European Bank
for Reconstruction and Development

The ETC Local Currency Risk Sharing Special Fund

Annual Financial Report
31 December 2015

The ETC Local Currency Risk Sharing Special Fund

Contents

The ETC Local Currency Risk Sharing Special Fund

Income statement

For the year ended 31 December 2015	Note	Year to 31 December 2015 € 000	€ 000	Year to 31 December 2014 € 000	€ 000
Interest income			**47**		41
Financial guarantees movement	3		**808**		528
Other operating expenses	4		**-**		(23)
Net profit for the year			**855**		546
Attributable to:					
Contributors			**855**		546

Statement of comprehensive income

For the year ended 31 December 2015	Year to 31 December 2015 € 000	Year to 31 December 2014 € 000
Net profit for the year	**855**	546
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	**3,397**	3,298
Total comprehensive income for the year	**4,252**	3,844
Attributable to:		
Contributors	**4,252**	3,844

Balance sheet

At 31 December 2015	Note	31 December 2015 € 000	€ 000	31 December 2014 € 000	€ 000
Assets					
Placements with credit institutions			**36,946**		32,987
Total assets			**36,946**		32,987
Liabilities and contributors' resources					
Financial guarantee liability	6		**4,085**		4,378
Total liabilities			**4,085**		4,378
Contributions	5	**31,581**		31,581	
Reserves and accumulated gain/ (loss)		**1,280**		(2,972)	
Total contributors' resources			**32,861**		28,609
Total liabilities and contributors' resources			**36,946**		32,987
Memorandum items					
Guarantees*			**36,946**		32,987

*See section on credit risk exposures on page 9 for additional details.

The ETC Local Currency Risk Sharing Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2015

	Contributions	General reserve	Accumulated loss	Total
	€ 000	**€ 000**	**€ 000**	**€ 000**
At 31 December 2013	29,347	(1,749)	(5,067)	22,531
Contributions received	2,234	-	-	2,234
Total comprehensive income for the year	-	3,298	546	3,844
At 31 December 2014	31,581	1,549	(4,521)	28,609
Contributions received	-	-	-	-
Total comprehensive income for the year	-	3,397	855	4,252
At 31 December 2015	**31,581**	**4,946**	**(3,666)**	**32,861**

Statement of cash flows

For the year ended 31 December 2015		**Year to 31 December 2015**		Year to 31 December 2014
	€ 000	**€ 000**	€ 000	€ 000
Cash flows from operating activities				
Net profit for the year	**855**		546	
Adjustments for:				
Interest income	**(47)**		(41)	
Financial guarantees movement	**(808)**		(528)	
	-		(23)	
Interest income received	**47**		41	
Net cash from operating activities		**47**		18
Cash flows from financing activities				
Contributions received	**-**		2,234	
Net cash from financing activities		**-**		2,234
Net increase in cash and cash equivalents		**47**		2,252
Cash and cash equivalents at the beginning of the year		**32,987**		26,903
Effect of foreign exchange rate changes		**3,912**		3,832
Cash and cash equivalents at 31 December		**36,946**		32,987

The ETC Local Currency Risk Sharing 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 and financial liabilities 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 ETC Local Currency Risk Sharing 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

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 4 April 2011. 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, except for financial guarantees which are measured in accordance with IAS 39, as described under "Financial guarantees" below.

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 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 euro are translated into euro at the exchange rates ruling at the time of the transaction.

Financial guarantees

The Fund's resources are used to guarantee the principal losses of loan investments in the European Bank for Reconstruction and Development ("the Bank's") Programme, limited to the resources of the Fund. When a guarantee is issued, its initial fair value reflects the fees charged for such guarantee, assuming an arm's-length commercial transaction. As the Fund does not charge the Bank any fee for its guarantee, its estimated initial fair value is estimated based on the fee that the Fund might otherwise have charged, given the credit risk attaching to the guaranteed portfolio. This initial fair value is recognised as a financial guarantee liability with a corresponding charge to the income statement. Subsequently the guarantee is measured at the higher of the initial fair value less cumulative amortisation or, if appropriate, the expenditure required to settle the commitment at the balance sheet date. When it is probable that the guarantee will need to be settled and the settlement amount can be reliably estimated, a financial guarantee contract is recognised.

