

**European Bank
for Reconstruction and Development**

The Russia Small Business Investment Special Fund

**Annual Financial Report
31 December 2013**

The Russia Small Business Investment Special Fund

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Income statement

For the year ended 31 December 2013		Year to 31 December 2013	Year to 31 December 2012
	Note	€ 000	€ 000
Interest and similar income			
From loans		2,402	3,208
From credit institutions		51	41
Fee income		-	1
Dividend income		25	-
Net (losses)/gains from share investments	3	(450)	298
Foreign exchange movement		(1,584)	810
Financial guarantees movement	4	341	2,293
Other operating expenses	5	(7)	(8)
Impairment release on loan investments	6	228	281
Net profit for the year		1,006	6,924
Attributable to:			
Contributors		1,006	6,924

Statement of comprehensive income

For the year ended 31 December 2013		Year to 31 December 2013	Year to 31 December 2012
		€ 000	€ 000
Net profit for the year		1,006	6,924
Other comprehensive (expense)/income			
Foreign exchange movement between functional and presentational currencies		(2,391)	(957)
Total comprehensive (expense)/income for the year		(1,385)	5,967
Attributable to:			
Contributors		(1,385)	5,967

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

Balance sheet

At 31 December 2013		31 December 2013		31 December 2012	
	Note	€ 000	€ 000	€ 000	€ 000
Assets					
Placements with credit institutions			40,870		30,802
Interest receivable			182		354
Loan investments					
Loans	7	14,824		26,413	
Less: Provisions for impairment	6	(604)		(933)	
			14,220		25,480
Share investments	8		2,352		2,922
Total assets			57,624		59,558
Liabilities					
Audit fees payable			7		6
Financial guarantee liability	4		4,242		4,792
Total liabilities			4,249		4,798
Contributions					
	9	59,351		59,351	
Reserves and accumulated loss					
		(5,976)		(4,591)	
Total contributors' resources			53,375		54,760
Total liabilities and contributors' resources			57,624		59,558
Memorandum items					
Undrawn loan commitments and guarantees			36,504		36,121

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Statement of changes in contributors' resources

For the year ended 31 December 2013

	Contributions	General	Accumulated	Total
	€ 000	reserve	loss	€ 000
	€ 000	€ 000	€ 000	€ 000
At 31 December 2011	59,351	(2,472)	(8,086)	48,793
Total comprehensive (expense)/income	-	(957)	6,924	5,967
As at 31 December 2012	59,351	(3,429)	(1,162)	54,760
Total comprehensive (expense)/income	-	(2,391)	1,006	(1,385)
As at 31 December 2013	59,351	(5,820)	(156)	53,375

Statement of cash flows

For the year ended 31 December 2013

	Year to		Year to	
	31 December 2013		31 December 2012	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit for the year	1,006		6,924	
Adjustment for:				
Interest income	(2,437)		(3,249)	
Net deferral of commitment fees	(16)		1	
Impairment release on loan investments	(228)		(281)	
Net losses/(gains) from share investments	450		(298)	
Foreign exchange movement	1,584		(810)	
Financial guarantees movement	(341)		(2,293)	
	18		(6)	
Interest income received	2,578		3,306	
Fee income received	2		8	
Net realised gains from share investments	-		1	
Decrease/(increase) in operating assets:				
Proceeds from sale of share investments	-		84	
Proceeds from repayment of loans	11,608		9,698	
Funds advanced for loans	(2,141)		(7,237)	
Increase in operating liabilities				
Accrued expenses	1		1	
Net cash from operating activities		12,066		5,855
Net increase in cash and cash equivalents		12,066		5,855
Cash and cash equivalents at the beginning of the year		30,802		25,692
Effect of foreign exchange rate changes		(1,998)		(745)
Cash and cash equivalents at 31 December		40,870		30,802

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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 liabilities 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 policies of the Russia Small Business Investment 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 “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.	Presentation of OCI adapted accordingly
IAS 19 (Amendment): Employee Benefits	Various amendments to the standard including: <ul style="list-style-type: none">• 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

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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.	The Fund does not consider this standard will have a material impact as it considers that gross presentation of derivative assets and liabilities, to which this amendment predominantly relates, will continue to be appropriate
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.

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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.

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’.

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 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.

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 except for financial guarantees which are measured in accordance with IAS 39, as described under “Financial guarantees” within the accounting policies section of the report.

