European Bank
for Reconstruction and Development

The RDI Special Fund

Annual Financial Report
31 December 2015

The RDI Special Fund

Contents

The RDI Special Fund

Income statement

For the year ended 31 December 2015

	Note	Year to 31 December 2015 € 000	Year to 31 December 2014 € 000
Interest and similar income			
From loans		**45**	21
From credit institutions		**4**	4
Net interest income		**49**	25
Other operating expenses	3	**(8)**	(7)
Impairment release/(charge) on loan investments	4	**27**	(35)
Net profit/(loss) for the year		**68**	(17)
Attributable to:			
Contributor		**68**	(17)

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/(loss) for the year	**68**	(17)
Other comprehensive income		
Foreign exchange movement between functional and presentational currencies	**397**	396
Total comprehensive income for the year	**465**	379
Attributable to:		
Contributor	**465**	379

These items will not subsequently be reclassified to the income statement.

Balance sheet

At 31 December 2015

	Note	31 December 2015 € 000		31 December 2014 € 000	
Assets					
Placements with credit institutions			**2,889**		2,546
Other financial assets			**4**		3
Loan investments					
Loans	5	**921**		823	
Less: Provisions for impairment	4	**(11)**		(35)	
			910		788
Total assets			**3,803**		3,337
Liabilities and contributor's resources					
Other financial liabilities			**8**		7
Total liabilities			**8**		7
Contributions			**3,874**		3,874
Reserves and accumulated loss			**(79)**		(544)
Total contributor's resources			**3,795**		3,330
Total liabilities and contributor's resources			**3,803**		3,337

The RDI 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 31 December 2013	3,874	(64)	(859)	2,951
Total comprehensive income/(expense) for the year	-	396	(17)	379
At 31 December 2014	3,874	332	(876)	3,330
Total comprehensive income for the year	-	397	68	465
At 31 December 2015	**3,874**	**729**	**(808)**	**3,795**

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/(used in) operating activities				
Net profit/(loss) for the year	**68**		(17)	
Adjustments for:				
Interest income	**(49)**		(25)	
Impairment (release)/charge on loan investments	**(27)**		35	
	(8)		(7)	
Interest income received	**49**		23	
Increase in operating assets:				
Funds advanced for loans	-		(738)	
Increase in operating liabilities:				
Accrued expenses	**1**		-	
Net cash from/(used in) operating activities		**42**		(722)
Net increase/(decrease) in cash and cash equivalents		**42**		(722)
Cash and cash equivalents at the beginning of the year		**2,546**		2,958
Effect of foreign exchange rate changes		**301**		310
Cash and cash equivalents at 31 December		**2,889**		2,546

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).

Going concern

The Rules and Regulations of the RDI Special Fund ("the Fund") state the Fund is due to terminate on 31 December 2016. As at 31 December 2015, the Fund has a loan investment remaining with expected repayments to 2019. No further investments will be undertaken by the Fund, unless the Rules and Regulations are amended to extend the termination date.

The financial statements for the Fund are therefore presented on a basis other than that of going concern as the Fund is expected to terminate within the next year. In such circumstances all assets and liabilities are more appropriately reported at net realisable value rather than historical cost. No material adjustments arose from ceasing to apply the 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 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

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. As the Fund is in the process of being wound up, assets and liabilities are measured at fair value. In the case of cash placements, the principal equates to fair value given the short-term nature of such placements. Loan investments are measured at amortised cost which approximates to their fair value.

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 liabilities

The value of the financial liabilities at amortised cost equates to their fair value as these are expected to be settled for the values disclosed on the balance sheet in the short-term.

Impairment of financial assets

Financial assets at amortised cost
The Fund has not adopted early that part of IFRS 9 which relates to impairment and therefore still applies IAS 39: Financial Instruments.

Where there is objective evidence that an identified loan asset is impaired, specific provisions for impairment are recognised in the income statement. Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The carrying amount of the asset is reduced directly only upon write-off. Resulting adjustments include the unwinding of the discount in the income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

The criteria that the Fund uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration in the borrower's competitive position; and
- deterioration in the value of collateral.

Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis (the general provision). The methodology used for assessing such impairment is based on a risk-rated approach for non-sovereign assets. The Fund's methodology calculates impairment on an incurred loss basis. Impairment is deducted from the asset categories on the balance sheet.

Impairment, less any amounts reversed during the year, is charged to the income statement. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off only after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries are credited to the income statement if previously written off.

