4	23	1,249	**1,276**
Share investments	-	225	-	**225**
Total liabilities	(22)	-	-	**(22)**
Net currency position at 31 December	**(18)**	**248**	**1,249**	**1,479**

[6]

	Euro 2022 € 000	Russian rouble 2022 € 000	United States dollar 2022 € 000	Total € 000
Placements with credit institutions	4	33	1,256	1,293
Share investments	-	294	-	294
Net currency position at 31 December	4	327	1,256	1,587

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 13 per cent strengthening or weakening (2022: 16 per cent) is €29,000 (2022: €46,000).

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 (2022: 7 per cent) is €80,000 (2022: €128,000).

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 24 per cent strengthening or weakening (2022: 23 per cent) is €54,000 (2022: €69,000).

[8] Restatement adjusts the 2022 disclosure to reflect the United States dollar balance in the 2022 year.

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 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 2023 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2023	
	Carrying amount	**Favourable change**	**Unfavourable change**
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments and associated derivatives	**225**	**38**	**(46)**
At 31 December 2023	**225**	**38**	**(46)**

		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)

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 €21,500 (2022: €19,100). The Bank pays the external auditors' remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2023 €21,500 (2022: €nil) is payable to the Bank in relation to the 2023 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. Loan investments

	2023 € 000	2022 € 000
At 1 January	-	12
Write offs	-	(7)
Foreign exchange movements	-	(5)
At 31 December	-	-

5. Provision for impairment of loan investments

Movement in provisions	2023 € 000	2022 € 000
At 1 January	-	(12)
Release against amounts written off	-	7
Foreign exchange movement	-	5
At 31 December	-	-

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 2023 € 000	Total 2023 € 000	Lifetime ECL Stage 3 2022 € 000	Total 2022 € 000
As at 1 January	-	-	(12)	(12)
ECL release - write offs	-	-	7	7
Foreign exchange and other movements	-	-	5	5
As at 31 December	-	-	-	-

Movement in loans at amortised cost	Loans Stage 3 2023 € 000	Total 2023 € 000	Loans Stage 3 2022 € 000	Total 2022 € 000
As at 1 January	-	-	12	12
Write offs	-	-	(7)	(7)
Foreign exchange and other movements	-	-	(5)	(5)
As at 31 December	-	-	-	-

6. Share investments

	2023 € 000	2022 € 000
Outstanding disbursements		
At 1 January	206	9,054
Disposals	-	(8,848)
At 31 December	206	206
Fair value adjustment		
At 1 January	88	(7,641)
Movement in fair value revaluation	(69)	(846)
Disposals	-	8,574
Movement in functional currency	-	1
At 31 December	19	88
Fair value at 31 December	225	294

7. Financial guarantee liability

	2023 € 000	2022 € 000
At 1 January	-	(677)
Financial guarantee movement	-	(31)
Financial guarantee settlement	-	527
Foreign exchange movement	-	181
At 31 December	-	-

8. Contributions

Contributions received are set out below:

Cumulative contributions received	2023 € 000	%	2022 € 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. No contributions were received in the year. As at 31 December 2023 contributions are nil (2022: nil).

9. Fair value of financial assets and liabilities

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

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

All assets and liabilities on the balance sheet are current for 2023 and 2022.

11. Events after the reporting period

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that would require adjustment to these financial statements are those that provide evidence of conditions that existed at 31 December 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

12. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 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 2023, there were no management fees paid by the Fund to the Bank (2022: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2023 (2022: nil).

Amounts are receivable from the Bank as at 31 December 2023 are disclosed in note 4 (2022 €Nil).

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

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

Contributions received from the contributors are outlined in note 8.

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 2023 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 2023;
- the income statement, statement of comprehensive income, the statement of cash flows, the statement of changes in contributors' resources for the year then ended;
- the accounting policies;
- the risk management section; and
- the notes to the financial statements.