Impairment of financial assets

Financial assets at amortised cost

Where there is objective evidence that an identified loan asset is impaired, specific provisions for impairment are recognised in the income statement. 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 allowance account and the amount of the loss is recognised in the income statement. The carrying amount of the asset is reduced directly only upon write-off. Resulting adjustments include the unwinding of the discount in the income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

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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; and
- deterioration in the value of collateral.

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 for non-sovereign assets. The Fund's methodology calculates impairment on an incurred loss basis. Impairment is deducted from the asset categories on the balance sheet.

Impairment, less any amounts reversed during the year, is charged to the income statement. 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 are credited to the income statement if previously written off.

Loans and advances are generally renegotiated in response to an adverse change in the circumstances of the borrower. Depending upon the degree to which 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, 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.

Financial guarantees

The Fund provides guarantees to cover losses incurred by the European Bank for Reconstruction and Development ("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 income. Subsequently the guarantee is measured at the higher of the initial fair value less cumulative amortisation or, if appropriate, the expenditure required to settle the commitment at the balance sheet date.

Contributors' resources

The Fund recognises contributions received from the contributors as equity on the basis that, should a contributor choose to withdraw from the Fund, the Fund is not obliged to return such contributions until the residual assets are distributed to the contributors upon the winding up of the Fund.

General reserve

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

Statement of cash flows

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

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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 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 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.

Commitment fees are deferred in accordance with IAS 18: Revenue. These are then recognised in interest income using the effective interest method over the period from disbursement to repayment of the related loan. If the commitment expires without the loan being drawn down, the fee is recognised as income on expiry.

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 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.

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 "Financial assets" within the accounting policies section of the report and an analysis of the share investment portfolio is provided in note 8. Where relevant market data is not available, 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.

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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.

Portfolio provisions for the unidentified impairment of loan investments at 31 December 2013 were €582,000 (2012: €933,000). The sensitivity of portfolio provisions to key variables used in determining the level of impairment is provided below.

Risk ratings

- If all loan investments were upgraded by three 'notches' or detailed ratings within the Bank's probability of default rating scale, this would result in a reduction of €501,000 in portfolio provisions on loan investments.
- Conversely, if all loan investments were downgraded by three 'notches' or detailed ratings within the Bank's probability of default rating scale, this would result in a charge to the income statement of €1,983,000 in relation of portfolio provisions for loans.
- With respect to specific provisions, an increase of ten per cent on the level of impaired loans would have a +/- €2,000 impact.

Loss emergence period

- Provisions for unidentified impairment are made to reflect losses arising from events existing but not identified at the balance sheet date and which will emerge within a 12 month period from that date. If the loss emergence period was reduced to three months it is broadly estimated that this would result in a decrease in portfolio provisions charged to the income statement of €442,000.

Probability of default rates

- In determining the probabilities of default for each risk rating, the relative weighting applied to external data and the Bank's own experience is reviewed annually. The 2013 general provisioning methodology applies a 50 per cent weighting to the Bank's own experience and a 50 per cent weighting to external data, which is consistent with the methodology approved in the previous year. A decrease in the weighting assigned to the Bank's own experience to 40 per cent (60 per cent external default data) would lead to an increase in portfolio provisions of €68,000, increasing provisions for unidentified impairment of loan investments to €650,000. Similarly, an increase in the weighting assigned to the Bank's own experience to 60 per cent (40 per cent external default data) would lead to a decrease in portfolio provisions of €68,000, decreasing provisions for unidentified impairment of loan investments to €514,000.

Loss given default rates

- A decrease in loss given default rates by 10 percentage points would lead to a decrease in portfolio provisions of €85,000, reducing provisions for unidentified impairment of loans to €497,000.
- An increase in loss given default rates by 10 percentage points would lead to a corresponding increase in portfolio provisions for unidentified impairment of loans by €85,000, to a total of €667,000.

The methodology and judgements used for estimating provisions for the impairment of loan investments are reviewed annually to reduce any differences between loss estimates and actual experience.

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.

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Risk management

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 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.

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.

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 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 be impaired.

