European Bank
for Reconstruction and Development

The Russia Small Business Technical Cooperation Special Fund

Annual Financial Report
31 December 2016

The Russia Small Business Technical Cooperation Special Fund

Contents

The Russia Small Business Technical Cooperation Special Fund

Income statement

For the year ended 31 December 2016	Note	Year to 31 December 2016 € 000	Year to 31 December 2015 € 000
Interest income			
From credit institutions		**10**	5
Disbursements for technical cooperation		**(789)**	(748)
Repayments of disbursements for technical cooperation		**-**	8
Other operating expenses	3	**(7)**	(8)
Foreign exchange movement		**4**	20
Net loss for the year		**(782)**	(723)
Attributable to:			
Contributors		**(782)**	(723)

Statement of comprehensive income

For the year ended 31 December 2016	Year to 31 December 2016 € 000	Year to 31 December 2015 € 000
Net loss for the year	**(782)**	(723)
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	**72**	447
Total comprehensive expense for the year	**(710)**	(276)
Attributable to:		
Contributors	**(710)**	(276)

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

Balance sheet

At 31 December 2016	Note	€ 000	31 December 2016 € 000	€ 000	31 December 2015 € 000
Assets					
Placements with credit institutions			**3,163**		3,750
Total assets			**3,163**		3,750
Liabilities and contributors' resources					
Other financial liabilities	4		**311**		188
Total liabilities			**311**		188
Contributions	5	**69,580**		69,580	
Reserves and accumulated loss		**(66,728)**		(66,018)	
Total contributors' resources			**2,852**		3,562
Total liabilities and contributors' resources			**3,163**		3,750

The Russia Small Business Technical Cooperation Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2016

	Contributions	General reserve	Accumulated loss	Total
	€ 000	**€ 000**	**€ 000**	**€ 000**
At 31 December 2014	69,580	639	(66,381)	3,838
Total comprehensive income/(expense) for the year	-	447	(723)	(276)
As 31 December 2015	69,580	1,086	(67,104)	3,562
Total comprehensive income/(expense) for the year	-	72	(782)	(710)
As 31 December 2016	**69,580**	**1,158**	**(67,886)**	**2,852**

Statement of cash flows

For the year ended 31 December 2016

	Year to 31 December 2016		Year to 31 December 2015	
	€ 000	**€ 000**	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	**(782)**		(723)	
Adjustment for:				
Interest income	**(10)**		(5)	
Foreign exchange movement	**(4)**		(20)	
	(796)		(748)	
Interest income received	**10**		5	
Increase in operating liabilities				
Accrued expenses	**123**		15	
Net cash used in operating activities		**(663)**		(728)
Net decrease in cash and cash equivalents		**(663)**		(728)
Cash and cash equivalents at the beginning of the year		**3,750**		4,011
Effect of foreign exchange rate changes		**76**		467
Cash and cash equivalents at 31 December		**3,163**		3,750

The Russia Small Business Technical Cooperation 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 and have been prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the policies of The Russia Small Business Technical Cooperation Special Fund ("the Fund"). The Fund does not have any areas with accounting estimates and judgements for the years presented.

New and amended IFRS mandatorily effective for the current reporting period
There are a number of amendments to standards effective for the current reporting period which have no or negligible impact on the Fund's financial statements, namely:

- IFRS 11: Joint Arrangements
- IAS 1: Presentation of Financial Statements
- IAS 16: Property, Plant and Equipment
- IAS 38: Intangible Assets

IFRS not yet mandatorily effective but adopted early
IFRS 9: Financial Instruments is the IASB's replacement project for IAS 39. The Standard has developed in phases and was completed in July 2014 with a mandatory application date for annual reporting periods beginning on or after 1 January 2018. The Fund adopted the first phase 'recognition and measurement of financial assets' (November 2009) in its 2012 financial statements. See the accounting policy for financial assets for more details.

