European Bank
for Reconstruction and Development

EBRD Southern and Eastern Mediterranean Investment Special Fund

Annual Financial Report
31 December 2014

European Bank for Reconstruction and Development

EBRD Southern and Eastern Mediterranean Investment Special Fund

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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. On 15 May 2014 the Board approved an allocation of €500 million of 2013 net income from the Bank to the Fund. On 17 December 2014 the Board approved a further allocation of €800 million of net income from the Bank to the Fund. At 31 December 2014, there were €826 million (2013: €175 million) of resources in the Fund and €1.1 billion of the €2.3 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 2014	Year to 31 December 2014 € million	Year to 31 December 2013 € million
Interest and similar income	**7**	2
Fair value movement on receivables	**-**	(3)
Impairment provision on receivables held at amortised cost	**(16)**	(10)
Foreign exchange movement	**69**	(7)
General administrative expenses	**(2)**	(8)
Net profit/(loss) for the year	**58**	(26)
Transfers of net income to the EBRD Shareholder Special Fund	**(25)**	(25)
Total comprehensive income/(expense)	**33**	(51)
Attributable to:		
Contributor	**33**	(51)

EBRD Southern and Eastern Mediterranean Investment Special Fund

Balance sheet

At 31 December 2014	31 December 2014		31 December 2013	
	€ million	€ million	€ million	€ million
Assets				
Receivables				
Held at amortised cost	**789**		162	
Held at fair value	**36**		9	
		825		171
Other financial assets		**2**		4
Total assets		**827**		175
Liabilities				
Other financial liabilities		**1**		-
Contibutor's resources				
Contributions		**849**		233
Reserves and accummulated losses		**(23)**		(58)
Total liabilities		**827**		175
Memorandum items				
Undrawn commitments		**641**		129

Statement of cash flows
For the year ended 31 December 2014

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 2014	Contributions € million	Accumulated loss € million	Total € million
At 31 December 2012	240	(3)	237
Contributions received	330	-	330
Transfer to EBRD General Reserves	(337)	(4)	(341)
Total comprehensive expense for the year	-	(51)	(51)
At 31 December 2013	233	(58)	175
Contributions received	616	-	616
Transfer to EBRD General Reserves	-	2	2
Total comprehensive expense for the year	-	33	33
At 31 December 2014	**849**	**(23)**	**826**

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
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.	Not applicable as the Fund is not an investment entity.
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.	Applicable but no changes of presentation required.

IFRS not yet mandatorily effective but adopted early

IFRS 9: Financial Instruments is the IASB's replacement project for IAS 39. The Standard has developed in phases and was completed in July 2014 with a mandatory application date for annual reporting periods beginning on or after January 1, 2018. The Fund adopted the first phase 'recognition and measurement of financial assets' in its 2012 financial statements.

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential Impact
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010) Hedge accounting (November 2013) Impairment methodology and introduction of 'fair value through other comprehensive income' measurement category for financial assets represented by simple debt instruments (July 2014). IFRS 9 to be adopted in its entirety for annual reporting periods beginning on or after January 1, 2018.	The Fund is yet to assess the potential impact of adopting this standard
Amendments to: IFRS 10: Consolidation Financial Statements and IAS 28: Investments in Associates and Joint Ventures	Provides guidance for the accounting for the loss of control of a subsidiary as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund is yet to assess the potential impact of adopting this standard
Amendments to: IFRS 11: Joint Arrangements	Provides guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. Effective for accounting periods beginning on or after 1 July 2016.	The Fund is yet to assess the potential impact of adopting this standard
IFRS 15: Revenue from Contracts with Customers	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Effective for annual reporting periods beginning on or after 1 January 2017.	The Fund is yet to assess the potential impact of adopting this standard
Amendments to: IAS 1: Presentation of Financial Statements	Various amendments to improve presentation and disclosure under IAS 1. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund is yet to assess the potential impact of adopting this standard
Amendments to: IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets	Clarification of acceptable methods of depreciation and amortisation Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund is yet to assess the potential impact of adopting this standard

A number of existing standards were reviewed by the IASB in December 2014 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 January 2016, 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.

