European Bank
for Reconstruction and Development

The EBRD CIF Special Fund

Annual Financial Report
31 December 2013

The EBRD CIF Special Fund

Contents

The EBRD CIF Special Fund

Income statement

For the year ended 31 December 2013

	Note	Year to 31 December 2013 € million	Year to 31 December 2012 € million
Interest income from loans		2	2
Interest income refunded		(1)	(1)
Concessional loan discount		(4)	(3)
Disbursements for technical co-operation	3	(1)	(1)
Foreign exchange movements		2	-
General administration expenses		(1)	(1)
Net loss for the year		(3)	(4)
Attributable to:			
Contributors		(3)	(4)

Statement of comprehensive income

For the year ended 31 December 2013

	Year to 31 December 2013 € million	Year to 31 December 2012 € million
Net loss for the year	(3)	(4)
Other comprehensive expense		
Foreign exchange movement between functional and presentational currencies	1	-
Total comprehensive expense	(2)	(4)
Attributable to:		
Contributors	(2)	(4)

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

Balance sheet

At 31 December 2013

	Note	€ million	31 December 2013 € million	€ million	31 December 2012 € million
Assets					
Placements with credit institutions			32		46
Contributions receivable	4		3		7
Loan investments					
Loans	5	45		31	
Less: Provisions for impairment	6	(1)		(1)	
			44		30
Total assets			79		83
Liabilities					
Other financial liabilities	7		1		4
Contributors' resources					
Contributions	4	98		97	
Reserves and accumulated loss		(20)		(18)	
Total contributors' resources			78		79
Total liabilities			79		83
Memorandum items					
Undrawn loan commitments	8		21		14

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Statement of changes in contributors' resources

For the year ended 31 December 2013

	Contributions € million	General reserve € million	Accumulated loss € million	Total € million
At 31 December 2011	72	-	(14)	58
Contributions received and receivable	26	-	-	26
Revaluation of contributions	(1)	-	-	(1)
Total comprehensive expense	-	-	(4)	(4)
At 31 December 2012	97	-	(18)	79
Contributions received and receivable	5	-	-	5
Revaluation of contributions	(4)	-	-	(4)
Total comprehensive expense	-	1	(3)	(2)
At 31 December 2013	**98**	**1**	**(21)**	**78**

Statement of cash flows

For the year ended 31 December 2013

	€ million	Year to 31 December 2013 € million	€ million	Year to 31 December 2012 € million
Cash flows used in operating activities				
Net loss for the period	(3)		(4)	
Adjustment for:				
Interest income	(2)		(2)	
Interest income refunded	1		1	
Foreign exchange movement	(2)		-	
Concessional loan discount	4		3	
General administrative expenses	1		-	
	(1)		(2)	
Interest income received	1		1	
Increase in operating assets:				
Funds advanced for loans	(19)		(7)	
(Decrease)/increase in operating liabilities:				
Accrued expenses	(3)		1	
Net cash used in operating activities		**(22)**		(7)
Cash flows from financing activities				
Contributions received	9		20	
Net cash from financing activities		**9**		20
Net (decrease)/increase in cash and cash equivalents		**(13)**		13
Cash and cash equivalents at the beginning of the period		**46**		33
Effect of foreign exchange rate changes		(1)		-
Cash and cash equivalents at 31 December		**32**		46

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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 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 EBRD CIF 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.	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

Pronouncement	Nature of change	Impact
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

IFRS not yet effective but adopted early

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

IFRS not yet effective and not adopted early

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

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

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

B. Significant accounting policies

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. The initial fair value of a financial asset is normally represented by the transaction price exchanged for its acquisition or origination as the price is assumed to reflect the market conditions that an entity would normally have taken into consideration in determining the transaction price. The Fund makes loans to its borrowers at concessional rates and therefore each loan is priced at a discount to normal market rates. This discount to fair value is accounted for as a "day one" loss through the Fund's income statement, with a corresponding reduction in the initial measurement of the related loan.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment that may be necessary. The initial fair value discount applied to each loan is therefore recovered in the effective interest rate at which income is recognised in the income statement over the tenor of the loan.

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'.

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.

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.

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.

Contributors' resources

The Fund recognises contributions received from contributors as a liability on the basis that, should a contributor choose to withdraw from the Fund, the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations 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.

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 USD are translated into USD at the exchange rates ruling at the time of the transaction. Contributions are then subsequently re-translated to the presentational currency at the year-end exchange rate.

Contributions are recognised as receivable on the balance sheet on the date of project approval by the Board of Directors ("the Board") of the European Bank for Reconstruction and Development ("the Bank") following receipt of a letter of commitment from the Contributor. Contributions receivable have not been discounted on a present value basis as there is no indication as to their precise payment date. The Fund is satisfied that they will be realised for the amounts stated in the financial statements.

Interest

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

Disbursements for technical cooperation

Disbursements for technical cooperation, which represent payments for consultancy services provided to the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

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.