The carrying amounts of financial assets presented on the balance sheet, together with the undrawn loan commitments and guarantees 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 additionality. 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 Equity Committee acts as governance committee for the equity portfolio and reports to the Operations 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. For share investments it also reviews the fair value. At

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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 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's¹ (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	AA		
	2.3/2.5	AA-		
3	2.7	A+	Strong	
	3.0	A		
	3.3	A-		
4	3.7	BBB+	Good	
	4.0	BBB		
	4.3	BBB-		
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 between 2 and 5 (approximately AA+ to BB- in terms of S&P equivalent).

¹ Probability of default.

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Loan investments

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

Risk rating	Neither past due nor impaired		Total	Portfolio provisions for unidentifed impairment		Total net of impairment	Impairment provisions
	€ 000	Impaired € 000		%	€ 000		
5: Fair	311	-	2.1	(1)	-	310	0.3
6: Weak	12,651	-	85.4	(390)	-	12,261	3.1
7: Special attention	1,840	-	12.4	(191)	-	1,649	10.4
8: Impaired	-	22	0.1	-	(22)	-	100.0
At 31 December 2013	14,802	22	100.0	(582)	(22)	14,220	4.1

Risk rating	Neither past due nor impaired		Total	Portfolio provisions for unidentifed impairment		Total net of impairment	Impairment provisions
	€ 000	Impaired € 000		%	€ 000		
5: Fair	542	-	2.1	(2)	-	540	0.4
6: Weak	24,443	-	92.5	(751)	-	23,692	3.1
7: Special attention	1,428	-	5.4	(180)	-	1,248	12.6
At 31 December 2012	26,413	-	100.0	(933)	-	25,480	3.5

Guarantees

In accordance with the Fund's Rules and Regulations, losses incurred in respect of the Fund's investments and the parallel Bank investments up to a maximum aggregate amount of USD 75 million will be borne by the resources of the Fund. Thereafter, losses will be borne equally by the Fund and the Bank.

At 31 December 2013, the Bank had outstanding parallel loans and share investments amounting to €106.9 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 (2012: €106.6 million). At 31 December 2013, the Fund's maximum exposure under such guarantees was €32.9 million (2012: €34.0 million).

At 31 December 2013 €1.3 million has been recognised as a financial guarantee contract as a result of a specific impairment on a Bank loan (2012: nil). The guarantee liability on the balance sheet of €4.2 million (2012: €4.8 million) includes this amount plus the initial fair value of the liability recognised when the guarantees were issued less cumulative amortisation. The Fund does not actively manage credit risk on its guarantee exposure.

Undrawn loan commitments and guarantees

Set out below is an analysis of the Fund's undrawn commitments for loan investments and maximum exposure for guarantees for each of the Bank's relevant internal risk rating categories.

Risk rating	Guarantees	Loans	Total	Guarantees	Loans	Total
	2013	2013	2013	2012	2012	2012
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
5: Fair	663	-	663	628	-	628
6: Weak	26,968	3,646	30,614	31,725	2,113	33,838
7: Special attention	3,921	-	3,921	1,655	-	1,655
8: Impaired	1,306	-	1,306	-	-	-
31 December	32,858	3,646	36,504	34,008	2,113	36,121

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Concentration of credit risk exposure

The Fund's credit risk exposure is concentrated in a single geographic region, the Russian Federation, and a single industry sector, finance.

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, foreign exchange 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 month and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

The Fund also has a number of fixed rate loan investments. Based on a reasonable basis point change in the underlying interest rates the 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	Russian	United States	
	2013	roubles	dollars	Total
	€ 000	€ 000	€ 000	€ 000
Total assets	25	17,878	39,721	57,624
Total liabilities	(7)	(1,308)	(2,934)	(4,249)
Net currency position at 31 December 2013	18	16,570	36,787	53,375

	Euro	Russian	United States	
	2012	roubles	dollars	Total
	€ 000	€ 000	€ 000	€ 000
Total assets	31	26,697	32,830	59,558
Total liabilities	(6)	-	(4,792)	(4,798)
Net currency position at 31 December 2012	25	26,697	28,038	54,760

Based on the five year rolling average of absolute movements in the Russian rouble to United States dollar exchange rate, the potential impact on the Fund's net profit from a 7 per cent strengthening or weakening (2013: 8 per cent) is €1.2 million (2012: €2.0 million).

The Russia Small Business Investment Special Fund

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 a linear relationship to the movement in equity indices.

Based on the five year rolling average movement in the RTS index, the potential impact on the Fund's net profit from a 38 per cent strengthening or weakening (2012: 51 per cent) is €0.9 million (2012: €1.5 million).

