

APPENDIX C

Financial Statements of Sample Fund

(Prepared in accordance with the IFRS requirements)

BALANCE SHEET AS OF DECEMBER, 20X2 AND 20X1

(€ thousands—Note A)	20X2	20X1
Assets		
Due from Banks	1,139,580	432,720
Investments (Note C)	34,262,280	34,516,800
Accounts Receivable		
Accrued income and receivables on loans	3,007,440	1,743,300
Accrued income on investments	93,600	172,800
Other receivables	31,860	16,020
	<u>3,132,900</u>	<u>1,932,120</u>
Loans (Note B)		
Disbursed and outstanding	11,586,940	11,569,320
	<u>11,588,940</u>	<u>11,569,320</u>
Total Assets	<u>50,123,700</u>	<u>48,450,960</u>
Liabilities and Equity	20X2	20X1
Accounts Payable	899,820	189,180
Equity (Note D)		
Fund capital	23,145,480	23,145,480
Reserves		
Retained earnings	48,538,260	45,216,180
Cumulative Currency Translation Adjustment (Note A)	(22,459,860)	(20,099,880)
Total reserves	<u>26,078,400</u>	<u>25,116,300</u>
Total equity	<u>49,223,880</u>	<u>48,261,780</u>
Total Liabilities and Equity	<u>50,123,700</u>	<u>48,450,960</u>

The accompanying notes to the financial statements form part of this statement.

INCOME STATEMENT

For the years ended December 31, 20X2 and 20X1

(€ thousands—Note A)	20X2	20X1
Income (Note G)		
Interest and charges on loans	466,920	605,160
Income from investments	1,861,740	2,163,780
Other income	7,020	239,220
Total income	<u>2,335,680</u>	<u>3,008,160</u>
Expenses		
Administrative expenses (Note F)	465,660	525,600
Bank charges	9,540	16,920
Total expenses	<u>475,200</u>	<u>542,520</u>
Provision for impairment on loan interest and charges	(1,231,920)	41,580
Total expenses and provision for impairment	<u>(1,234,800)</u>	<u>524,340</u>
Income before transfers approved by the Board	3,570,480	2,483,820
Transfers of income approved by the Board	(248,400)	(193,140)
Net Income	<u>3,322,080</u>	<u>2,290,680</u>

The accompanying notes to the financial statements form part of this statement.

STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 20X2 and 20X1

(€ thousands—Note A)

	Fund Capital	Retained Earnings	Cumulative Currency Translation Adjustment	Total Equity
Balance at January 1, 20X1	23,145,480	67,352,940	(16,864,740)	73,633,680
Net income for the year	0	2,290,680	0	2,290,680
Withdrawal of funds by the investors	0	(24,427,440)	0	(24,427,440)
Currency translation adjustment	0	0	(3,235,140)	(3,235,140)
Balance at December 31, 20X1 and January 1, 20X2	<u>23,145,480</u>	<u>45,216,180</u>	<u>(20,099,880)</u>	<u>48,261,780</u>
Net income for the current year	0	3,322,080	0	3,322,080
Currency translation adjustment	0	0	(2,359,980)	(2,359,980)
Balance at December 31, 20X2	<u>23,145,480</u>	<u>48,538,260</u>	<u>(22,459,860)</u>	<u>49,223,880</u>

The accompanying notes to the financial statements form part of this statement.

STATEMENT OF CASH FLOWS

For the years ended December 31, 20X2 and 20X1

(€ thousands—Note A)	20X2	20X1
Cash Flows from:		
Operating Activities:		
Net income	3,322,080	2,290,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of held-to-maturity investments	0	155,700
Provision for impairment on loan principal and charges	(1,710,000)	(18,180)
Unrealized gains (losses) on investments	21,960	(7,020)
Changes in accrued income and receivables on loans	(490,140)	614,880
Changes in net current assets	1,142,820	71,460
Net cash provided by operating activities	<u>2,286,720</u>	<u>3,107,520</u>
Investing and Lending Activities:		
Disbursements on loans	(1,068,840)	(976,860)
Repayment of loans	984,960	1,645,560
Investments maturing after 3 months of acquisition:		
Held-to-maturity portfolio	0	40,280,400
Trading portfolio	21,434,580	(18,117,540)
Withdrawal of funds by the investors	0	(24,427,440)
Net cash provided by (used in) investing and lending activities	<u>21,350,700</u>	<u>(1,595,880)</u>
Effect of exchange rate changes on cash and liquid investments	<u>(1,234,620)</u>	<u>(330,120)</u>
Net increase in cash and liquid investments	22,402,800	1,181,520
Cash and cash equivalents at the beginning of the year	1,697,580	516,060
Cash and cash equivalents at the end of the year	<u>24,100,380</u>	<u>1,697,580</u>
Composed of:		
Investments maturing within 3 months of acquisition	22,960,800	1,264,860
Cash	1,139,580	432,720
Cash and cash equivalents at the end of the year	<u>24,100,380</u>	<u>1,697,580</u>
Supplementary disclosure:		
Movement resulting from exchange rate fluctuation on loans	440,280	498,960

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 20X2 and 20X1

Note A: Summary of Significant Accounting Policies

The financial statements of the Fund are prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical

cost convention except for certain financial assets that are carried at fair value. The significant accounting policies of the Fund are summarized below.

