European Bank
for Reconstruction and Development

EBRD SME Special Fund

Annual Financial Report
31 December 2013

The EBRD SME Special Fund

Contents

The EBRD SME Special Fund

Statement of comprehensive income

For the year ended 31 December 2013

	Note	Year to 31 December 2013 € 000	Restated* Year to 31 December 2012 € 000
Interest income		**5**	6
Interest income refunded		**(5)**	(6)
Disbursements for technical cooperation		**(878)**	(181)
Client cost sharing for technical cooperation		**65**	-
Foreign exchange movement	3	**(145)**	(68)
Other operating expenses	4	**(7)**	(8)
Net loss and comprehensive expense for the year		**(965)**	(257)
Attributable to:			
Contributors		**(965)**	(257)

Balance sheet

At 31 December 2013

	Note	31 December 2013 € 000	31 December 2013 € 000	Restated* 31 December 2012 € 000	Restated* 31 December 2012 € 000
Assets					
Placements with credit institutions			**2,853**		3,747
Business Advisory Services Programme advances			**54**		94
Client cost sharing for technical cooperation receivable			**8**		-
Total assets			**2,915**		3,841
Liabilities					
Other financial liabilities	5		**113**		74
Contributors' resources					
Contributions		**33,393**		33,393	
Reserves and accumulated loss	3	**(30,591)**		(29,626)	
Total contributors' resources			**2,802**		3,767
Total liabilities			**2,915**		3,841

*Refer to note 3

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Statement of changes in contributors' resources

For the year ended 31 December 2013

	Restated* Contributions € 000	Restated* Accumulated loss € 000	Restated* Total € 000
At 31 December 2011	33,393	(29,369)	4,024
Total comprehensive expense for the year	-	(257)	(257)
At 31 December 2012	33,393	(29,626)	3,767
Total comprehensive expense for the year	-	(965)	(965)
At 31 December 2013	**33,393**	**(30,591)**	**2,802**

Statement of cash flows

For the year ended 31 December 2013

	€ 000	Year to 31 December 2013 € 000	€ 000	Restated* Year to 31 December 2012 € 000
Cash flows used in operating activities				
Net loss for the year	(965)		(257)	
Adjustment for:				
Interest income	(5)		(6)	
Interest income refunded	5		6	
Foreign exchange movement	145		68	
	(820)		(189)	
Interest income received	5		6	
Decrease/(increase) in operating assets:				
Business Advisory Services Programme advances	40		(94)	
Client cost sharing for technical cooperation receivable	(8)		-	
Increase in operating liabilities				
Accrued expenses	35		39	
Net cash used in operating activities		(748)		(238)
Net decrease in cash and cash equivalents		(748)		(238)
Cash and cash equivalents at the beginning of the year		3,747		4,052
Effect of foreign exchange rate changes		(146)		(67)
Cash and cash equivalents at 31 December		2,853		3,747

*Refer to note 3

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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 and on a going concern basis.

New and amended IFRS mandatorily effective for the current reporting period

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

Pronouncement	Nature of change	Impact
IFRS 7 (Amendment) Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities	Requires disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.	No changes of presentation required
IFRS 10: Consolidated Financial Statements	Establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.	Not applicable
IFRS 11: Joint Arrangements	Establishes the principles for financial reporting by parties to a joint arrangement.	No changes of presentation required
IFRS 12: Disclosure of Interests in Other Entities	Consolidates the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.	Not applicable
IFRS 13: Fair Value Measurement	Defines fair value, establishes a single framework for measuring fair value and requires disclosures about fair value measurements.	No change to Fund's fair value procedures
IAS 1 (Amendment): Presentation of Financial Statements	Requires entities to group items presented in other comprehensive income ("OCI") on the basis of whether they are potentially re-classifiable to profit or loss.	No changes of presentation required
IAS 19 (Amendment): Employee Benefits	Various amendments to the standard including: • elimination of the option to defer the recognition of gains and losses through the use of the corridor method; • streamlining the presentation of changes in assets and liabilities arising from defined benefit plans; • enhancing disclosure requirements for defined benefit plans	Not applicable
IAS 27 (Reissued): Separate Financial Statements	Requires an entity preparing separate financial statements to account for investments in subsidiaries, joint ventures and associates at cost or in accordance with IFRS 9: Financial Instruments.	Not applicable
IAS 28 (Reissued): Investments in Associates and Joint Ventures	Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	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. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value
If either of the two criteria above is not met, the debt instrument is classified as 'fair value through profit or loss'. The Fund does not currently have any such assets in this category.

Financial liabilities

The Fund has not adopted early that part of IFRS 9 which relates to financial liabilities and therefore still applies IAS 39: Financial Instruments.

All financial liabilities are measured at amortised cost.

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.

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 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 income statement.

Contributions

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

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.