C. Liquidity risk

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

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

The Russia Small Business Investment 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 of 18 October 1993 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 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 and Regulations 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 and Regulations of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

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

The Fund was established in accordance with Article 18 of the AEB. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

2. President's responsibilities

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

3. Net gains/(losses) from share investments

	2013	2012
	€ 000	€ 000
Net unrealised (losses)/gains from share investments	(570)	290
Net realised gains from share investments	-	1
Foreign exchange movement	120	7
At 31 December	(450)	298

4. Financial guarantee liability

	2013	2012
	€ 000	€ 000
At 1 January	4,792	6,976
Amortisation of day one fair value	(1,647)	(2,293)
Financial guarantee charge on impairment	1,306	-
Foreign exchange movement	(209)	109
At 31 December	4,242	4,792

5. 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.

The Russia Small Business Investment Special Fund

6. Provision for impairment of loan investments

	2013	2012
	€ 000	€ 000
Release for the year		
Portfolio provisions for the unidentified impairment of loan investments	(250)	(281)
Specific provisions for the identified impairment of loan investments	22	-
Impairment release on loan investments	(228)	(281)
Movement in provisions		
At 1 January	933	1,176
Release for the year to the income statement	(228)	(281)
Foreign exchange movement	(101)	38
At 31 December	604	933
Analysed between		
Portfolio provisions for the unidentified impairment of loan investments	582	933
Specific provisions for the identified impairment of loan investments	22	-
At 31 December	604	933

7. Loan investments

	2013	2012
	€ 000	€ 000
At 1 January	26,413	28,122
Disbursements	2,141	7,237
Repayments	(11,608)	(9,698)
Foreign exchange movements	(2,136)	761
Movement in net deferral of commitment fees	14	(9)
At 31 December	14,824	26,413
Impairment at 31 December	(604)	(933)
Total loan investments net of impairment at 31 December	14,220	25,480

8. Share investments

IFRS 7 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 these share investments is net asset value (NAV). Reasonably plausible alternative valuations have been determined based on the NAV multiple range used in the valuation and would lead to a favourable change in value of €0.8 million and an unfavourable change in value of €1.1 million.

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

	2013	2012
	€ 000	€ 000
Outstanding disbursements		
At 1 January	207	332
Disposals	-	(125)
At 31 December	207	207
Fair value adjustment		
At 1 January	2,715	2,424
Movement in fair value revaluation	(450)	298
Movement in foreign exchange	(120)	(7)
At 31 December	2,145	2,715
Fair value at 31 December	2,352	2,922

The Russia Small Business Investment Special Fund

9. Contributions

Contributions received are set out below:

Cumulative contributions received	2013		2012	
	€ 000	%	€ 000	%
Canada	2,707	4.5	2,707	4.5
France	7,686	12.9	7,686	12.9
Germany	9,843	16.6	9,843	16.6
Italy	8,402	14.2	8,402	14.2
Japan	21,162	35.7	21,162	35.7
Switzerland	2,360	4.0	2,360	4.0
United States of America	7,191	12.1	7,191	12.1
At 31 December	59,351	100.0	59,351	100.0

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

	Current	Non-current	Total	Current	Non-current	Total
	2013	2013	2013	2012	2012	2012
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Assets						
Placements with credit institutions	40,870	-	40,870	30,802	-	30,802
Interest receivable	182	-	182	354	-	354
Loans	8,574	6,250	14,824	5,631	20,782	26,413
Provisions for impairment	(337)	(267)	(604)	(202)	(731)	(933)
Share investments	-	2,352	2,352	-	2,922	2,922
Total assets	49,289	8,335	57,624	36,585	22,973	59,558
Liabilities						
Audit fee payable	(7)	-	(7)	(6)	-	(6)
Financial guarantee liability	(4,242)	-	(4,242)	(4,792)	-	(4,792)
Total liabilities	(4,249)	-	(4,249)	(4,798)	-	(4,798)

11. Fair value of financial assets and liabilities

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

12. Events after the reporting period

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

13. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. 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 5.

Contributions received from the contributors are outlined in note 9.

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 Russia Small Business Investment 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 contributors' 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 13. 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 judgment, 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 Russia Small Business Investment Special Fund as at 31 December 2012 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 this duty.

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 contributors 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