Comparatives

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

C. Critical accounting estimates and judgements

Preparing financial statements in conformity with IFRS requires the Fund to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund's critical accounting estimates and judgements are as follows:

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 €1.2 million (2012: €0.6 million). 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 €1 million in portfolio provisions on loan investments.
- Conversely, if all loan investments were downgraded by three 'notches' or detailed risk ratings within the Bank's probability of default rating scale, this would result in a charge to the income statement of €5.3 million in relation to portfolio provisions for loans.

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 the portfolio provision charged to the income statement of €1 million.

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 €0.2 million, increasing provisions for unidentified impairment of loan investments to €1.4 million. 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 €0.2 million, decreasing provisions for unidentified impairment of loan investments to €1 million.

Loss given default rates

- A decrease in loss given default rates by ten percentage points would lead to a decrease in portfolio provisions of €0.2 million, reducing provisions for unidentified impairment of loans to €1 million.
- An increase in loss given default rates by ten percentage points would lead to a corresponding increase in portfolio provisions for unidentified impairment of loans by €0.2 million, to a total of €1.4 million.

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 assets at amortised cost initial recognition

The Fund's method for determining the fair value on the initial recognition of concessional loans is further detailed in the significant accounting policies section of the report.

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Risk management

The Fund was established to provide a long-term contribution in support of activities that promote low carbon technologies with significant potential for long-term greenhouse gas savings and other climate change activities in certain countries of operations of the Bank. To achieve this, the Fund provides concessional loans alongside the Bank's market rate loans. The Fund's resources may also be used for grants in support of technical assistance.

As the primary purpose of the Fund is to provide concessional lending and grants 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 alongside the Bank, although under different terms, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and foreign exchange 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 become impaired.

The carrying amounts of financial assets presented on the balance sheet, together with the undrawn loan 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.

Included in the placements with credit institutions is a €3.1 million placement with the Royal Bank of Scotland via a tri-party repurchase arrangement, with Euroclear acting as the tri-party. This arrangement involves the Fund receiving, as collateral, highly liquid securities equal to the value of the placement, for a period of approximately one month. The credit risk on the placement is fully mitigated by collateral held. On termination of the arrangement, the placement and collateral are returned to the respective parties, and a new arrangement is entered into based on the Fund's excess available cash. Euroclear ensures that the value of the securities held covers the full value of the placement on a daily basis.

The Fund is not entitled to sell or repledge the collateral outside of a default. The Fund has not taken possession of any securities held as collateral during the year.

Credit risk management and measurement

As stated previously, 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.

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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 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 2.0 2.3/2.5	AA+ AA AA-	Very Strong	
3	2.7 3.0 3.3	A+ A A-	Strong	
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	
5	4.7 5.0 5.3	BB+ BB BB-	Fair	
6	5.7 6.0 6.3	B+ B B-	Weak	
7	6.7 7.0 7.3	CCC+ CCC CCC-	Special Attention	Classified
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.

[1] Probability of default

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 3 (approximately AA+ to A- in terms of S&P equivalent).

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 category	Neither past due nor impaired € million	Total %	Portfolio provisions for unidentified impairment € million	Total net of impairment provisions € million	Impairment provisions %
5: Fair	26	57.8	-	26	-
6: Weak	19	42.2	(1)	18	5.3
At 31 December 2013	**45**	**100.0**	**(1)**	**44**	**2.2**

Risk category	Neither past due nor impaired € million	Total %	Portfolio provisions for unidentified impairment € million	Total net of impairment provisions € million	Impairment provisions %
5: Fair	20	64.5	-	20	-
6: Weak	11	35.5	(1)	10	9.1
At 31 December 2012	31	100.0	(1)	30	3.2

At 31 December 2013 the Fund had security arrangements in place for €5.2 million of its loan investments.

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.

Risk category	**Undrawn loan commitments 2013 € million**	Undrawn loan commitments 2012 € million
5: Fair	**1**	-
6: Weak	**20**	14
At 31 December	**21**	14

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at the carrying amount by geographical region.

	Undrawn loan commitments 2013 € million	**Loans 2013 € million**	Undrawn loan commitments 2012 € million	Loans 2012 € million
Kazakhstan	**10**	**3**	10	3
Turkey	**-**	**26**	-	26
Ukraine	**11**	**15**	4	1
At 31 December	**21**	**44**	14	30

The following table breaks down the main credit risk exposures at the carrying amount by industry sector.

	Undrawn loan commitments 2013 € million	Loans 2013 € million	Undrawn loan commitments 2012 € million	Loans 2012 € million
Depository credit (banks)	-	26	-	26
Municipal and environmental infrastructure	10	3	10	3
Power and energy	11	15	4	1
At 31 December	**21**	**44**	14	30

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 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 to 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 considered to be minimal, as outlined in the table below.

