European Bank
for Reconstruction and Development

EBRD Southern and Eastern Mediterranean Investment Special Fund

Annual Financial Report
31 December 2013

European Bank for Reconstruction and Development

EBRD Southern and Eastern Mediterranean Investment Special Fund

Contents

EBRD Southern and Eastern Mediterranean Investment Special Fund

Management discussion

On 27 March 2012 the Board of Governors ("Board") of the European Bank for Reconstruction and Development ("EBRD" or "the Bank") approved the establishment of the EBRD Southern and Eastern Mediterranean Investment Special Fund ("the Fund") subject to certain conditions being met before the Fund became effective. The first of these conditions was met at the Bank's Annual Meeting in May 2012, when the Board approved an allocation of €1.0 billion of net income from the Bank to the Fund. The remaining conditions were fulfilled on 12 September 2012 following the ratification of the amendment to Article 18 of the Agreement Establishing the Bank ("AEB") to enable the Bank to finance special operations and other activities in any EBRD member country of the Southern and Eastern Mediterranean region ("SEMED") which was approved as a "potential recipient country" by the Board. Concurrent with this amendment, the Board granted potential recipient country status to Jordan, Morocco and Tunisia and thus the Fund became effective. On 26 November 2012 Egypt was also granted potential recipient country status.

On 1 November 2013, €337 million of the Fund's resources were transferred back to the Bank following the granting of recipient country status to Jordon, Morocco and Tunisia. At 31 December 2013, there were €175 million of resources in the Fund and €430 million of the original €1.0 billion net income allocation remains undrawn. These funds support existing and new special operations in Egypt, including regional investments.

The remaining allocation continues to be recognised in the Bank's financial statements as the Bank retains the risks and rewards associated with the assets and is entitled, upon termination of the Fund, to recover any residual net asset value at nil cost. The following financial statements reflect the transactions that have been entered into by the Bank relating to the Fund's operations. The accounting policies section describes the basis of accounting in the Fund.

Statement of comprehensive income

For the year ended 31 December 2013	Year to 31 December 2013 € million	Period to 31 December 2012 € million
Interest and similar income	2	-
Fair value movement on receivables	(3)	-
Impairment provision on receivables held at amortised cost	(10)	(1)
Foreign exchange movement	(7)	-
General administrative expenses	(8)	(2)
Net loss for the year	**(26)**	(3)
Transfers of net income to the EBRD Shareholder Special Fund	(25)	-
Total comprehensive expense	(51)	(3)
Attributable to:		
Contributor	**(51)**	(3)

EBRD Southern and Eastern Mediterranean Investment Special Fund

Balance sheet

At 31 December 2013	31 December 2013 € million	31 December 2013 € million	31 December 2012 € million	31 December 2012 € million
Assets				
Receivables				
Held at amortised cost	162		236	
Held at fair value	9		3	
		171		239
Other financial assets		4		1
Total assets		175		240
Liabilities				
Other financial liabilities		-		2
Provision for loan commitments		-		1
Contibutor's resources				
Contributions	233		240	
Reserves and accummulated losses	(58)		(3)	
Total contributor's resources		175		237
Total liabilities		175		240
Memorandum items				
Undrawn commitments		129		103

Statement of cash flows

For the year ended 31 December 2013

There have been no cash flows during the year and accordingly a cash flow statement has not been presented.

Statement of changes in contributor's resources

For the year ended 31 December 2013	Contributions € million	Accumulated loss € million	Total € million
At 27 March 2012	-	-	-
Contributions received	241	-	241
Revaluation of contributions	(1)	-	(1)
Total comprehensive expense for the period	-	(3)	(3)
At 31 December 2012	240	(3)	237
Contributions received	330	-	330
Transferred to EBRD General Reserves	(337)	(4)	(341)
Total comprehensive expense for the year	-	(51)	(51)
At 31 December 2013	**233**	**(58)**	**175**

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below and have been consistently applied throughout the period presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets held at fair value through profit or loss. The financial statements have been prepared on a going concern basis.

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

New and amended IFRS mandatorily effective for the current reporting period

The following new and amended standards are effective for the current reporting period:

Pronouncement	Nature of change	Impact
IFRS 7 (Amendment) Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities	Requires disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.	No changes of presentation required
IFRS 10: Consolidated Financial Statements	Establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.	No change to the Fund's accounting for its equity investments
IFRS 11: Joint Arrangements	Establishes the principles for financial reporting by parties to a joint arrangement.	No changes of presentation required
IFRS 12: Disclosure of Interests in Other Entities	Consolidates the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.	No changes of presentation required
IFRS 13: Fair Value Measurement	Defines fair value, establishes a single framework for measuring fair value and requires disclosures about fair value measurements.	No change to Fund's fair value procedures
IAS 1 (Amendment): Presentation of Financial Statements	Requires entities to group items presented in other comprehensive income ("OCI") on the basis of whether they are potentially re-classifiable to profit or loss.	No changes of presentation required
IAS 19 (Amendment): Employee Benefits	Various amendments to the standard including: elimination of the option to defer the recognition of gains and losses through the use of the corridor method; streamlining the presentation of changes in assets and liabilities arising from defined benefit plans; enhancing disclosure requirements for defined benefit plans	Not applicable
IAS 27 (Reissued): Separate Financial Statements	Requires an entity preparing separate financial statements to account for investments in subsidiaries, joint ventures and associates at cost or in accordance with IFRS 9: Financial Instruments.	Not applicable

