

**European Bank
for Reconstruction and Development**

The RDI Special Fund

**Annual Financial Report
31 December 2013**

The RDI Special Fund

Contents

Income statement.....	1
Statement of comprehensive income.....	1
Balance sheet.....	1
Statement of changes in contributor's resources.....	2
Statement of cash flows.....	2
Accounting policies.....	3
Risk management.....	7
Notes to the financial statements.....	11
Independent Auditor's report to the Board of Governors.....	13

The RDI Special Fund

Income statement

For the year ended 31 December 2013

	Note	Year to 31 December 2013 € 000	Year to 31 December 2012 € 000
Interest and similar income			
From loans		-	2
From placements with credit institutions		5	5
Net interest income		5	7
Other operating expenses	3	(7)	(8)
Impairment release on loan investments	4	-	8
Net (loss)/profit for the year		(2)	7
Attributable to:			
Contributor		(2)	7

Statement of comprehensive income

For the year ended 31 December 2013

	Year to 31 December 2013 € 000	Year to 31 December 2012 € 000
Net (loss)/profit for the year	(2)	7
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	(133)	(57)
Total comprehensive expense for the year	(135)	(50)
Attributable to:		
Contributor	(135)	(50)

These items will not subsequently be reclassified to the income statement.

Balance sheet

At 31 December 2013

	31 December 2013 € 000	31 December 2012 € 000
Assets		
Placements with credit institutions	2,958	3,092
Total assets	2,958	3,092
Liabilities and contributor's resources		
Audit fees payable	7	6
Total liabilities	7	6
Contributions	3,874	3,874
Reserves and accumulated loss	(923)	(788)
Total contributor's resources	2,951	3,086
Total liabilities and contributor's resources	2,958	3,092
Memorandum items		
Undrawn loan commitments	726	-

The RDI Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2013

	Contributions	General reserve	Accumulated loss	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2011	3,874	126	(864)	3,136
Total comprehensive expense for the year	-	(57)	7	(50)
At 31 December 2012	3,874	69	(857)	3,086
Total comprehensive expense for the year	-	(133)	(2)	(135)
At 31 December 2013	3,874	(64)	(859)	2,951

Statement of cash flows

For the year ended 31 December 2013

	Year to		Year to	
	31 December		31 December	
	2013	2012	2013	2012
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net (loss)/profit for the year	(2)		7	
Adjustments for:				
Interest income	(5)		(7)	
Impairment releases on loan investments	-		(8)	
	<u>(7)</u>		<u>(8)</u>	
Interest income received	5		9	
Decrease in operating assets:				
Proceeds from repayment of loans	-		169	
Increase in operating liabilities:				
Accrued expenses	<u>1</u>		<u>1</u>	
Net cash (used in)/ from operating activities		(1)		171
Net (decrease)/increase in cash and cash equivalents		(1)		171
Cash and cash equivalents at the beginning of the period		3,092		2,978
Effect of foreign exchange rate changes		(133)		(57)
Cash and cash equivalents at 31 December		2,958		3,092

The RDI Special 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. The financial statements have been prepared on a going concern basis.

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.	Not applicable
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.	Not applicable
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.	Presentation of OCI adapted accordingly
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.	Not applicable

The RDI Special Fund

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 RDI Special Fund ("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

Financial assets - Classification and measurement

The Fund early adopted the first instalment of IFRS 9: Financial Instruments, concerning the classification and measurement of financial assets, with effect from 1 January 2010. Pursuant to that adoption, the Fund classifies its financial assets in the following categories: those measured at amortised cost and those measured at fair value. This classification depends on both the contractual characteristics of the assets and the business model adopted for their management.

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 flow; 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 RDI Special Fund

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

If either of the two criteria above is not met, the debt instrument 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 has not adopted early that part of IFRS 9 which relates to financial liabilities and therefore still applies IAS 39: Financial Instruments.

All financial liabilities are measured at amortised cost.

Contributor's resources

The Fund recognises contributions received from the contributor as equity on the basis that the termination of the Contribution Agreement would lead to the winding up of the Fund and the distribution of the residual assets to the 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 are subject to insignificant risk of changes in value.

