European Bank
for Reconstruction and Development

The SME Finance Facility Special Fund

Annual Financial Report
31 December 2013

The SME Finance Facility Special Fund

Contents

The SME Finance Facility Special Fund

Statement of comprehensive income

For the year ended 31 December 2013

	Note	Year to 31 December 2013 € 000	Year to 31 December 2012 € 000
Interest income		8	90
Net unrealised losses from share investments		-	(51)
Disbursements for technical cooperation	3	(4,479)	(3,309)
Incentive fees		(9,339)	(6,129)
Performance fees		(478)	(522)
Other operating expenses	4	(23)	-
Net loss and comprehensive expense for the year		(14,311)	(9,921)
Attributable to:			
Contributor		(14,311)	(9,921)

Balance sheet

At 31 December 2013

	Note	31 December 2013 € 000	31 December 2012 € 000
Assets			
Placements with credit institutions		39,670	49,664
Contributions receivable		-	1,832
Other financial assets	5	1	2
Total assets		39,671	51,498
Liabilities and contributor's resources			
Other financial liabilities	7	6,669	4,185
Total liabilities		6,669	4,185
Contributions	8	191,390	191,390
Reserves and accumulated loss		(158,388)	(144,077)
Total contributor's resources		33,002	47,313
Total liabilities and contributor's resources		39,671	51,498

The SME Finance Facility Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2013

	Contributions	General reserve	Accumulated loss	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2011	191,390	-	(134,156)	57,234
Total comprehensive expense for the year	-	-	(9,921)	(9,921)
At 31 December 2012	191,390	-	(144,077)	47,313
Total comprehensive expense for the year	-	-	(14,311)	(14,311)
At 31 December 2013	**191,390**	**-**	**(158,388)**	**33,002**

Statement of cash flows

For the year ended 31 December 2013

		Year to 31 December 2013		Year to 31 December 2012
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	(14,311)		(9,921)	
Adjustments for:				
Interest income	(8)		(90)	
Net unrealised losses from share investments	-		51	
Bank charges reimbursed	(2)		-	
	(14,321)		(9,960)	
Interest income received	9		125	
Decrease in operating assets				
Bank charges recoverable	2		-	
Increase in operating liabilities				
Accrued expenses	2,484		2,210	
Net cash used in operating activities		(11,826)		(7,625)
Cash flows from financing activities				
Contributions received	1,832		-	
Net cash from financing activities		1,832		-
Net decrease in cash and cash equivalents		(9,994)		(7,625)
Cash and cash equivalents at the beginning of the year		49,664		57,289
Cash and cash equivalents at 31 December		39,670		49,664

The SME Finance Facility Special Fund

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, 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 SME Finance Facility Special Fund ("the Fund"). The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in "Critical accounting estimates and judgements" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period

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

Pronouncement	Nature of change	Impact
IFRS 7 (Amendment) Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities	Requires disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.	No changes of presentation required
IFRS 10: Consolidated Financial Statements	Establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.	No change to the Fund's accounting for its equity investments
IFRS 11: Joint Arrangements	Establishes the principles for financial reporting by parties to a joint arrangement.	No changes of presentation required
IFRS 12: Disclosure of Interests in Other Entities	Consolidates the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.	No changes of presentation required
IFRS 13: Fair Value Measurement	Defines fair value, establishes a single framework for measuring fair value and requires disclosures about fair value measurements.	No change to Fund's fair value procedures
IAS 1 (Amendment): Presentation of Financial Statements	Requires entities to group items presented in other comprehensive income ("OCI") on the basis of whether they are potentially re-classifiable to profit or loss.	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.	No change as Fund accounts for such investments on a fair value basis

IFRS not yet effective but adopted early

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

See the accounting policy for financial assets for more details.

IFRS not yet effective and not adopted early

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

Pronouncement	Nature of change	Potential Impact
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010) Hedge accounting (November 2013) There is currently no mandatory effective date for application of this standard.	The Fund is yet to assess the potential impact of adopting this standard
IAS 32 (Amendment) Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities	Updates the application guidance and basis of conclusions in relation to the offsetting of financial assets and financial liabilities. Effective for accounting periods beginning on or after 1 January 2014.	Not applicable
Investment entities – amendments to IFRS 10, IFRS 12 and IAS 27	Introduce 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'. All share investments held by the Fund are measured at fair value through profit or loss

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation technique used is net asset value.

The Fund's share investments are recognised on a trade date basis.

At initial recognition, the Fund measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur.

Financial liabilities

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

All financial liabilities are measured at amortised cost.

Contributor's resources

The Fund recognises contributions received from the contributor as equity on the basis that the termination of the contribution agreement would lead to the winding up of the Fund and the distribution of the residual assets to the contributor.

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.

Contributions

Outstanding contributions are recognised as receivables on the balance sheet on the date of signature of a contribution agreement by the European Bank for Reconstruction and Development ("the Bank") and a 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.

Performance fees

Performance fees, which represent payments to banks and leasing companies for lending to small and medium-sized enterprises (SMEs), are recorded as expenditure over a five year period during which the incentive can be earned by the banks and leasing companies if performance criteria with respect to sub-loan portfolio quality are met.

Incentive fees

Incentive fees represent payments made to banks for on-payment to sub-borrowers to encourage higher energy efficiency investment behaviours. Fees are recognised as a liability once the sub-project has been verified by the verification consultant.

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.

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.

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 principal area in which such judgment is used is in the valuation of unlisted share investments. The Fund's outstanding share investments at 31 December 2013 are considered to have nil value (2012: nil).