Revenue Recognition

Interest income is accrued on a time basis and recognized based on the effective interest method during the time an investment or loan is outstanding and held by the Fund. The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of the financial asset to the asset's net carrying amount. Commitment fees are accrued in arrears for unutilized loan facilities.

Income from investments includes realized and unrealized gains and losses on held-for-trading investments.

Functional and Presentation Currencies

The Fund conducts its operations in U.S. dollars, and has determined that its functional currency is the U.S. dollar. In accordance with Article of the Agreement of the Fund, the financial statements are presented in euros (€).

The value of €1 at December 31, 20X2, was equivalent to US\$1.58025 (20X1: US\$1.50440).

Currency Translation

Income and expenses are translated to € at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated from US\$ to € at rates prevailing on the balance sheet date. Translation differences are included in reserves under cumulative currency translation adjustment (CCTA). Changes in CCTA are reported in the statement of changes in equity. Capital replenishments are recorded in € at the exchange rates prevailing at the time of receipt. Translation gains and losses on conversion of currencies into € are included in the determination of net income.

Financial Instruments

Financial assets and financial liabilities are recognized when the Fund assumes related contractual rights or obligations.

1. Financial Assets

The Fund classifies its financial assets in the following categories: held-for-trading financial assets, loans and receivables, and held-to-maturity investments. Management determines the classification of its investments upon initial recognition.

a. Held-for-Trading Financial Assets

All held-for-trading assets are carried at fair value through the income statement. Investments in the held-for-trading portfolio are acquired principally for the purpose of selling in the short term. Held-for-trading financial assets are measured at fair value, with gains and losses arising from changes in fair value included in the income statement in the period in which they arise.

b. Loans and Receivables

Loans include outstanding balances receivable from borrowers in respect of amounts disbursed. The Fund has also classified accrued income and receivables from loans and

investments and other sundry amounts as receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods, or services directly to a borrower with no intention of trading the receivable. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

c. Held-to-Maturity Investments

The Fund has classified its investments in certain debt securities as held-to-maturity. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method.

Purchases and sales of held-for-trading and held-to-maturity investments are recognized on a trade-date basis, which is the date the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers.

Cash and cash equivalents include amounts due from banks, demand deposits, and other short-term, highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value, and have a time to maturity upon acquisition of three months or less.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

2. Financial Liabilities

Financial liabilities include accounts payable and are subsequently measured at amortized cost. Financial liabilities are derecognized upon discharge, cancellation or expiration.

Impairment of Financial Assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss has been incurred on a loan, receivable, or held-to-maturity investment carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The estimated impairment loss may arise from delays that may be experienced in receiving amounts due, and the impairment calculations reflect management's best estimate of the effect of such delays.

The impairment loss is reported as a reduction to the carrying amount of the asset through the use of an allowance account and recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Interest and charges are accrued on all loans, including those in arrears.

Fair Value Disclosure

The fair values of investments that are quoted in active markets are based on current bid prices. Fair values of financial assets listed in inactive markets or unlisted securities are determined by using valuation techniques that incorporate the maximum use of market data inputs. These valuation techniques include the use of recent arm's-length transactions, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants.

Fair values for financial instruments for which market quotations are not readily available have been determined using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction, or whether they are exchangeable at all, is not readily determinable. Management believes that these methodologies and assumptions are reasonable; however, the values actually realizable in a sale might differ from the fair values disclosed.

The methods and assumptions used by the Fund in estimating the fair values of financial instruments are as follows:

Cash and cash equivalents: The carrying amount is the fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: The Fund does not sell its loans, nor does it believe there is a comparable market for its loans. The fair value of loans reported in these financial statements represents management's best estimates of the present value of the loans' expected cash flows. Fair values are estimated using a discounted cash flow model based on the year-end market equivalent lending rate in that currency, adjusted for estimated credit risk.