IAS 28 (Reissued): Investments in Associates and Joint Ventures	Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	No change as Fund accounts for such investments on a fair value basis

IFRS not yet effective but adopted early

IFRS 9: Financial Instruments is the IASB's replacement project for IAS 39 which is being completed in a number of distinct stages. At this time there is no mandatory application date for the standard although entities are allowed to adopt early all completed phases. The Fund adopted the first stage 'recognition and measurement of financial assets' (November 2009) in its 2010 financial statements.

See the accounting policy for financial assets for more details.

IFRS not yet effective and not adopted early

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

Pronouncement	Nature of change	Potential Impact
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010) Hedge accounting (November 2013) There is currently no mandatory effective date for application of this standard.	The Fund is yet to assess the potential impact of adopting this standard.
IAS 32 (Amendment) Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities	Updates the application guidance and basis of conclusions in relation to the offsetting of financial assets and financial liabilities. Effective for accounting periods beginning on or after 1 January 2014.	Not applicable
Investment entities – amendments to IFRS 10, IFRS 12 and IAS 27	Introduces an exception to consolidating particular subsidiaries for "investment entities", requiring instead such subsidiaries to be measured at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. New disclosure requirements are also introduced. Effective for accounting periods beginning on or after 1 January 2014.	Not applicable
IAS 19 Amendment: Employee contributions to defined benefit plans	Simplifies the accounting for contributions to defined benefit plans from employees and other third parties. Effective for accounting periods beginning on or after 1 July 2014.	Not applicable

A number of existing standards were reviewed by the IASB in December 2013 as part of the IFRS annual improvements cycle. It is the Fund's opinion that none of these amendments, effective for accounting periods beginning on or after 1 July 2014, will have a material impact on the Fund's financial statements.

B. Significant accounting policies

Receivables

Receivables represent the cash balance allocated to the Fund, loan investments net of provisions for impairment and equity investments held by the Bank. As under the criteria of IFRS 9 Financial Instruments, the Bank has retained all the significant risks and rewards of ownership and therefore these assets remain on the balance sheet of the Bank. Accordingly the Fund recognises the value of net income transfers by the Bank used to fund specific investments and loans entered into by the Bank on behalf of the Fund as a receivable in the Fund's balance sheet. The receivable balance comprises the following:

Receivables held at fair value
The Fund's receivables measured at fair value relate to investments in unlisted equity funds. Movements in fair value are included in the income statement in the period in which they occur.

The equity investments are recognised on a trade date basis.

Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement in the period in which they were incurred.

Receivables held at amortised cost.
This balance includes cash allocated to the Fund by the Bank which is restricted for use for signed projects, operational costs of the Fund and loan investments net of provisions for impairment. These are initially measured at fair value and subsequently measured at amortised cost.

Undrawn loan commitments and related impairment provisions

When a loan agreement has been signed by the Bank on behalf of the Fund, the Fund is committed to making such loan available to the borrower subject to any conditions which may have to be met by the borrower prior to drawing down such loan. At 31 December 2012 and 2013 the Fund had a number of loan commitments which had not been drawn down by the borrower concerned.

The Fund follows the Bank's provisioning methodology. Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis. The methodology used for assessing such impairment is based on a risk-rated approach. The Bank's methodology calculates impairment on an incurred loss basis. Impairment, less any amounts reversed during the year, is charged to the income statement. The Bank's provisioning methodology allows for the possibility that losses may emerge in the succeeding twelve month period which, while not specifically identified at the reporting date, derive from events which have already occurred at the reporting date. This methodology extends to loan commitments in place at the reporting date and which may be drawn down in this twelve month period.

As no loans had been drawn down at 31 December 2012 provisions against loan commitments were presented as a liability on the balance sheet. Once the loan has been drawn down and recognised as an asset on the balance sheet, the provision is presented as a reduction in the value of the asset, therefore at 31 December 2013 impairment provisions are presented as a reduction in receivables held at amortised cost.

Foreign currencies

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

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

Interest, fees and commissions

Interest income and expense is recognised on an accruals basis using the effective interest rate method. This method requires that, in addition to the contractual interest rate attaching to a financial instrument, those fees and direct costs associated with originating and maintaining the instrument are also recognised as interest income over the life of the instrument. The amortisation of such fees and costs are recognised in the same line of interest income as the instruments to which they relate.

Contributor's resources

Contributor's resources represent transfers from the net income allocation of the Bank. The Fund recognises these contributions received as a liability on the basis that the contributor may choose to withdraw contributions from the Fund. The Fund is then obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those parts of taxes or duties that represent charges for public utility services. This exemption is extended to the Fund.