The SME Finance Facility Special Fund

Risk management

The Fund was established to alleviate the financing problems of SMEs in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Turkey ("the Accession countries"). To achieve this, the Fund's resources may be used to:

- finance technical cooperation, which includes procuring consultancy services to assist participating banks and leasing companies which on lend or extend leases to SMEs;
- provide performance fees or other approved incentive fees to PFIs and to sub-borrowers under the General SME and SME Energy Efficiency Sub-Window;
- invest in equity funds which will invest in individual SMEs; and
- finance technical cooperation involving technical assistance related to preparation of sustainable energy projects, project preparation, marketing, training for PBs staff, feasibility and/or energy audits of Sub-projects and verification.

As the primary purpose of the Fund is to assist the financing of SMEs in the Accession countries rather than generate profits, not all financial risks are actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate and equity price risk.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Fund may also be exposed to concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector or obligor, or to a particular type of instrument or individual transaction.

The Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could be impaired.

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

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

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

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

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

The SME Finance Facility Special Fund

The Bank conducts reviews of exposures within the Banking portfolio. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. For share investments it also reviews the fair value. At 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.

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.

[1] Probability of default.

Placements with credit institutions
The Fund's placements with credit institutions were all internally risk rated between 2 and 3 (approximately AA++ to AA- in terms of S&P equivalent).

Other financial assets
Other financial assets represent interest receivable from the Fund's placements with credit institutions and bank charges refundable from the Bank to the Fund.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The driver of market risk for the Fund is interest rate risk.

Market risk management and measurement

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

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

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

Foreign exchange risk

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

The Fund does not hold any assets or liabilities of non-euro denomination, nor does it have any non-euro commitments, hence, it is not exposed to any foreign exchange risk.

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund's share investments are measured at nil value at the end of the year.

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 and equity investments are financed from the resources of the Fund, which comprises contributions received and investment income.

Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund also recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the Fund's exposure to liquidity risk is considered to be minimal.

The SME Finance Facility 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 at its meeting of 7 April 1999 and is administered, inter alia, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. On 19 April 1999, the Bank entered into a contribution arrangement in respect of the Fund with the European Union ("EU").

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 Fund comprises two windows: (i) the Loan, Guarantee and Leasing Window (incorporating the Rural Sub-Window and the SME Energy Efficiency Sub-Window) and (ii) the Equity Window.

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 € 000	Disbursements € 000	Undrawn commitments € 000
Total projects			
At 31 December 2011	56,097	49,701	6,396
Movement in the year	1,921	3,309	(1,388)
At 31 December 2012	58,018	53,010	5,008
Movement in the year	2,086	4,479	(2,393)
At 31 December 2013	**60,104**	**57,489**	**2,615**

4. Other operating expenses

Other operating expenses represent a management fee payable to the Bank which is set at 1.25 per cent of each contribution instalment.

5. Other financial assets

	2013 € 000	2012 € 000
Interest receivable	1	-
Bank charges recoverable	-	2
At 31 December	**1**	2

6. Share investments

IFRS 7 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

No reasonably plausible alternative valuations have been determined, as the effect on the financial statements is considered immaterial.

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

	2013	2012
	€ 000	€ 000
Outstanding disbursements		
At 1 January	876	876
At 31 December	876	876
Fair value adjustment		
At 1 January	(876)	(825)
Movement in fair value revaluation	-	(51)
At 31 December	(876)	(876)
Fair value at 31 December	-	-

7. Other financial liabilities

	2013	2012
	€ 000	€ 000
Disbursements for technical cooperation payable	3,363	2,204
Incentive fees payable	3,181	1,981
Performance fees payable	102	-
Operating expenses payable	23	-
At 31 December	6,669	4,185

8. Contributions

Contributions received and receivable from the EU are set out below:

	2013	2012
	€ 000	€ 000
Cumulative contributions received	191,390	189,558
Contribution receivable	-	1,832
Total contributions at 31 December	191,390	191,390

9. Undrawn commitments

	2013	2012
	€ 000	€ 000
Undrawn share commitments	819	819
Disbursements for technical cooperation	2,615	5,008
Incentive fees	16,044	27,484
Performance fees	1,365	5,176
At 31 December	20,843	38,487

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

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

	Current 2013 € 000	Total 2013 € 000	Current 2012 € 000	Non-current 2012 € 000	Total 2012 € 000
Assets					
Placements with credit institutions	**39,670**	**39,670**	49,664	-	49,664
Other financial assets	**1**	**1**	2	-	2
Contributions receivable	**-**	**-**	-	1,832	1,832
Total assets	**39,671**	**39,671**	49,666	1,832	51,498
Liabilities					
Other financial liabilities	**(6,669)**	**(6,669)**	(4,185)	-	(4,185)
Total liabilities	**(6,669)**	**(6,669)**	(4,185)	-	(4,185)

11. Fair value of financial assets and liabilities

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

12. Events after the reporting period

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

13. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 1.25 per cent of contributions received. Total management fees paid by the Fund to the Bank in 2013 were €22,900 (2012: nil). Of this, €22,900 was payable by the Fund to the Bank at 31 December 2013 (2012: nil). External auditor's remuneration in 2013 of €6,500 (2012: €7,700) is payable by the Bank from this management fee. 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. During 2013 the Bank reimbursed the Fund €5,000 of bank charges (2012: €1,700), of which €400 are receivable as at 31 December 2013 (2012: €1,700).

Contributions received and receivable from the contributor are outlined in note 8.

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 SME Finance Facility 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 contributor's resources, the statement of cash flows for the year then ended together with the accounting policies, the risk management section and the related notes 1 to 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 SME Finance Facility 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 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
9 April 2014