Basis for opinion

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

Independence

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Bank for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

We communicate with the Bank 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 of the Bank 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 in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, and 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024

European Bank
for Reconstruction and Development

The Trust Fund for the West Bank and Gaza

Annual Financial Report
31 December 2023

The Trust Fund for the West Bank and Gaza

Contents

The Trust Fund for the West Bank and Gaza

Statement of comprehensive income

For the year ended 31 December 2023

	Note	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000
Interest and other similar income			
From loans at amortised cost		1,269	1,341
From loans at fair value through profit and loss		-	23
From credit institutions		1,309	230
Total interest income		2,578	1,594
Technical cooperation expenses	3	(265)	(469)
Client cost sharing for technical operation		41	41
Net technical cooperation expenses		(224)	(428)
Fee income		97	85
General adminstrative expenses and depreciation	4	(494)	(481)
Financial guarantees movement	5	168	(318)
Impairment (loss)/gain on loan investments	6	(77)	203
Management fees	7	(600)	(600)
Negative interest expense		-	(163)
Foreign exchange movement		(3,167)	2,472
Net gains from share investments at fair value through profit or loss		56	47
Gains from loans at fair value through profit and loss		-	15
Net (loss)/profit and comprehensive (expense)/income for the year		(1,663)	2,426
Attributable to:			
Contributors		(1,663)	2,426

Balance sheet

At 31 December 2023

	Note	31 December 2023 € 000	31 December 2023 € 000	31 December 2022 € 000	31 December 2022 € 000
Assets					
Placements with credit institutions			99,891		77,970
Interest receivable			286		274
Contributions receivable	8		19,400		19,400
Share investments			108		52
Trade finance guarantees			78		45
Loan investments at amortised cost					
Loans	10	18,573		22,336	
Less: Provisions for impairment	6	(452)		(385)	
			18,121		21,951
Office equipment	11		4		5
Other financial assets			18		269
Total assets			137,906		119,966
Liabilities and contributors' resources					
Financial guarantee liability	5		307		458
Other financial liabilities	12		632		878
Total liabilities			939		1,336
Contributions	8	140,000		120,000	
Reserves and accumulated losses		(3,033)		(1,370)	
Total contributors' resources			136,967		118,630
Total liabilities and contributors' resources			137,906		119,966
Memorandum items					
Undrawn commitments and guarantees	13		28,530		15,701

Statement of changes in contributors' resources

For the year ended 31 December 2023

	Note	Contributions € 000	Reserves and accumulated losses € 000	Total € 000
At 31 December 2021		100,000	(3,796)	96,204
Contributions receivable and received	8	20,000	-	20,000
Net profit and total comprehensive income for the year		-	2,426	2,426
At 31 December 2022		120,000	(1,370)	118,630
Contributions receivable and received	8	20,000	-	20,000
Net loss and total comprehensive expense for the year		-	(1,663)	(1,663)
At 31 December 2023		**140,000**	**(3,033)**	**136,967**

Statement of cash flows

For the year ended 31 December 2023

	Year to 31 December 2023 € 000	Year to 31 December 2023 € 000	Year to 31 December 2022 € 000	Year to 31 December 2022 € 000
Cash flows from operating activities				
Net (loss)/profit for the year	(1,663)		2,426	
Adjustments to reconcile net (loss)/profit to net cash flows:				
Non-cash items in the statement of comprehensive income				
Depreciation	1		1	
Effective interest rate adjustment on loans[1]	(2)		(317)	
Financial guarantees movement	(168)		318	
Impairment gain/(loss)	77		(203)	
Foreign exchange movement	3,167		(2,472)	
Net gains from share investments at fair value through profit or loss	(56)		(47)	
Fair value loan movement	-		(15)	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayments of loan investments	7,669		14,583	
Funds advanced for loans	(4,566)		(11,039)	
Front end fees received	1		104	
Working capital adjustment				
Movement in management fees payable	-		600	
Movement in accrued expenses	(246)		(16)	
Movement in interest income	(12)		(122)	
Movement in other assets	253		-	
Net cash from operating activities		4,455		3,801
Cash flows from financing activities				
Contributions received	20,000		-	
Net cash from financing activities		20,000		-
Net increase in cash and cash equivalents		24,455		3,801
Cash and cash equivalents at the beginning of the year		77,970		73,028
Effect of foreign exchange rate changes		(2,534)		1,141
Cash and cash equivalents at 31 December		99,891		77,970