Loans and advances are generally renegotiated in response to an adverse change in the circumstances of the borrower. Depending upon the degree to which the original loan is amended, it may continue to be recognised or will be derecognised and replaced with a new loan. To the extent the original loan is retained, it will continue to be shown as overdue if appropriate and individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset.

Contributor's resources

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

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

Interest

Interest is recorded on an accruals basis using the effective interest method. All interest income is recognised within 'interest and similar 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:

Provisions for the impairment of loan investments
The Fund's method for determining the level of impairment of loan investments is described within the accounting policies section of the report and further explained under credit risk within the risk management section of the report. As described in the risk management section the Fund participates in investments jointly with the Bank and credit risk is jointly managed. Accordingly, the risk management disclosures are based on the Bank's risk processes and procedures.

Portfolio provisions for the unidentified impairment of loan investments at 31 December 2015 were €11,000 (2014: €35,000).

During 2015 the Bank carried out a review of its loss parameters underpinning estimates of unidentified impairment, with the aim of better reflecting the Bank's loss experience. The review resulted in a reduction in the level of portfolio provisions. The key revisions to these estimates were:

Probability of default rates

- In determining the probabilities of default for each risk rating, the relative weighting applied to external data and the Bank's own experience is reviewed annually. The 2015 general provisioning methodology applies a 67 per cent weighting to the Bank's own experience and a 33 per cent weighting to external data. A +/- 10 percentage points change in the weighting assigned to the Bank's own experience would lead to a change in portfolio provisions of -/+ €500 (2014: €4,000).

Loss given default rates

- The approach taken to assign loss given defaults has been simplified, with an overall reduction in the level of average loss given default. Internal recoveries experience did not support the existing more granular approach and a decision was taken to apply values aligned to those used within the regulatory capital framework.

As an illustration, if these changes to loss parameter estimates had been applied as at 31 December 2014, the portfolio provisions for the unidentified impairment of loan investments would have reduced by €25,000 from €35,000 to €10,000 reduction. Of the €25,000 approximately €16,000 would have resulted from changes to probability of default estimates and €9,000 would have resulted from changes to loss given default estimates. No estimate of the effect these changes may have on future periods has been undertaken on grounds of impracticability.

In addition, the sensitivity of portfolio provisions as at 31 December 2015 to the key variables used in determining the level of impairment is provided below.

Risk ratings

- If all loan investments were upgraded by three 'notches' or detailed ratings within the Bank's probability of default rating scale, this would result in a reduction of €9,000 (2014: €30,000) in portfolio provisions on loan investments.
- Conversely, if all loan investments were downgraded by three 'notches' or detailed ratings within the Bank's probability of default rating scale, this would result in a charge to the income statement of €56,000 (2014: €142,000) in relation to portfolio provisions for loans.

Loss emergence period

- Provisions for unidentified impairment are made to reflect losses arising from events existing but not identified at the balance sheet date and which will emerge within a 12 month period from that date. If the loss emergence period was reduced to three months it is broadly estimated that this would result in a decrease in portfolio provisions charged to the income statement of approximately €9,000 (2014: €26,000).

Loss given default rates

- A change in loss given default rates by ten percentage points would lead to a change in portfolio provisions of +/- €3,000 (2014: €4,000).

The methodology and judgements used for estimating provisions for the impairment of loan investments are reviewed annually to reduce any differences between loss estimates and actual experience.

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Risk management

The Fund was established to provide a long-term contribution to sustainable socio-economic development across Azerbaijan and Georgia ("the Eligible Countries"). To achieve this, the Fund's resources may be used to provide loans, credit support, guarantees, risk participation, debt financing and grants for support of technical assistance to business entities located in the Eligible Countries.

As the primary purpose of the Fund is to encourage development in the Eligible Countries, rather than to generate a return on assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate 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 Fund is exposed to credit risk as borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The carrying amounts of financial assets presented on the balance sheet, best represents the Fund's maximum exposure to credit risk at 31 December 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.

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

Loss given default (LGD)
The Bank also assigns loss given default ratings on a scale of 0 per cent to 100 per cent determined by the seniority of the instrument in which the Bank invested and the jurisdiction and sector of the transaction.

Non-performing loans (NPL)

NPL definition
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.

General portfolio provisions
In the performing portfolio, provisions are held against losses incurred but not identified at the balance sheet date. These amounts are based on the PD rates associated with the rating assigned to each counterparty, the LGD parameters reflecting product seniority and the Exposure at Default (EAD). EAD is calculated based on outstanding operating assets and the expected disbursement of committed but not yet drawn amounts.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified in internal credit rating risk category 2 (approximately AA+ to AA- in terms of S&P equivalent).

