European Bank
for Reconstruction and Development

The EBRD GEF Investment Special Fund

Annual Financial Report
31 December 2015

The EBRD GEF Investment Special Fund

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The EBRD GEF Investment Special Fund

Income statement

For the year ended 31 December 2015	Note	Year to 31 December 2015 € 000	Period to 31 December 2014 € 000
Interest income		**5**	1
Interest income refunded		**(5)**	(1)
Disbursements for technical cooperation	3	**(118)**	-
Foreign exchange movements		**(6)**	-
Management fee expense	7	**(1,761)**	(177)
Net loss for the year		**(1,885)**	(177)
Attributable to:			
Contributor		**(1,885)**	(177)

Statement of comprehensive income

For the year ended 31 December 2015	2015 € 000	2014 € 000
Net loss for the year	**(1,885)**	(177)
Other comprehensive expense		
Foreign exchange movement between functional and presentational currencies	**(34)**	(2)
Total comprehensive expense	**(1,919)**	(179)
Attributable to:		
Contributor	**(1,919)**	(179)

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

Balance sheet

At 31 December 2015	€ 000	31 December 2015 € 000	€ 000	31 December 2014 € 000
Assets				
Placements with credit institutions		**24,028**		1,894
Total assets		**24,028**		**1,894**
Liabilities				
Management fee payable		**1,772**		-
Disbursements for technical cooperation		**9**		-
Interest refundable		**4**		1
Contributor's resources				
Contributions	**24,341**		2,072	
Reserves and accumulated loss	**(2,098)**		(179)	
Total contributor's resources		**22,243**		1,893
Total liabilities		**24,028**		1,894

The EBRD GEF Investment Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2015	Contributions	General reserve	Accumulated loss	Total
	€ 000	€ 000	€ 000	€ 000
At 7 May 2014	-	-	-	-
Contributions received and receivable	1,958	-	-	1,958
Revaluation of contributions	114	-	-	114
Total comprehensive expense	-	(2)	(177)	(179)
At 31 December 2014	2,072	(2)	(177)	1,893
Contributions received	22,139	-	-	22,139
Revaluation of contributions	130	-	-	130
Total comprehensive expense	-	(34)	(1,885)	(1,919)
At 31 December 2015	**24,341**	**(36)**	**(2,062)**	**22,243**

Statement of cash flows

For the year ended 31 December 2015		Year to 31 December 2015		Period to 31 December 2014
	€ 000	€ 000	€ 000	€ 000
Cash flows used in operating activities				
Net loss for the year	(1,885)		(177)	
Adjustment for:				
Interest income	(5)		(1)	
Foreign exchange movement	6		-	
Interest income refunded	5		1	
Management fee expense	1,761		177	
	(118)		-	
Interest income received	5		1	
Interest refunded	(2)		-	
Management fees paid	-		(177)	
Increase in operating liabilities:				
Disbursements for technical co-operation	9		-	
Net cash used in operating activities		(106)		(176)
Cash flows from financing activities				
Contributions received	22,139		1,958	
Net cash from financing activities		22,139		1,958
Net increase in cash and cash equivalents		22,033		1,782
Cash and cash equivalents at the beginning of the year		1,894		-
Effect of foreign exchange rate changes		101		112
Cash and cash equivalents at 31 December		24,028		1,894

The EBRD GEF Investment 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 the period presented, unless otherwise stated.

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention and have been prepared on a going concern basis.

New and amended IFRS mandatorily effective for the current reporting period

There are no new or amended standards for the current reporting period.

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 2010 financial statements. See the accounting policy for financial assets for more details.

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential Impact
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010). Hedge accounting (November 2013). Impairment methodology and introduction of 'fair value through other comprehensive income' measurement category for financial assets represented by simple debt instruments (July 2014). IFRS 9 to be adopted in its entirety for annual reporting periods beginning on or after 1 January 2018.	The Fund is yet to assess the potential impact of adopting this standard.
Amendments to: IFRS 10: Consolidation Financial Statements and IAS 28: Investments in Associates and Joint Ventures	Provides guidance for the accounting for the loss of control of a subsidiary as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Effective for annual reporting periods beginning on or after a date to be determined by the IASB.	The Fund is yet to assess the potential impact of adopting this standard.
Amendments to: IFRS 11: Joint Arrangements	Provides guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. Effective for accounting periods beginning on or after 1 January 2016.	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 1: Presentation of Financial Statements	Various amendments to improve presentation and disclosure under IAS 1. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund considers that this standard will have minimal impact on the presentation of its financial statements and the disclosures therein.
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 16: Property, Plant and Equipment and IAS 38: Intangible Assets	Clarification of acceptable methods of depreciation and amortisation. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund considers that this amendment has no applicability to its existing operations.