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

Gordon Jones, Director - Financial Control
Date: 10 April 2024

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 10 April 2024, 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:

- IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12 on deferred tax

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential impact
Amendments to: IFRS 16: Leases	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.
Amendments to: IFRS 7: Financial Instruments: Disclosures and IAS 7: Statement of cash flows	The amendments require more detailed disclosure over supplier finance arrangements. 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 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 this asset at it's 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 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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform. There were no accounting implications of this transition.

Impairment of financial assets

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

A "three-stage" model for impairment is applied based on changes in credit quality since origination[1], with the stage allocation being based on the financial asset's probability of default (PD). At origination loans are classified in Stage 1. If there is subsequently a significant increase in credit risk associated with the asset, it is then reallocated to Stage 2. The transition from Stage 1 to Stage 2 is significant because provisions for Stage 1 assets are based on expected losses over a 12 month horizon, whereas Stage 2 assets are provisioned based on lifetime expected losses. When objective evidence of credit-impairment is identified, the asset is reallocated to Stage 3 as described below.
The staging model relies on a relative assessment of credit risk, that is, a loan with the same characteristics could be included in Stage 1 or in Stage 2, depending on the credit risk at origination of the loan. As a result, an entity could have different loans with the same counterparty that are included in different stages of the model, depending on the credit risk that each loan had at origination.

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

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

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

Financial assets at amortised cost – 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.

[1] For the purpose of calculating impairment, origination is the trade date of the asset (that is, the signing date in the case of the Fund's loans at amortised cost), not the date of the initial recognition of the asset on the Fund's balance sheet.
[2] A project is assigned to the "watch list" when a risk officer determines that there is a heightened risk, that needs to be flagged to management and Corporate Recovery, of the project failing to meet debt service and the Bank subsequently suffering a financial loss.

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:

- 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

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. Where no fee is charged the initial fair value is estimated based off the lifetime expected credit loss associated with the financial guarantee. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement.

Subsequent measurement

The carrying value of the asset is subsequently measured at initial fair value less any fee income received.

The carrying value of the liability is subsequently measured at the higher of:

- the initial fair value recognised when the guarantees were issued less cumulative amortisation, and
- the expected credit loss allowance with the financial guarantee

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

Contributors' resources

The Fund recognises contributions received from the contributor as equity on the basis that the residual assets are only available to be 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 have 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 the cost 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.

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 2023.

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 2023 and 2022 are set out by internal rating grade below:

Financial Institutions

2023 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%	0.09%	0.16%	0.24%	0.32%
4.0	BBB	0.09%	0.26%	0.42%	0.69%	0.96%
5.0	BB	0.26%	0.70%	1.27%	1.92%	2.60%
6.0	B	0.36%	0.88%	1.61%	2.37%	3.17%
7.0	CCC	4.63%	8.07%	11.38%	14.52%	16.74%

Industry, Commerce and Agribusiness

2023 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%	0.36%
2.0	AA	0.02%	0.06%	0.17%	0.28%	0.41%
3.0	A	0.06%	0.14%	0.25%	0.39%	0.52%
4.0	BBB	0.14%	0.41%	0.68%	1.11%	1.54%
5.0	BB	0.42%	1.12%	2.04%	3.09%	4.19%
6.0	B	0.58%	1.42%	2.58%	3.81%	5.09%
7.0	CCC	7.45%	12.99%	18.32%	23.37%	26.93%