Retained Earnings

Retained earnings of the Fund consist of amounts allocated to reserves from prior years' income and unallocated current year net income.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses as well as the disclosure of contingent liabilities. Actual results could differ from such estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant judgments and estimates are summarized below:

1. Impairment Losses on Assets Carried at Amortized Cost

The Fund first assesses whether objective evidence of impairment exists individually for financial assets. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, that asset is included in a group of financial assets with similar credit characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective

assessment of impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

2. Fair Values of Financial Instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques, for example, models that are used to determine fair values, are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are periodically calibrated to ensure that outputs reflect actual data and comparative market prices. To a practical extent, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities, and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. Held-to-Maturity Investments

The Fund follows the guidance of IAS 39 on classifying certain financial assets as held-to-maturity. This classification requires significant judgment. In making the judgment to designate an asset as held-to-maturity, the Fund makes a positive determination as to its intention and ability to hold such investments to maturity.

Note B: Risk Management Policies and Procedures

In the course of exercising its fiduciary duties, the Fund applies specific risk management policies designed to protect the resources of the Fund through the Fund’s General Authority on Asset and Liability Management (the ALM Authority). The ALM Authority sets out the guiding principles for managing the Fund’s risks, including interest rate risk, currency risk, liquidity risk, counterparty credit risk, and operational risk.

Under the ALM Authority, the President of the Fund is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO).

Day-to-day operational responsibility for implementing the Fund’s risk management policies and guidelines is delegated to the appropriate business units, and the Financial Management Department is responsible for monitoring the day-to-day compliance with those policies and guidelines.

Note C: Investments

As part of its portfolio management strategy, the Fund invests in government and other obligations, time deposits, and asset-backed securities.

For government and other obligations with final maturities longer than one year, the Fund may only invest in obligations with counterparties having a minimum credit rating of AA-issued or unconditionally guaranteed by governments of member countries or other official entities. For asset-backed securities, the Fund may only invest in securities with AAA credit rating. Investments in money market instruments are restricted to instruments having maturities of not more than one year and a minimum rating of A.

As at December 31, 20X2 and 20X1, all the Fund's investments are held-for-trading and are summarized below:

(€ thousands)	20X2	20X1
Time deposits	21,834,000	1,264,860
Asset-backed securities	891,000	12,172,140
Government and other obligations	7,375,680	0
Corporate bonds	4,161,600	21,079,800
Total	34,262,280	34,516,800

The contractual maturity structure of held-for-trading investments as of December 31, 20X2 and 20X1, was as follows:

(€ thousands)	20X2	20X1
One year or less	31,111,200	1,744,200
More than one year but less than two years	0	1,495,800
More than two years but less than three years	113,400	14,086,800
More than three years but less than four years	0	601,200
More than four years but less than five years	0	3,589,200
More than five years	3,037,680	12,999,600
Total	34,262,280	34,516,800

The notional balance of investments as of December 31, 20X2, was € 190.46 million (20X1: € 191.61 million), while the average yield was 5.81% (20X1: 5.55%).

Note D: Equity

Equity is composed of Fund capital, retained earnings, and cumulative currency translation adjustments. These are further detailed as follows:

Retained Earnings

Retained earnings as of December 31, 20X2 and 20X1, were as follows:

(€ thousands)

Balance as of January 1, 20X1	67,352,940
Net income for the year	2,290,680
Withdrawal of funds by the Investors	(24,427,440)

Balance as of December 31, 20X1, and January 1, 20X2	<u>45,216,180</u>
Net income for the current year	3,322,080
Balance as of December 31, 20X2	<u>48,538,260</u>

Cumulative Currency Translation Adjustments (CCTA)

Cumulative currency translation adjustments as of December 31, 20X2 and 20X1, were as follows:

(€ thousands)	20X2	20X1
Balance at January 1	20,099,880	16,864,740
Movements during the year	<u>2,359,980</u>	<u>3,235,140</u>
Balance at December 31	<u>22,459,860</u>	<u>20,099,880</u>

Note E: Income

Interest and Charges on Loans

Interest and charges on loans for the years ended December 31, 20X2 and 20X1, were as follows:

(€ thousands)	20X2	20X1
Interest income on loans not impaired	255,780	327,600
Interest income on impaired loans	163,440	218,160
Commitment charges	<u>47,700</u>	<u>59,400</u>
Total	<u>466,920</u>	<u>605,160</u>

Income from Investments

Income from investments for the years ended December 31, 20X2 and 20X1, was as follows:

(€ thousands)	20X2	20X1
Interest income	1,756,800	2,109,420
Realized and unrealized fair value gains	<u>104,940</u>	<u>54,360</u>
Total	<u>1,861,740</u>	<u>2,163,780</u>

Note F: Administrative Expenses

According to the Agreement, the Fund shall pay to the Bank the expenses incurred in the management of the Fund as follows:

1. Separately identifiable costs incurred by the Bank for the Fund.
2. Indirect costs incurred by the Bank in the management of the Fund.

However, the annual payment for the aforementioned expenses incurred by the Bank shall not exceed 20 percent of the Fund's gross income during the course of each year.