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

Pronouncement	Nature of change	Potential Impact
Amendments to: IFRS 2: Share-based Payment	Accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled. Effective for annual reporting periods beginning on or after 1 January 2018.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 4: Insurance Contracts	Provides guidance for insurers in applying IFRS 9: Financial Instruments with IFRS 4: Insurance Contracts. Effective for annual reporting periods beginning on or after 1 January 2018.	The Fund considers that this standard is not applicable to its operations.
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010). Hedge accounting (November 2013). Impairment methodology and introduction of 'fair value through other comprehensive income' measurement category for financial assets represented by simple debt instruments (July 2014). IFRS 9 to be adopted in its entirety for annual reporting periods beginning on or after January 1, 2018.	The Fund is yet to assess the potential impact of adopting this standard.

Amendments to: IFRS 10: Consolidation Financial Statements and IAS 28: Investments in Associates and Joint Ventures	Provides guidance for accounting for the loss of control of a subsidiary as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Effective for annual reporting periods beginning on or after a date to be determined by the IASB.	The Fund considers that this amendment has no applicability to its existing operations.
IFRS 15: Revenue from Contracts with Customers	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Effective for annual reporting periods beginning on or after 1 January 2018.	The Fund is yet to assess the potential impact of adopting this standard.
IFRS 16: Leases	Sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). Effective for annual reporting periods beginning on or after 1 January 2019.	The Fund considers that this amendment has no applicability to its existing operations.
Amendments to: IAS 7: Statement of Cash Flows	An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Effective for annual reporting periods beginning on or after 1 January 2017.	This is a disclosure requirement only which the Fund will comply with in 2017.
Amendments to: IAS 12: Income Taxes	Clarifies the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value Effective for annual reporting periods beginning on or after 1 January 2017.	The Fund is exempt from all forms of direct taxes and so this Standard is not applicable.

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

General reserve

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

Statement of cash flows

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

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 denominated in currencies other than USD are re-translated into USD at spot rates ruling at 31 December 2016 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 2016 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 2016 with the resultant exchange gains and losses taken to other comprehensive income.

Contributions

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

Interest

Interest is recorded on an accruals basis. All interest 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 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 finance technical cooperation for the design and implementation of the pilot, extended pilot and full-scale phase operations of the Russia Small Business Programme ("the Programme").

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

Risk governance

The Fund follows the Bank's risk governance procedures as below:

The Bank's overall framework for identifying and managing risks is underpinned by the Banking Vice-Presidency being the first line of defence related to debt and equity operations and an independent second line of defence control functions, including the Risk Management department, Office of the Chief Compliance Officer, Environmental and Social Department, Finance Department, Evaluations Department and other relevant units. An Internal Audit Department acts as third line of defence and independently assesses the effectiveness of the processes within the first and second lines of defence. The Vice President, Risk and Compliance, Chief Risk Officer (CRO) is responsible for ensuring the independent risk management of the Banking exposures, including adequate processes and governance structure for independent identification, measurement, monitoring and mitigation of risks incurred by the Bank. The challenge of the control functions, review of their status and assessment of their ability to perform duties independently falls within the remit of the Audit Committee of the Board.

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolio across all sectors and countries, and provides advice on Risk Management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Risk Committee is chaired by the VP Risk and Compliance, CRO.

The Managing Director, Risk Management reports to the VP Risk and Compliance, CRO and leads the overall management of the department. Risk Management provides an independent assessment of risks associated with individual investments undertaken by the Bank, and performs an ongoing review of the portfolio to monitor credit, market and liquidity risks and to identify appropriate risk management actions. It also assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and ensures that adequate systems and controls are put in place for identifying and managing operational risks across the Bank. It develops and maintains the Risk Management policies to facilitate Banking and Treasury operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:
• Provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied; and
• Support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision making.

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. 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 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 single financial institution which ranked in the second highest internal credit rating risk category 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-.

The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2016 and 31 December 2015.

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 risk 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 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's net exposure to functional currency foreign exchange risk (euro to USD) is considered to be minimal, as outlined in the table below.

	Euro 2016 € 000	**United States dollars 2016 € 000**	**Total 2016 € 000**
Total assets	-	3,163	**3,163**
Total liabilities	(131)	(180)	**(311)**
Net currency position at 31 December 2016	**(131)**	**2,983**	**2,852**

	Euro 2015 € 000	United States dollars 2015 € 000	Total 2015 € 000
Total assets	-	3,750	3,750
Total liabilities	(188)	-	(188)
Net currency position at 31 December 2015	(188)	3,750	3,562

Based on the average five year absolute rolling average movement in the USD to euro exchange rate, the potential impact on other comprehensive income due to presentational currency movement from a 5 per cent strengthening or weakening (2015: 5 per cent) is €0.2 million (2015: €0.2 million).