Foreign currencies

The functional currency of the Fund is US dollars (USD) 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 the euro (€).

For functional currency reporting, transactions in currencies other than USD are translated into USD at exchange rates ruling at the time of the transaction. All assets and liabilities denominated in currencies other than USD, are re-translated into USD at spot rates ruling at 31 December 2013 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 31 December 2013 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 31 December 2013 with the resultant exchange gains and losses taken to other comprehensive income.

Contributions

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

Interest

Interest is recorded on an accruals basis using the effective interest method. All interest income is recognised within 'interest and similar income' in the income statement.

The RDI Special Fund

Taxation

In accordance with Article 53 of the Agreement Establishing the European Bank for Reconstruction and Development ("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. As described in note 1, this exemption is extended to the Fund.

The RDI Special Fund

Risk management

The Fund was established to provide a long-term contribution to sustainable socio-economic development across Azerbaijan and Georgia ("the Eligible Countries"). To achieve this, the Fund's resources may be used to provide loans, credit support, guarantees, risk participation, debt financing and grants for support of technical assistance to business entities located in the Eligible Countries.

As the primary purpose of the Fund is to encourage development in the Eligible Countries, rather than to generate a return on 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 foreign exchange risk and interest rate risk.

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 may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector, or obligor, or to a particular type of instrument or individual transaction.

The carrying amounts of financial assets presented on the balance sheet, together with undrawn commitments as shown under memorandum items, best represents the Fund's maximum exposure to credit risk at 31 December 2013 and 31 December 2012, without taking account of any collateral held or other credit enhancements.

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.

The Board of Directors ("the Board") approves a credit process document that defines the procedures for the approval, management and review of Banking exposures by the Operations Committee. The Audit Committee reviews the credit process annually and its review is submitted to the Board for approval.

Banking projects are reviewed by the Operations Committee which is chaired by the First Vice President Banking and whose membership comprises senior managers of the Bank. The Operations Committee is responsible for reviewing all Banking operations prior to their submission for Board approval. This includes a number of frameworks for smaller projects which are then each considered by the Small Business Investment Committee. Both committees review projects to ensure they meet the Bank's criteria for sound banking, transition impact and additionally. The Operations Committee operates within the authority delegated by the Board, via the Executive Committee, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The responsibility for oversight of the Banking portfolio resides with the Risk Committee. The Risk Committee is chaired by the Vice President Risk, comprises senior managers of the Bank and operates within the authority delegated by the Board via the Executive Committee. Risk Management is responsible for recommending provisions for the impairment of Banking loans and reports these quarterly to the Risk Committee.

The Bank conducts reviews of 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. At the recommendation of Risk Management, investments considered to be in jeopardy may be transferred from Banking teams to the Corporate Recovery Unit – which reports jointly to Risk Management and Banking – in order to manage the restructuring work-out and recovery process.

The RDI Special Fund

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 category	EBRD risk rating ¹	External rating equivalent	Category name	Broader category
1	1.0	AAA	Excellent	Investment Grade
2	1.7	AA+	Very Strong	
	2.0 2.3/2.5	AA AA-		
3	2.7	A+	Strong	
	3.0	A		
	3.3	A-		
4	3.7	BBB+	Good	
	4.0	BBB		
	4.3	BBB-		
5	4.7	BB+	Fair	
	5.0	BB		
	5.3	BB-		
6	5.7	B+	Weak	
	6.0	B		
	6.3	B-		
7	6.7	CCC+	Special Attention	Classified
	7.0	CCC		
	7.3	CCC-		
8	8.0	CC/CD	Expected Loss/Impaired	

Disbursements are managed by the Operations Administration Department (OAD) within the Office of the General Counsel (OGC). The OAD is responsible for checking compliance with loan and other project agreements and ensuring that correct procedures are followed in line with approved policy. Waivers, consents and amendments of loan covenants and conditionality are prepared by the OAD and are approved by Banking, Risk Management and, where required, by the OGC, the Office of the Chief Economist and the Environment and Sustainability Department.