Sustainable Infrastructure

2023 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%	0.30%
2.0	AA	0.02%	0.05%	0.14%	0.23%	0.34%
3.0	A	0.05%	0.12%	0.21%	0.32%	0.43%
4.0	BBB	0.12%	0.34%	0.56%	0.92%	1.28%
5.0	BB	0.35%	0.93%	1.69%	2.56%	3.47%
6.0	B	0.48%	1.18%	2.14%	3.16%	4.22%
7.0	CCC	6.18%	10.77%	15.18%	19.36%	22.32%

Financial Institutions

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%	0.02%	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%

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

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%

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 2023 (2022: 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 loss given default (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 non-sovereign senior and subordinated loans are derived from the Bank's default and recovery experience[4], and rates for covered bonds are in line with the guidance provided by the European Banking Authority.

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

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

[4] Prior to 2023, LGD rates for non-sovereign senior and subordinated loans were derived in accordance with the Foundation-IRB (internal ratings based) approach under the Basel accord. The impact of moving to the new methodology for deriving LGD rates resulted in a release of impairment of €188,000 on the date of application on 30 September 2023.

Following the change in methodology applied in 2023, LGD rates are assigned to facilities as described in the tables below:

2023 Seniority - sector	Non sovereign LGD
Equity	100%
Senior Loan - FI	32%
Senior Loan - ICA	38%
Senior Loan - SI	22%
Subordinated Loan	50%
Covered Bonds	11.25%

2023 Sovereign Country	Sovereign LGD	Sub-sovereign LGD
EU country	5%	15%
Non EU country	10%	20%
Limited PCS[5]	20%	30%

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 2023 €000	Change in ECL 2023 €000	Change in ECL 2023 %	Recalculated ECL 2022 €000	Change in ECL 2022 €000	Change in ECL 2022 %
Portfolio provision (Stages 1 and 2)	452			385		
Staging						
All loans in Stage 1	362	(90)	(20)%	385	-	-
All loans in Stage 2	508	56	12%	583	198	51%
PD Ratings						
All loans upgraded 1 notch	340	(112)	(25)%	263	(122)	(32)%
All loans downgraded 1 notch	456	4	1%	396	11	3%
All loans upgraded 3 notches	142	(310)	(69)%	84	(301)	(78)%
All loans downgraded 3 notches	645	193	43%	724	339	88%
Projected GDP						
Projected GDP increased by 1%	437	(15)	(3)%	373	(12)	(3)%
Projected GDP decreased by 1%	467	15	3%	398	13	3%
Projected GDP increased by 5%	387	(65)	(14)%	333	(52)	(14)%
Projected GDP decreased by 5%	530	78	17%	454	69	18%
LGD						
All loans decreased by 10%	311	(141)	(31)%	297	(88)	(23)%
All loans increased by 10%	593	141	31%	473	88	23%
EAD						
All undrawn commitments cancelled	452	-	0%	385	-	-
All undrawn commitments disbursed within one month	453	1	0%	403	18	0

[5] This category applies to countries where the Bank has determined that PCS has limited value because there are few private investors over whom the Bank could be preferred, or where the Bank has determined the effectiveness of governance to be weak.

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"[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, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking and Treasury exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit 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, CRO and is accountable to the President. It oversees all aspects of the Banking and Treasury portfolios across all sectors and countries, and provides advice on risk management policies, measures and controls. It also approves proposals for new products submitted by Banking or Treasury. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking, Transformation and the Office of the General Counsel.

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

- provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed risk 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.

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.

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

Credit risk management and measurement

The Fund participates in the financing of investments in WB&G. It benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

Individual projects
The Board of Directors approves the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit 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.