Other financial assets
Other financial assets represent interest receivable from the Fund's placements with credit institutions and loans.

Loan investments
Set out below is an analysis of the Fund's loan investments and the associated impairment provisions for each of the Bank's relevant internal risk rating categories.

	Neither past due nor impaired € 000	Portfolio provisions for unidentified impairment € 000	Total loans net of impairment provisions € 000	Total loans %	Impairment provisions %
31 December 2015					
Rating 6: Weak	921	(11)	910	100.0	1.2
Total	**921**	**(11)**	**910**	**100.0**	**1.2**
31 December 2014					
Rating 6: Weak	823	(35)	788	100.0	4.3
Total	823	(35)	788	100.0	4.3

Concentration of credit risk exposure

The Fund's credit risk exposure is concentrated in a single geographical region, Azerbaijan and a single industry sector, banking.

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 and floating rate loan investments are repriced to market interest rates within one and six months respectively, 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 2015 € 000	United States dollars 2015 € 000	Total € 000
Total assets	-	3,803	**3,803**
Total liabilities	(8)	-	**(8)**
Net currency position at 31 December 2015	**(8)**	**3,803**	**3,795**

	Euro 2014 € 000	United States dollars 2014 € 000	Total € 000
Total assets	-	3,337	**3,337**
Total liabilities	(7)	-	**(7)**
Net currency position at 31 December 2014	**(7)**	**3,337**	**3,330**

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 €0.2 million (2014: €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 loan investments and technical assistance are financed from the resources of the Fund, which comprises contributions received and investment income. Accordingly, the Fund cannot commit more than the available resources and cannot borrow funds to finance operations. The Fund recognises contributions received as equity, which will only be returned to the contributor as part of the residual assets upon termination of the Fund. As a result, the exposure to liquidity risk is considered to be minimal.

The RDI Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of the Fund was approved by the Board on 16 October 2006 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 15 November 2006 following the signing of the first contribution agreement.

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

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

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 €7,700 (2014: €7,200). At 31 December 2015 €7,700 (2014: €7,200) is payable to the Bank in relation to the 2015 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.

4. Provisions for impairment of loan investments

	2015	2014
Release/(Charge) for the year	**€ 000**	€ 000
Portfolio provisions for the unidentified impairment of loan investments	**27**	(35)
Provisions for impairment of loan investments	**27**	(35)
Movement in provisions		
At 1 January	**(35)**	-
Release/(charge) for the year to the income statement	**27**	(35)
Foreign exchange adjustments	**(3)**	-
At 31 December	**(11)**	(35)
Representing:		
Portfolio provisions for the unidentified impairment of loan investments	**(11)**	(35)
At 31 December	**(11)**	(35)

5. Loan investments

	2015	2014
Operating assets	**€ 000**	€ 000
At 1 January	**823**	-
Disbursement	**-**	738
Foreign exchange movements	**98**	85
At 31 December	**921**	823
Impairment at 31 December	**(11)**	(35)
Total loan investments net of impairment at 31 December	**910**	788

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

The table below provides the classification of current and non-current assets and liabilities in the balance sheet.

	Current	**Non-current**	**Total**	Current	Non-current	Total
	2015	**2015**	**2015**	2014	2014	2014
Assets	**€ 000**	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Placements with credit institutions	**2,889**	**-**	**2,889**	2,546	-	2,546
Other financial assets	**4**	**-**	**4**	3	-	3
Loan investments	**263**	**658**	**921**	-	823	823
Provisions for Impairment	**(3)**	**(8)**	**(11)**	-	(35)	(35)
Total assets	**3,153**	**650**	**3,803**	2,549	788	3,337
Liabilities						
Other financial liabilities	**8**	**-**	**8**	7	-	7
Total liabilities	**8**	**-**	**8**	7	-	7

7. 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.

8. Related parties

The Fund’s related parties are the Bank and the contributor, BP Exploration (Caspian Sea) Limited.

The Bank is entitled to charge the Fund a management fee equal to 2 per cent of contributions received. As there were no contributions received in 2015, there were no management fees paid by the Fund to the Bank (2014: nil) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2014 (2014: nil).

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

Cumulative contributions received to date are €3.9 million (2014: €3.9 million).

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 RDI 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 year then ended together with the accounting policies, the risk management statement and the related notes 1 to 8. 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 judgement, 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 RDI 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.

Emphasis of matter - Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Basis of preparation to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

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 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