Comparatives

The level of rounding used in presenting the financial statements has been amended to millions in 2013 as this better reflects the size and internal reporting of the Fund.

C. Critical accounting estimates and judgements

Preparing financial statements in conformity with IFRS requires the Fund to make estimates and judgements 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 and judgements 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 Fund's critical accounting estimates and judgements are as follows:

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Receivables" within the accounting policies section of the report.

Provisions for impairment of loan investments
The Fund's method for determining provisions for impairment of loan investments is described under "Undrawn loan commitments and related impairment provisions" within the accounting policies section of the report.

Risk management

A. Credit risk

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

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. In addition, included in receivables are cash resources placed with financial institutions by the Bank on the Fund's behalf. These institutions were rated 2 on the Bank's internal risk-ratings table which approximated to a Standard & Poor's equivalent rating in the range of AA+ to AA-.

The carrying amounts of assets presented on the balance sheet, together with undrawn loan commitments of €92 million best represents the Fund's maximum exposure to credit risk at 31 December 2013, without taking account of any collateral held or other credit enhancements.

As previously stated, the Bank retains the risks and rewards associated with the Fund's assets and therefore the Bank is responsible for the measurement and management of credit risk exposures of the Fund.

B. Market risk

Market risk is the potential loss that could result from adverse market movements and may derive from interest rate, foreign exchange and equity price 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 receivables are repriced to market interest rates within one month and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

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

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

	Egyptian pound 2013 € million	**Euro 2013 € million**	**United States dollar 2013 € million**	**Total € million**
Total assets	**7**	**33**	**135**	**175**
Total liabilities	**-**	**(68)**	**(107)**	**(175)**
Net currency position at 31 December 2013	**7**	**(35)**	**28**	**-**

	Egyptian pound 2012 € million	Euro 2012 € million	United States dollar 2012 € million	Total € million
Total assets	-	140	100	240
Total liabilities	-	(138)	(102)	(240)
Net currency position at 31 December 2012	-	2	(2)	-

Based on the five year rolling average of absolute movements in the United States dollar to euro exchange rate, the potential impact on the Fund's net profit from a 6 per cent strengthening or weakening (2012: 7 per cent) is €2 million (2012: €nil).

Equity price risk
Due to the small amount of equity investments held by the Fund relative to its cash resources, the risk to which these investments exposed the Fund are not considered to be material.

As previously stated, the Bank retains the risks and rewards associated with the Fund's assets and therefore the Bank is responsible for the measurement and management of market risk exposures of the Fund.

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 financed solely by transfers from the Bank's net income allocations and these transfers are made on a matched basis to the projects which are to be funded from such transfers. Accordingly the Fund is not considered to have any material liquidity risk.

Notes to the financial statements

1 President's responsibilities

The President is responsible for preparing the financial statements in accordance with IFRS issued by the IASB.

2 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 2013 € million	Non-current 2013 € million	Total 2013 € million	Current 2012 € million	Non-current 2012 € million	Total 2012 € million
Assets						
Receivables	117	54	171	236	3	239
Other financial assets	4	-	4	1	-	1
Total assets	121	54	175	237	3	240
Liabilities						
Other financial liabilities	-	-	-	(2)	-	(2)
Provision for loan commitments	-	-	-	-	(1)	(1)
Contributor's resources	(175)	-	(175)	(237)	-	(237)
Total liabilities	(175)	-	(175)	(239)	(1)	(240)

3 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.

4 Events after the reporting period

There have been no material post-reporting date events that would require disclosure or adjustment to these financial statements

5 Related parties

The Fund has no related parties other than the Bank. The Fund reimburses the Bank for its direct costs in relation to the administration of the Fund. External auditor's remuneration in 2013 of €6,500 (2012: €6,500) is included as part of these direct costs. The external auditor is appointed for a four-year term with Deloitte LLP (UK) serving as auditor for the period 2011-14. The external auditor may only serve a maximum of two consecutive terms. Receivables represent cash allocated to the Fund by the Bank and underlying loan and share investments entered into by the Bank on behalf of the Fund.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT ("THE BANK")

Report on the financial statements

We have audited the financial statements of the EBRD Southern and Eastern Mediterranean Investment Special Fund ("the Fund") for the year ended 31 December 2013 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in contributor's resources, the statement of cash flows for the year then ended together with the accounting policies, the risk management section and the related notes 1 to 5. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards as issued by the International Accounting Standards Board.

President's responsibility for the financial statements

The President is responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as the President determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Financial Statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the Financial Statements present fairly, in all material respects, the financial position of the EBRD Southern and Eastern Mediterranean Investment Special Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Other reporting responsibilities

We also report to you if, in our opinion, the Financial Statements are not in agreement with the accounting records, if the proper accounting records have not been kept, or if we have not received all the information and explanations we require for our audit. We have nothing to report in connection with these matters.

Other Matters

The financial statements have been prepared for, and only for, the Bank in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990, and for the use of the contributor 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, save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants
London, United Kingdom
9 April 2014