

**European Bank
for Reconstruction and Development**

The EBRD Community Special Fund

**Financial Report
31 December 2016**

The EBRD Community Special Fund

Contents

Statement of comprehensive income	1
Balance sheet	1
Statement of changes in contributor's resources	2
Statement of cash flows	2
Accounting policies	3
Risk management	6
Notes to the financial statements	8
Independent Auditor's Report	9

The EBRD Community Special Fund

Statement of comprehensive income

For the period 12 May 2016 to 31 December 2016

	Period to 31 December 2016
	€ 000
Disbursements	(22)
Management fees	(30)
Net loss and comprehensive expense for the period	(52)
Attributable to:	
Contributor	(52)

Balance sheet

Balance sheet		31 December 2016
At 31 December 2016		€ 000
	Note	
Assets		
Placements with credit institutions		963
Total assets		963
Liabilities and contributor's resources		
Accrued expenses		15
Total liabilities		15
Contributions	3	1,000
Reserves and accumulated loss		(52)
Total contributor's resources		948
Total liabilities and contributor's resources		963

The EBRD Community Special Fund

Statement of changes in contributor's resources

For the period 12 May 2016 to 31 December 2016

	Contributions	Accumulated	Total
	€ 000	loss	€ 000
	€ 000	€ 000	€ 000
At 12 May 2016	-	-	-
Contributions received	1,000	-	1,000
Total comprehensive expense for the period	-	(52)	(52)
At 31 December 2016	1,000	(52)	948

Statement of cash flows

For the period 12 May 2016 to 31 December 2016

	€ 000	Period to 31 December 2016 € 000
Cash flows used in operating activities		
Net loss for the period	(52)	
Increase in operating liabilities		
Accrued expenses	15	
Net cash used in operating activities		(37)
Cash flows from financing activities		
Contributions received	1,000	
Net cash from financing activities		1,000
Net increase in cash and cash equivalents		963
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at 31 December		963

The EBRD Community 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.

A. Basis of preparation

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

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

New and amended IFRS mandatorily effective for the current reporting period

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

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

IFRS not yet mandatorily effective but adopted early

IFRS 9: Financial Instruments is the IASB's replacement project for IAS 39. The Standard has developed in phases and was completed in July 2014 with a mandatory application date for annual reporting periods beginning on or after January 1, 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
Amendments to: IFRS 2: Share-based Payment	Accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled. Effective for annual reporting periods beginning on or after 1 January 2018.	The Fund considers that this standard is not applicable to its operations.
Amendments to: IFRS 4: Insurance Contracts	Provides guidance for insurers in applying IFRS 9: Financial Instruments with IFRS 4: Insurance Contracts. Effective for annual reporting periods beginning on or after 1 January 2018.	The Fund considers that this standard is not applicable to its operations.
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010). Hedge accounting (November 2013). Impairment methodology and introduction of 'fair value through other comprehensive income' measurement category for financial assets represented by simple debt instruments (July 2014). IFRS 9 to be adopted in its entirety for annual reporting periods beginning on or after January 1, 2018.	The Fund is yet to assess the potential impact of adopting this standard.

The EBRD Community Special Fund

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

B. Significant accounting policies

Financial assets - Classification and measurement

The Fund early adopted the first instalment of IFRS 9: Financial Instruments, concerning the classification and measurement of financial assets, with effect from 12 May 2016. 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.

The EBRD Community Special Fund

Financial liabilities

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

All financial liabilities are measured at amortised cost.

Contributor's resources

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

Statement of cash flows

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

Disbursements

Disbursements represent payments to charitable organisations by matching staff financial contributions collected for charitable causes over a period of time, these are recorded as expenditure over the period the payment became eligible.

Taxation

In accordance with Article 53 of the Agreement Establishing the European Bank for Reconstruction and Development ("the AEB") ("the Bank"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

Comparatives

There are no comparative figures as this is the first period of operation of the Fund.

The EBRD Community Special Fund

Risk management

The Fund was established to provide a framework for staff engagement in philanthropic, social and cultural activities relating to the Bank's countries of operations. To achieve this, the resources of the Fund may be used to match staff financial contributions collected for charitable/social causes as well as promote philanthropic, cultural and charitable activities in the Bank's countries of operations.

As the purpose of the Fund is to support the Bank and their staff's engagement in philanthropic activities in their countries of operation rather than to generate a return on its assets, financial risks, with the exception of credit risk, are not actively managed by the Fund.

Risk governance

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

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

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

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

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

In exercising its responsibilities, Risk Management is guided by its mission to:

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

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness.

The Fund's exposure to credit risk is currently limited to the financial institutions with which it may place its cash resources. For banks with which the Fund places its cash, internal credit ratings are determined by Risk Management and are the same as those used for Banking exposures. These ratings are based on internal analysis of approved counterparties' creditworthiness through synthesis of externally provided credit research

The EBRD Community Special Fund

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 period 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 of AA+ to AA-.

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

B. Market risk

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

Market risk management and measurement

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

Interest rate risk

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

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

Foreign exchange risk

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

The Fund does not hold any assets or liabilities of non-euro denomination, nor does it have any non-euro commitments as at 31 December 2016, hence it is not exposed to any foreign exchange risk.

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 payments to charitable organisations and activities are financed from the resources of the Fund, which comprises of 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 EBRD Community 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 6 April 2016 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund approved by the Board on that date, as may be amended from time to time. The Fund became operational after the Governors of the Bank adopted the 2015 Net Income Allocation Resolution during its Annual Meeting on 12 May 2016.

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. Contributions

During the period a contribution of €1,000,000 was received from the Bank representing a net income allocation approved by the Board of Governors on 12 May 2016.

4. 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.

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

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

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 only related party is the Bank.

The Bank is entitled to charge the Fund a management fee of an amount equal to 3 per cent of contributions received. During the period 12 May 2016 to 31 December 2016, the Fund paid a management fee of €30,000 and there were no accrued management fees payable by the Fund to the Bank at 31 December 2016.

External auditor's remuneration of €6,700 is payable by the Bank from the management fee. Deloitte LLP (UK) has been appointed for the five year period 2015 - 2019. The fall in the fee for the audit paid to the Fund's external auditor from 2015 to 2016 is attributable to movements in the value of pound sterling. The pound sterling equivalent of these fees was £5,800 (2015: £5,700).

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

Report on the financial statements

Opinion

We have audited the financial statements of the EBRD Community Special Fund ("the Fund") for the year ended 31 December 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in contributors' resources, the statement of cash flows, the accounting policies, the risk management statement and the related notes 1 to 7.

In our opinion the Financial Statements present fairly, in all material respects, the financial position of the EBRD Community Special Fund as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

President's responsibility for the financial statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the President.
- Conclude on the appropriateness of the President's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw

attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

Other matters

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

Deloitte LLP

Deloitte LLP
Chartered Accountants London,
United Kingdom
5 April 2017