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

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

Loss given default (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	Stage 2 € 000	Total € 000	Total %	Stage 1 € 000	Stage 2 € 000	Total net of impairment € 000	Impairment provisions coverage %
6: Weak	-	7,167	7,167	38.6%	-	(25)	7,142	0.3%
7: Special Attention	346	11,060	11,406	61.4%	(103)	(324)	10,979	3.7%
At 31 December 2023	**346**	**18,227**	**18,573**	**100.0%**	**(103)**	**(349)**	**18,121**	

	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 %
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**	

At 31 December 2023 the Fund had security arrangements in place for €346,000 of its disbursed loan investments (2022: €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.

Loan investments at fair value through profit or loss
As at 31 December 2023, the Fund as no loans held at fair value (2022: nil).

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	
Risk rating category	**Stage 1 2023 € 000**	**Stage 2 2023 € 000**	**Total 2023 € 000**	**Stage 1 2023 € 000**	**Stage 2 2023 € 000**	**Total 2023 € 000**	**Stage 1 2023 € 000**	**Total 2023 € 000**
6: Weak	**-**	**1,806**	**1,806**	**21**	**116**	**137**	**1,806**	**1,806**
7: Special Attention	**2,500**	**-**	**2,500**	**170**	**-**	**170**	**21,668**	**21,668**
At 31 December	**2,500**	**1,806**	**4,306**	**191**	**116**	**307**	**23,474**	**23,474**

	Undrawn loan commitments			Financial guarantee liability			Undrawn guarantees	
Risk rating category	Stage 1 2022 € 000	Stage 2 2022 € 000	Total 2022 € 000	Stage 1 2022 € 000	Stage 2 2022 € 000	Total 2022 € 000	Stage 1 2022 € 000	Total 2022 € 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

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 2023 € 000	Undrawn loan commitments 2023 € 000	Financial guarantee liability 2023 € 000	Undrawn guarantees 2023 € 000
Jordan*	346	-	-	1,806
West Bank and Gaza	18,227	4,306	307	21,668
At 31 December	18,573	4,306	307	23,474

	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

*These loans and guarantees are issued to companies headquartered in 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 2023 € 000	Undrawn loan commitments 2023 € 000	Financial guarantee liability 2023 € 000	Undrawn guarantees 2023 € 000
Pharmaceutical and Medicine Manufacturing	-	2,500	-	-
Health Care and Social Assistance	346	-	-	-
Depository credit (banks)	16,699	1,806	307	23,474
Non-depository Credit (non-bank)	1,528	-	-	-
At 31 December	**18,573**	**4,306**	**307**	**23,474**

	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

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 2023 € 000	United States dollars 2023 € 000	Israeli new shekel 2023 € 000	Total 2023 € 000
Total financial assets	**52,180**	**85,631**	**94**	**137,905**
Total financial liabilities	**(629)**	**(119)**	**(191)**	**(939)**
Net currency position at 31 December	**51,551**	**85,512**	**(97)**	**136,966**

	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

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 6 per cent strengthening or weakening of the USD (2022: 7 per cent) is +/- €4.8 million (2022: €5.6 million).

Based on the average five year absolute rolling average movement in the ILS to euro exchange rate, the potential impact on the Fund's net profit, from a 6 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
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 ceased from 31 December 2022. The remaining USD LIBOR settings (the overnight, one-month, three-month, six-month, and 12-month USD LIBOR) ceased to be published from 30 June 2023.

The Fund has successfully transitioned all trades that were subject to reform.

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 2023 € 000	**Total 2023 € 000**	Share investments 2022 € 000	Total 2022 € 000
Balance as at 1 January	52	52	5	5
Net gains recognised in:				
- Net gains from share investments at fair value through profit or loss	56	56	47	47
Balance at 31 December	**108**	**108**	52	52
Net gains 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	56	56	47	47

Level 3 - sensitivity analysis
The table below presents the Level 3 financial instruments carried at fair value at 31 December 2023 and shows reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Impact on net profit in 2023	
	Carrying amount	**Favourable change**	**Unfavourable change**
Assets	**€ 000**	**€ 000**	**€ 000**
Share investments and associated derivatives	108	27	(55)
At 31 December 2023	**108**	**27**	**(55)**

		Impact on net profit in 2022	
	Carrying amount	Favourable change	Unfavourable change
Assets	€ 000	€ 000	€ 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 2023 from increases or decreases in fair value based on reasonably possible alternative assumptions.