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.

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 2013 and 2014 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.

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.

Contributions

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

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.

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.

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.

D. Fair value of financial assets and liabilities

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. These inputs have created the following fair value hierarchy:

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

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

The table below provides a reconciliation of the fair values of the Fund's Level 3 receivables for the year ended 31 December 2014.

Level 3 receivables at fair value	**Year ended 31 December 2014**
Balance at 31 December 2013	**9**
Total gains/(losses) for the year ended 31 December 2014:	
Purchases/issues	**27**
Balance at 31 December 2014	**36**
Total gains/(losses) for the period included in net profit from assets and liabilities held at 31 December 2014	**-**

Level 3 receivables at fair value	Year ended 31 December 2013
Balance at 31 December 2012	3
Total gains/(losses) for the year ended 31 December 2013 in:	
Net losses	(3)
Purchases/issues	9
Balance at 31 December 2013	9
Total losses for the period included in net profit from assets and liabilities held at 31 December 2014	(3)

Level 3 - sensitivity analysis

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2014, main valuation models/techniques used in the valuation of these financial instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

			Impact on net profit in 2014	
	Main Valuation models/techniques	**Carrying amount € 000**	**Favourable change € 000**	**Unfavourable change € 000**
Receivables at fair value	Net asset value and cost	**36**	**4**	**(4)**
At 31 December		**36**	**4**	**(4)**

			Impact on net profit in 2013	
	Main Valuation models/techniques	Carrying amount € 000	Favourable change € 000	Unfavourable change € 000
Receivables at fair value	Net asset value and cost	9	-	-
At 31 December		9	-	-

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 between 2 and 7 on the Bank's internal risk-ratings table which approximated to a Standard & Poor's equivalent rating in the range of AA+ to CCC-.

The carrying amounts of assets presented on the balance sheet, together with undrawn commitments of €641 million best represents the Fund's maximum exposure to credit risk at 31 December 2014, without taking account of any collateral held or other credit enhancements.

At 31 December 2014 the Fund had security arrangements in place for €36.4 million of its disbursed receivables.

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 2014 € million	**Euro 2014 € million**	**United States dollar 2014 € million**	**Total € million**
Total assets	**16**	**162**	**649**	**827**
Total liabilities	**-**	**(257)**	**(570)**	**(827)**
Net currency position at 31 December 2014	**16**	**(95)**	**79**	**-**

	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	-

The potential impact on the Fund's net profit based on the average five year absolute rolling average movement, from a 5 per cent strengthening or weakening of the United States dollar to euro exchange rate

(2013: 6 per cent) and a 5 per cent strengthening or weakening of the Egyptian pound to euro exchange rate (2013: 5 per cent) is €5 million (2013: €2 million).

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	**Non-current**	**Total**	Current	Non-current	Total
	2014	**2014**	**2014**	2013	2013	2013
Assets	**€ million**	**€ million**	**€ million**	€ million	€ million	€ million
Receivables	**659**	**166**	**825**	117	54	171
Other financial assets	**2**	**-**	**2**	4	-	4
Total assets	**661**	**166**	**827**	121	54	175
Liabilities						
Other financial liabilities	**(1)**	**-**	**(1)**	-	-	-
Contributor's resources	**(826)**	**-**	**(826)**	(175)	-	(175)
Total liabilities	**(827)**	**-**	**(827)**	(175)	-	(175)

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 2014 of €7,200 (2013: €6,500) is included as part of these direct costs. In 2014 the Bank approved an extension of the term of appointment from four years to five with a maximum of two consecutive terms. Deloitte LLP (UK) completes its first four-year term in 2014 and has been re-appointed for the five year period 2015 - 2019. 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 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 2014 which comprise the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in contributor's resources for the year then ended together with the accounting policies, the risk management statement and the related notes 1 to 5. The financial reporting framework that has been applied in their preparation is the 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 the 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 2014 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

This report, including the opinion, has 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
8 April 2015