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

Financial guarantee liability
The Fund's method for determining the fair value of financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained within credit risk within the risk management section of the report.

The ETC Local Currency Risk Sharing Special Fund

Risk management

The Fund was established to support an increase in local currency lending in the Early Transition Countries ("the ETCs") by providing guarantees on a first-loss basis for the Bank's Programme.

As the purpose of the Fund is to promote local currency lending in the ETCs rather than to generate a return on its assets, not all financial risks are actively managed by the Fund. Credit risk is jointly managed with the Bank; however the Fund does not hedge against market risk and is hence exposed to interest rate risk 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 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 carrying amounts of financial assets presented on the balance sheet, together with the guarantees as shown under memorandum items, best represents the Fund's maximum exposure to credit risk at 31 December 2015 and 31 December 2014, 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.

Underlying principles and procedures

The Board of Directors ("the Board") approves a document that defines the principles underlying the credit process for the approval, management and review of Banking exposures. The Audit Committee periodically reviews these principles and its review is submitted to the Board for approval.

Individual projects

The Operations Committee reviews all Banking projects prior to their submission for Board approval. The Committee is chaired by the First Vice President Banking and its membership comprises senior managers of the Bank, including the VP & CRO and Managing Director Risk Management. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It 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.

Risk Management conducts reviews of all 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. It also reviews the fair value of equity investments.

Portfolio level review

Risk Management reports on the development of the portfolio as a whole on a quarterly basis to the Audit Committee of the Board. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and various sub-portfolios. It also includes reporting on compliance with all portfolio risk limits including an explanation of any limit breaches.

To identify emerging risk and enable appropriate risk mitigating actions Risk Management also conducts regular Bank-wide (top-down) and country level (bottom-up) stress testing exercises and comprehensive reviews of its investment portfolios. The Bank recognises that any resulting risk mitigation is constrained by the limited geographical space within which the Bank operates.

EBRD internal ratings

Probability of default (PD)

The Bank assigns its internal risk ratings to all counterparties, including borrowers, investee companies, guarantors and sovereigns in the Banking portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external rating agencies. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

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.

<table>
<tr><th>EBRD risk rating category</th><th>EBRD risk rating</th><th>External rating equivalent</th><th>Category name</th><th>Broader category</th></tr>
<tr><td>1</td><td>1.0</td><td>AAA</td><td>Excellent</td><td rowspan="4">Investment Grade</td></tr>
<tr><td>2</td><td>1.7
2.0
2.3/2.5</td><td>AA+
AA
AA-</td><td>Very Strong</td></tr>
<tr><td>3</td><td>2.7
3.0
3.3</td><td>A+
A
A-</td><td>Strong</td></tr>
<tr><td>4</td><td>3.7
4.0
4.3</td><td>BBB+
BBB
BBB-</td><td>Good</td></tr>
<tr><td>5</td><td>4.7
5.0
5.3</td><td>BB+
BB
BB-</td><td>Fair</td><td>Risk class 5</td></tr>
<tr><td>6</td><td>5.7
6.0
6.3</td><td>B+
B
B-</td><td>Weak</td><td>Risk class 6</td></tr>
<tr><td>7</td><td>6.7
7.0
7.3</td><td>CCC+
CCC
CCC-/CC/C</td><td>Special Attention</td><td rowspan="2">Classified</td></tr>
<tr><td>8</td><td>8.0</td><td>D</td><td>Non-performing</td></tr>
</table>

Loss given default (LGD)
The Bank assigns loss given default percentages on a scale of 0 to 100 determined by the seniority of the instrument in which the Bank invested.