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. Technical cooperation expenses[7]

	Commitments approved € 000	Technical cooperation expenses € 000	Undrawn commitments € 000
Total projects			
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
Movement in the period	485	(265)	220
At 31 December 2023	**2,934**	**(2,184)**	**750**

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.

4. 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.

	2023 € 000	2022 € 000
General administrative expenses	493	480
Depreciation charge	1	1
Year to 31 December	**494**	481

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

5. Financial guarantee liability

Analysis by instrument	2023 € 000	2022 € 000
At 1 January	458	136
Financial guarantee movement	(168)	318
Foreign exchange movement	17	4
At 31 December	307	458

6. Provisions for impairment of loan investments

(Loss)/Release for the year	2023 € 000	2022 € 000
Impairment (loss)/release on loan investments at amortised cost in stage 1 and stage 2	(77)	203
Impairment release on loan investments	(77)	203
Movement in provisions		
At 1 January	(385)	(557)
Release for the year to the income statement	(77)	203
Foreign exchange adjustments	10	(31)
At 31 December	(452)	(385)
Representing:		
Stage 1 and stage 2 provisions for loan investments at amortised cost	(452)	(385)
At 31 December	(452)	(385)

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.

Movement in ECL	12-month ECL Stage 1 2023 € 000	Lifetime ECL (Stage 2) 2023 € 000	12-month ECL Total 2023 € 000
At 1 January	(385)	-	(385)
New loans originated	(242)	-	(242)
Transfer to stage 2 - significant increase in credit risk	392	(372)	20
ECL release - repayments/settlements	56	18	74
Changes in model or risk parameters	77	-	77
Foreign exchange and other movements	(1)	5	4
At 31 December	(103)	(349)	(452)

Movement in ECL	12-month ECL Stage 1 2022 € 000	Lifetime ECL (Stage 2) 2022 € 000	12-month ECL Total 2022 € 000
At 1 January	(557)	-	(557)
New loans originated	(99)	-	(99)
ECL release - repayments/settlements	102	-	102
Changes in model or risk parameters	200	-	200
Foreign exchange and other movements	(31)	-	(31)
At 31 December	(385)	-	(385)

Movement in loans at amortised cost	Loans Stage 1 2023 € 000	Loans Stage 2 2023 € 000	Loans Total 2023 € 000
At 1 January	22,336	-	22,336
New banking loans originated	-	4,566	4,566
Transfer to stage 2 - significant increase in credit risk	(15,308)	15,308	-
Repayments and prepayments	(6,654)	(1,013)	(7,667)
Movement in effective interest rate adjustment	13	(8)	5
Foreign exchange movements	(41)	(626)	(667)
At 31 December	346	18,227	18,573

Movement in loans at amortised cost	Loans Stage 1 2022 € 000	Loans Stage 2 2022 € 000	Loans Total 2022 € 000
At 1 January	24,280	-	24,280
New banking loans originated	11,039	-	11,039
Repayments and prepayments	(14,516)	-	(14,516)
Movement in effective interest rate adjustment	200	-	200
Foreign exchange movements	1,333	-	1,333
At 31 December	22,336	-	22,336

7. 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. €600,000 management fees were paid during the year (2022: nil). As at 31 December 2023 there were accrued management fees payable by the Fund to the Bank of €600,000 (2022: €600,000). During the period the Bank incurred €493,000 (2022: €480,000) of general administrative expenses on behalf of the Fund, of which €131,000 (2022: €181,000) remains payable to the Bank at period end (note 12).