Interest

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

Client cost sharing for technical cooperation

Client cost sharing for technical cooperation represents reimbursements in relation to consultancy services provided. A letter of engagement indicates expected amounts and timing of payments, however these are not considered due until an invoice is issued from the Fund to the client. Amounts are recorded as income when invoiced.

Taxation

In accordance with Article 53 of the Agreement Establishing the European Bank for Reconstruction and Development ("the AEB") ("the Bank"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Risk management

The Fund was established to assist the development of small (including micro) and medium-size enterprises ("SMEs") in Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan (collectively, the "Eligible Countries").

To achieve this, the resources of the Fund may be used to:
- participate alongside the Bank in providing loans to SMEs;
- finance technical assistance which includes procuring consultancy services to assist SMEs; and
- provide guarantees on a first loss basis on the Bank's SME loans.

As the primary purpose of the Fund is to assist the development of SMEs rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

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's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources, as well as client cost sharing amounts receivable. For banks with which the Fund places its cash, internal credit ratings are determined by Risk Management and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through the synthesis of externally provided credit research and market data, including approved external agency ratings. All individual counterparty credit lines for banks are measured, monitored and reviewed by Risk Management annually.

At year end the Fund's cash was placed with a financial institution which ranked in the second highest internal credit rating assigned by the Bank's Risk Management department. This rating approximated to a Standard & Poor's equivalent rating in the range of AA+ to AA-.

Business Advisory Services Programme advances are held with institutions in local countries of operations and may be risk rated below A-; however balances are monitored to ensure credit exposure is minimal.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2013 and 31 December 2012.

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 placement is repriced to market interest rates within one month, therefore the exposure to interest rate risk is considered to be minimal.

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

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

	Euro 2013 € 000	United States dollars 2013 € 000	Total € 000
Total assets	54	2,861	2,915
Total liabilities	(99)	(2,816)	(2,915)
Net currency position at 31 December 2013	**(45)**	**45**	**-**

	Euro 2012 € 000	United States dollars 2012 € 000	Total € 000
Total assets	94	3,747	3,841
Total liabilities	20,182	(24,023)	(3,841)
Net currency position at 31 December 2012	20,276	(20,276)	-

Based on the five year rolling average of absolute movements in the United States dollar to euro exchange rate, the potential impact on the Fund's net profit from a 6 per cent strengthening or weakening (2012: 7 per cent) is immaterial (2012: €1,326,000).

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 technical assistance, loan 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 recognises contributions received as a liability, which may be returned to a contributor upon termination of a contribution agreement. Amounts returned are based on the Fund's net assets and take into account any existing commitments. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

The EBRD SME Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board of Directors ("the Board") of the Bank on 28 June 2000 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 on 24 July 2000 following the signing of the first contribution agreement.

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

The Fund was established in accordance with Article 18 of the 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. The objective of the Fund is to assist the development of SMEs in the Eligible Countries.

2. President's responsibilities

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

3. Restatement

Contributions are accounted for as a liability given the right of a contributor to seek a return of its contributions, subject to outstanding commitments and obligations, in circumstances other than the termination of the Fund. As at December 2012 the liability due back to the contributor was considered to be their initial contribution translated into euro at the exchange rate prevailing at that time and at each subsequent reporting date. However, upon termination or withdrawal from the fund the contributor is entitled to their share of the net assets of the fund or relevant sub-fund at that point in time, i.e. their contribution plus retained earnings/less accumulated losses associated with their contribution. The prior year restatement reflects the impact of this change.

The effect of this restatement resulted in a decrease to retained earnings and a corresponding increase to contributions received of €8,939,000 at 31 December 2011, and a decrease to the foreign exchange movement of €441,000 in 2012 resulting in a corresponding increase to contributions received of €441,000 at 31 December 2012.

4. Other operating expenses

Other operating expenses represents 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.

5. Other financial liabilities

	2013	2012
	€ 000	€ 000
Interest income reimburseable to contributor	**14**	10
Disbursements for technical cooperation payable	**92**	57
Audit fees payable	**7**	7
At 31 December	**113**	74

6. Undrawn Commitments

	2013	2012
	€ 000	€ 000
Total commitments approved	**25,625**	24,774
Total disbursements for technical cooperation	**(25,344)**	(24,466)
Undrawn commitments at 31 December	**281**	308

This represents amounts for which the Fund has contracted but for which the transaction or service was not undertaken at 31 December 2013

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

All assets and liabilities in the balance sheet are classified as current for both 2013 and 2012.

8. Fair value of financial assets and financial liabilities

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

9. Events after the reporting period

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

10. Related parties

The Fund's related parties are the Bank and the contributors, including the United States Government.

The Bank is entitled to charge the Fund a management fee of an amount equal to 1.25 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 4.

Interest income reimbursable to the contributors is disclosed in note 5. Cumulative contributions received to date are €33,393,000 (2012: €33,393,000).

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 the EBRD SME Special Fund ("the Fund") for the year ended 31 December 2013 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in 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 10. 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 SME 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