Non-performing loans (NPL)
An asset is designated as non-performing when either the borrower is more than 90 days past due on payment to any material creditor, or when Risk Management considers that the counterparty is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all NPLs accounted for at amortised cost. The provision represents the amount of expected loss, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan’s original effective interest rate.

Credit risk exposures

Placements with credit institutions
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-.

Guarantees
At 31 December 2015, the Bank had outstanding loans amounting to €198.3 million (2014: €190.8 million) under the Programme, for which, in the event of a future default, losses incurred by the Bank may be refunded in part from the resources of the Fund. At 31 December 2015, the Fund’s maximum exposure under such guarantees was €36.9 million (2014: €32.9 million).

At 31 December 2015, €0.1 million is currently recognised as a financial guarantee contract as a result of a specific impairment on a Bank loan (2014: €0.1). The guarantee liability on the balance sheet of €4.1 million (2014: €4.4 million) includes this amount plus the initial fair value of the liability recognised when the guarantees were issued less cumulative amortisation. The Fund does not actively manage credit risk on its guarantee exposure.

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

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

The Fund's net exposure to functional currency foreign exchange risk (euro to USD) is considered to be minimal, as all assets and liabilities are held in USD as at 31 December 2015 and 31 December 2014.

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 (2014: 5 per cent) is €1.6 million (2014: €1.4 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 guarantees are financed from the resources of the Fund, which comprise contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund’s guarantees are limited to the resources of the Fund, and contributions received are recognised 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.

The ETC Local Currency Risk Sharing Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 15 February 2011 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 4 April 2011 when the initial aggregate resources of the Fund equalled €10 million. An amendment to the Rules and Regulations was approved by the Board on 9 May 2012 to change the denomination of the Fund from euro to the United States dollar.

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. Financial guarantees movement

	2015	2014
	€ 000	€ 000
Amortisation of day one fair value	**(760)**	(649)
Charge for estimated settlement of impaired guaranteed loans	**(48)**	121
Financial guarantees movement	**(808)**	**(528)**

4. Other operating expenses

Other operating expenses comprise of administrative costs directly related to the Fund and include fees payable to the Bank for operating the Fund, calculated in accordance with the Rules and Regulations.

5. Contributions

	2015	2014
Cumulative contributions received	**€ 000**	€ 000
EBRD Shareholder Special Fund	**22,334**	22,334
Finland	**155**	155
Germany	**78**	78
Ireland	**71**	71
Japan	**568**	568
Korea	**117**	117
Luxembourg	**62**	62
Netherlands	**1,168**	1,168
Norway	**312**	312
Spain	**310**	310
Sweden	**210**	210
Switzerland	**1,736**	1,736
Taiwan ICDF	**108**	108
United Kingdom	**605**	605
United States of America	**3,747**	3,747
Total contributions at 31 December	**31,581**	31,581

6. Financial guarantee liability

	2015	2014
	€ 000	€ 000
Unamortised balance of day one fair value	**3,992**	4,251
Estimated settlement of impaired guaranteed loans	**93**	127
At 31 December	**4,085**	**4,378**

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

All assets and liabilities in the balance sheet are classified as current for both 2015 and 2014.

8. 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.

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 contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to 2 per cent of contributions received, taking into account the amount of any management fees paid to the Bank previously for contributions transferred from existing funds managed and administered by the Bank. During the period no management fee was charged by the Bank to the Fund (2014: €23,000). At 31 December 2015 there was no accrued management fee payable by the Fund to the Bank (2014: nil). External auditor's remuneration of €7,700 (2014: €7,200) 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 has been re-appointed for the five year period 2015 - 2019.

Guarantees issued by the Fund to the Bank are disclosed under credit risk exposures.

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

We have audited the financial statements of the ETC Local Currency Risk Sharing 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 contributors' resources, the statement of cash flows for the year then ended together with the accounting policies, the risk management statement and the related notes 1 to 10. 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 ETC Local Currency Risk Sharing 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 contributors and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this Report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants
London, United Kingdom
6 April 2016