External auditors' remuneration of €21,500 (2022: €19,100) 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.

8. Contributions

	2023 € 000	2022 € 000
Cumulative contributions received	120,000	100,000
Contributions pledged		
Contributions	19,400	19,400
Management fees payable	600	600
Total contributions at 31 December	140,000	120,000

9. Loan investments at fair value through profit and loss

	2023 € 000	2022 € 000
Carrying amount as at 1 January	-	292
Repayments	-	(320)
Movement in fair value revaluation	-	15
Foreign exchange movement	-	13
Carrying amount as at 31 December	-	-

10. Loan investments at amortised cost

Loans	2023 € 000	2022 € 000
At 1 January	22,336	24,280
Disbursements	4,566	11,039
Repayments	(7,667)	(14,516)
Movement in effective interest rate adjustment	5	200
Foreign exchange movements	(667)	1,333
At 31 December	18,573	22,336
Impairment at 31 December	(452)	(385)
Total loan investments net of impairment at 31 December	18,121	21,951

11. Office equipment

Cost	Office equipment 2023 € 000	Leasehold improvements 2023 € 000	Total 2023 € 000
At 1 January	11	20	31
At 31 December	11	20	31
Accumulated Depreciation			
At 1 January	(6)	(20)	(26)
Charge	(1)	-	(1)
At 31 December	(7)	(20)	(27)
Net book value at 31 December	4	-	4

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

12. Other financial liabilities

	2023 € 000	2022 € 000
Accrued technical cooperation expense	501	697
General administrative expense payable	131	181
At 31 December	632	878

13. Undrawn commitments and guarantees

Analysis by instrument	2023 € 000	2022 € 000
Undrawn commitments		
Loan investments at amortised cost	4,306	1,873
Technical cooperation expenses	750	530
At 31 December	5,056	2,403
Guarantees		
Financial guarantees	23,474	13,298
At 31 December	23,474	13,298
Undrawn commitments and guarantees at 31 December	28,530	15,701

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.

Assets	Current 2023 € 000	Non-current 2023 € 000	Total 2023 € 000	Current 2022 € 000	Non-current 2022 € 000	Total 2022 € 000
Placements with credit institutions	99,891	-	99,891	77,970	-	77,970
Interest receivable	286	-	286	274	-	274
Contributions receivable	19,400	-	19,400	19,400	-	19,400
Share investments	-	108	108	-	52	52
Trade finance guarantees	78	-	78	45	-	45
Loan investments at amortised cost	7,670	10,903	18,573	6,442	15,894	22,336
Provisions for impairment	(151)	(301)	(452)	(111)	(274)	(385)
Office equipment	-	4	4	-	5	5
Other financial assets	18	-	18	269	-	269
Total assets	127,192	10,714	137,906	104,289	15,677	119,966
Liabilities						
Financial guarantee liability	(307)	-	(307)	(458)	-	(458)
Other financial liabilities	(632)	-	(632)	(878)	-	(878)
Total liabilities	(939)	-	(939)	(1,336)	-	(1,336)

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 2023.

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 10 April 2024 there had been no other material events after the reporting period to disclose.

On 10 April 2024 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 2023 and of its financial performance and its 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 2023;
- 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 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 the Bank 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 of the Bank and prepared for and only for the benefit of the Bank to allow it to comply with the requirements of Articles 24 and 35 of the Agreement Establishing the European Bank for Reconstruction and Development, and its obligation under Section 13 of the By-Laws of the European Bank for Reconstruction and Development, as well as the Rules and Regulations of the Fund dated 10 March 2017, and in accordance with our engagement letter dated 4 November 2019, incorporating variation letters dated 12 January 2021, 21 January 2021, 12 April 2021, 23 August 2021, 21 December 2021, 8 April 2022, 2 November 2022, 13 February 2023, 28 April 2023, 16 May 2023, and 15 March 2024, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Fund or the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 April 2024