C. Liquidity risk

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

The Fund's Rules and Regulations require that technical assistance is 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 recognises contributions received as equity, which will only be returned to the contributors as part of the residual assets upon termination of the Fund. As a result, the exposure to liquidity risk is considered to be minimal.

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 18 October 1993 and is administered, *inter alia*, under the terms of the Rules and Regulations of the Fund. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from the European Currency Unit to United States dollars. The full-scale phase of the Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

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

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

2. President's responsibilities

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

3. Other operating expenses

Other operating expenses represent external auditor's remuneration of €6,700 (2015: €7,700). The Bank pays the remuneration on behalf of the Fund, who in turn reimburses the Bank in full. At 31 December 2016 €6,700 (2015: €7,700) is payable to the Bank in relation to the 2016 external audit. In 2014 the Bank approved an extension of the term of appointment from four years to five with a maximum of two consecutive terms. Deloitte LLP (UK) completed its first four-year term in 2014 and has been re-appointed for the five year period 2015-2019.

The fall in the fee for the audit paid to the Fund's external auditor from 2015 to 2016 is attributable to movements in the value of pound sterling. The pound sterling equivalent of these fees was £5,800 (2015: £5,700).

4. Other financial liabilities

	2016	2015
	€ 000	€ 000
Disbursements for technical cooperation payable	**304**	180
Audit fees payable	**7**	8
At 31 December	**311**	188

5. Contributions

Contributions received are set out below:

	2016		2015	
Cumulative contributions received	**€ 000**	**%**	€ 000	%
Canada	**4,309**	**6.2**	4,309	6.2
France	**4,980**	**7.2**	4,980	7.2
Germany	**3,025**	**4.3**	3,025	4.3
Italy	**1,360**	**2.0**	1,360	2.0
Japan	**3,295**	**4.7**	3,295	4.7
The Russia Small Business Investment Special Fund	**8,848**	**12.7**	8,848	12.7
Switzerland	**1,244**	**1.8**	1,244	1.8
United Kingdom	**12,824**	**18.4**	12,824	18.4
United States of America	**29,695**	**42.7**	29,695	42.7
At 31 December	**69,580**	**100.00**	69,580	100.00

6. Undrawn commitments

	2016	2015
	€ 000	€ 000
Commitments approved	82,106	80,759
Disbursements for technical cooperation (including foreign exchange movement)	(81,277)	(80,499)
Undrawn commitments at 31 December	**829**	260

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

All assets and liabilities on the balance sheet are classified as current for both 2016 and 2015.

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 events since the reporting date that would require disclosure or adjustment to these financial statements.

10. Related parties

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

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. As there were no contributions received in 2016, there were no management fees paid by the Fund to the Bank (2015: nil) and there was no accrued management fee payable by the fund to the Bank at 31December 2016 (2015: nil).

Audit fees payable to the Bank are outlined in note 3.

Contributions received from the contributors are outlined in note 5.

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

Report on the financial statements

Opinion

We have audited the financial statements of the Russia Small Business Technical Cooperation Special Fund ("the Fund") for the year ended 31 December 2016 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, the accounting policies, the risk management statement and the related notes 1 to 10.

In our opinion the Financial Statements present fairly, in all material respects, the financial position of the Russia Small Business Technical Cooperation Special Fund as at 31 December 2016 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 (IASB).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

President's responsibility for the financial statements

The President is responsible for the preparation and fair presentation of the Financial Statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as the President determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the President is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The President is responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the President.

- Conclude on the appropriateness of the President's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

We also report to you if, in our opinion, the financial statements are not in agreement with the accounting records, if the proper accounting records have not been kept, or if we have not received all the information and explanations we require for our audit. We have nothing to report in connection with these matters.

Other matters

This report, including the opinion, has been prepared for, and only for, the Bank in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990, and for the use of the contributor and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this Report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants
London, United Kingdom
5 April 2017