	Euro 2013 € million	United States dollars 2013 € million	Pound sterling 2013 € million	Total € million
Total assets	**30**	**49**	**-**	**79**
Total liabilities	**(37)**	**(42)**	**-**	**(79)**
Net currency position at 31 December 2013	**(7)**	**7**	**-**	**-**

	Euro 2012 € million	United States dollars 2012 € million	Pound sterling 2012 € million	Total € million
Total assets	36	47	-	83
Total liabilities	(37)	(44)	(2)	(83)
Net currency position at 31 December 2012	(1)	3	(2)	-

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 Rules of the Fund require that operations are financed from the resources of the Fund which comprise of contributions received. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as a liability, which will be returned to the contributor either upon termination of the Fund, or to the extent that funds remain uncommitted, upon request from the contributor. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

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Notes to the financial statements

1. Creation of the Special Fund

On 30 May 2008 the International Bank for Reconstruction and the Development ("IBRD"), the Bank and other multilateral development banks reached an agreement on the design and establishment of the Climate Investment Fund ("CIF") which comprises the Strategic Climate Fund ("SCF") and the Clean Technology Fund ("CTF"). The IBRD acts as a Trustee for the CIF.

The CTF was established to provide scaled up financing in order to contribute to the demonstration, deployment and transfer of low carbon technologies with significant potential for long-term greenhouse gas emission savings. The objective of the SCF is to support financing for scaled-up, transformational action in support of adaptation and mitigation measures to specific climate change challenges.

The creation of the Fund was approved by the Board at its meeting on 21 October 2009 and is administered, *inter alia,* in accordance with the AEB and the Rules of the Fund. The Fund became operational on 21 April 2010 following the signing of the Financial Procedures Agreements for the SCF and CTF.

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. Disbursements for technical cooperation

	Commitments approved € million	Disbursements € million	Undrawn commitments € million
Total projects			
At 31 December 2011	2	(1)	1
Movement in the period	1	(1)	-
At 31 December 2012	3	(2)	1
Movement in the year	-	(1)	(1)
At 31 December 2013	**3**	**(3)**	**-**

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4. Contributions

	2013 € million	2012 € million
Cumulative contributions received		
Clean Technology Fund	**94**	90
Strategic Climate Fund	**1**	1
Contributions received at 31 December	**95**	91
Contributions receivable		
Clean Technology Fund	**3**	6
Strategic Climate Fund	**-**	-
Contributions receivable at 31 December	**3**	6
Total contributions		
Clean Technology Fund	**97**	96
Strategic Climate Fund	**1**	1
Total contributions at 31 December	**98**	97

5. Loan investments

	2013 € million	2012 € million
At 1 January	**31**	27
Disbursements	**19**	7
Day one fair value adjustment	**(4)**	(3)
Unwinding discount (loan interest)	**1**	1
Foreign exchange movements	**(2)**	(1)
At 31 December	**45**	31
Impairment at 31 December	**(1)**	(1)
Total loan investments net of impairment at 31 December	**44**	30

6. Provision for impairment of loan investments

Charge for the year	2013 € million	2012 € million
Portfolio provisions for the unidentified impairment of loan investments	**-**	-
Impairment charge on loan investments	**-**	-
Movement in provisions		
At I January	**1**	1
Impairment charge on loan investments	**-**	-
At 31 December	**1**	1
Analysed between		
Portfolio provisions for the unidentified impairment of loan investments	**1**	1
At 31 December	**1**	1

7. Other financial liabilities

	2013 € million	2012 € million
Disbursements for technical cooperation payable	**-**	1
Expenses payable	**-**	2
Interest income reimbursable to contributors	**1**	1
At 31 December	**1**	4

8. Undrawn commitments

	2013	2012
	€ million	€ million
Undrawn loan commitments	21	14
Memorandum items at 31 December	**21**	14
Disbursements for technical cooperation	-	1
Undrawn commitments at 31 December	**21**	15

9. 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
	2013	2013	2013	2012	2012	2012
Assets	€ million	€ million	€ million	€ million	€ million	€ million
Placements with credit institutions	32	-	32	46	-	46
Contributions receivable	3	-	3	7	-	7
Loans	-	45	45	-	31	31
Provisions for impairment	-	(1)	(1)	-	(1)	(1)
Total assets	35	44	79	53	30	83
Liabilities						
Other financial liabilities	(1)	-	(1)	(4)	-	(4)
Total contributors' resources	(78)	-	(78)	(79)	-	(79)
Total liabilities	(79)	-	(79)	(83)	-	(83)

10. 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.

11. Events after the reporting period

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

12. Related parties

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

The Fund has accrued expenses, including audit fees, of €0.3 million that are payable to the Bank as at 31 December 2013 (2012: €1.7 million). Fees are paid to the Bank based on budgeted expenditure as approved by the World Bank Trustee for the CIF. Accrued expenses payable to the Bank are disclosed in note 7.

Contributions received and receivable from the contributors are outlined in note 4. Interest income reimbursable to the contributors is disclosed in note 7.

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

Report on the financial statements

We have audited the financial statements of the EBRD CIF 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 12. 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 EBRD CIF 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 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

Deloitte LLP
Chartered Accountants
London, United Kingdom
9 April 2014