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 7 May 2014. 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 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 a liability on the basis that the Fund is obligated to return such contributions, upon request of the contributor, 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.

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.

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 2015 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 2015 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 2015 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. They are subsequently re-valued at the year-end exchange rate.

General reserve

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

Interest

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

Taxation

In accordance with Article 53 of the Agreement Establishing the European Bank for Reconstruction and Development ("the AEB") ("the Bank" or "the EBRD") 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.

The EBRD GEF Investment Special Fund

Risk management

The Fund was established to provide financing to promote environmental and sustainable development and cover the incremental costs associated with introducing global environmental benefits to local and regional projects. To achieve this, the Fund will provide concessional loans alongside the Bank's market rate loans, as well as grants in support of technical cooperation and investment incentives.

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 will participate 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.

Risk governance

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

The Bank's overall framework for identification and management of risks is underpinned by: (i) the Banking Vice-Presidency being the "first line of defence" in identifying and managing risks related to debt and equity operations, (ii) independent "second line of defence" control functions, including Risk Management, Office of the Chief Compliance Officer, Environmental and Social Department, Procurement Department, Office of the General Counsel, Evaluations Department and other relevant units, and (iii) Internal Audit Department, which 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 Chief Risk Officer (VP & CRO) is responsible for ensuring independent risk management of the Banking and Treasury 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 fall 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 & CRO.

The Managing Director Risk Management reports directly to the VP & CRO and leads the overall management of the department. Risk Management (i) provides an independent assessment of risks associated with individual investments undertaken by the Bank, (ii) performs an ongoing review of the portfolio to monitor the risk presented by investments from inception to repayment or exit, (iii) assesses and proposes ways to manage risks arising from correlations and concentrations within the portfolio, and (iv) ensures that adequate systems and controls are put in place for identification and management of 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 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 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 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 foreign exchange risk is considered to be minimal, at 31 December 2015 as outlined in the table below.

	Euro € 000	United States dollars € 000	**Total** € 000
Total assets	1,835	22,193	24,028
Total liabilities and contributor's resources	-	(24,028)	(24,028)
Net currency position at 31 December 2015	**1,835**	**(1,835)**	**-**

At 31 December 2014, all assets and liabilities are held in USD.

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 is €0.1 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 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.

The EBRD GEF Investment 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 May 2014 and is administered, inter alia, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund and the Financial Procedures Agreement ("the FPA").

The FPA was signed between the EBRD and the International Bank for Reconstruction and Development as the Trustee of the Global Environment Facility ("the Trustee") on 6 November 2006. A new FPA was signed on 30 September 2009 superseding the previous version, and further amended on 9 March 2014.

The Fund became operational upon approval of the Rules on 7 May 2014.

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 finance lending, guarantee or investment operations and provide financing for technical cooperation and investment incentives.

The FPA was extended on 3 December 2015 to a termination date of 30 December 2019. The FPA allows either the Bank or the Trustee to terminate the Fund by giving 60 days' notice. The Rules allow the Board of Directors to terminate the Fund after consultation between the Bank and the Trustee.

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 7 May 2014	-	-	-
Movement in the period	-	-	-
At 31 December 2014	-	-	-
Movement in the period	118	(118)	-
At 31 December 2015	**118**	**(118)**	**-**

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

All assets and liabilities presented on the balance sheet are classified as current as at 31 December 2015.

5. 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.

6. 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.

7. Related parties

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

Fees are paid to the Bank based on a fixed fee per project as approved by the GEF Council. The fees paid during the year are disclosed in the income statement. As at 31 December 2015 there are accrued fees of €1.76 million payable to the Bank.

External auditor's remuneration of €7,700 is payable by the Bank from the management fee. 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 was re-appointed for the five year period 2015 - 2019.

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

Report on the financial statements

We have audited the financial statements of the EBRD GEF Investment Special Fund ("the Fund") for the year ended 31 December 2015 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in contributor's resources, the statement of cash flows for the period then ended together with the accounting policies, the risk management statement and the related notes 1 to 7. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards as issued by the International Accounting Standards Board.

President's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's 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 GEF Investment Special Fund as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Other reporting responsibilities

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

Other matters

This report, including the opinion, has been prepared for, and only for, the Bank in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990, and for the use of the contributor's 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
6 April 2016