The Bank assigns its internal risk ratings to all counterparties in the portfolio. Counterparty risk ratings reflect the financial strength of the risk 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 local sovereign rating, except where the Bank has recourse to a guarantor from outside the country of operations which may have a better rating than the local sovereign rating. The Bank also assigns loss given default ratings on a scale of 0 per cent to 100 per cent determined by seniority, jurisdiction and sector of the transaction.

The Bank's general portfolio provisions are based on an assumed value for the probability of default rating assigned to each transaction by Risk Management and loss given default parameters based on product seniority and legal jurisdiction. Both the assumed probability of default value and the loss given default assumptions remain more conservative than the Bank's own default and recovery experience.

Risk Management reports on the development of the portfolio as a whole on a quarterly basis to the Audit Committee. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and within various sub-portfolios. It also includes reporting on compliance with all portfolio risk limits including explanation of any limit breaches.

Placements with credit institutions

The Fund's placements with credit institutions were all internally risk rated 2 (approximately AA+ to AA- in terms of S&P equivalent).

¹ Probability of default.

The RDI Special Fund

Undrawn loan 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.

	2013	2012
	€ 000	€ 000
Rating 6: Weak	726	-
At 31 December	726	-

Concentration of credit risk exposure

The Fund's credit risk exposure is concentrated in a single geographical region, Azerbaijan and a single industry sector, banking.

B. Market risk

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

Market risk management and measurement

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

Interest rate risk

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

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

Foreign exchange risk

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

The Fund's net exposure to foreign exchange risk is considered to be minimal, as outlined in the table below.

	Euro	United States dollars	
	2013	2013	Total
	€ 000	€ 000	€ 000
Total assets	-	2,958	2,958
Total liabilities	(7)	-	(7)
Net currency position at 31 December 2013	(7)	2,958	2,951

	Euro	United States dollars	
	2012	2012	Total
	€ 000	€ 000	€ 000
Total assets	-	3,092	3,092
Total liabilities	(6)	-	(6)
Net currency position at 31 December 2012	(6)	3,092	3,086

The RDI Special 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's Rules and Regulations require that loan investments and technical assistance are financed from the resources of the Fund, which comprises contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund also recognises contributions received as equity, which will only be returned to the 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.

The RDI Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors (“the Board”) of the Bank on 16 October 2006 and is administered, *inter alia*, in accordance with the Agreement Establishing the Bank and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 15 November 2006 following the signing of the first contribution agreement.

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

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. 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.

2. President’s responsibilities

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

3. Other operating expenses

Other operating expenses represent external auditor's remuneration of €6,500 (2012: €7,700). At 31 December 2013 €6,500 (2012: €6,500) is payable to the Bank in relation to the 2013 external audit. 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.

4. Provisions for impairment of loan investments

	2013	2012
	€ 000	€ 000
Release for the year		
Portfolio provisions for the unidentified impairment of assets	-	(8)
For the year ended 31 December	-	(8)
Movement in provisions		
At 1 January	-	8
Release for the year to the income statement	-	(8)
At 31 December	-	-
Analysed between		
Portfolio provisions for the unidentified impairment of loan investments	-	(8)
At 31 December	-	(8)

5. Loan investments

	2013	2012
	€ 000	€ 000
Operating assets		
At 1 January	-	168
Repayments	-	(169)
Foreign exchange movements	-	1
At 31 December	-	-
Impairment at 31 December	-	-
Total loan investments net of impairment at 31 December	-	-

6. Fair value of financial assets and financial liabilities

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

The RDI Special Fund

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

All assets and liabilities presented on the balance sheet are classified as current in 2013 and 2012.

8. Events after the reporting period

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

9. Related parties

The Fund's related parties are the Bank and the contributor, BP Exploration (Caspian Sea) Limited.

The Bank is entitled to charge the Fund a management fee equal to 2 per cent of contributions received. As there were no contributions received in 2013, there were no management fees paid by the Fund to the Bank (2012: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2013 (2012: nil).

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

Cumulative contributions received to date are €3.9 million (2012: €3.9 million).

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 RDI Special Fund ("the Fund") for the year ended 31 December 2013 which comprise the income statement, 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 9. 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 RDI 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
Chartered Accountants
London, United Kingdom
9 April 2014