European Bank
for Reconstruction and Development

The EBRD Shareholder Special Fund

Annual Financial Report
31 December 2016

The EBRD Shareholder Special Fund

Contents

The EBRD Shareholder Special Fund

Statement of comprehensive income

For the year ended 31 December 2016	Note	**Year to 31 December 2016 € million**	Year to 31 December 2015 € million
Disbursements for technical cooperation	3	**(46)**	(36)
Disbursements for investment grants		**(4)**	(2)
Incentive fees		**(2)**	(2)
Disbursement to other funds	4	**(7)**	-
Foreign exchange movement		**-**	1
Other operating expenses		**(5)**	(1)
Net loss and comprehensive expense for the year		**(64)**	(40)
Total comprehensive expense attributable to:			
Contributor		**(64)**	(40)

Balance sheet

At 31 December 2016	Note	**31 December 2016 € million**	**31 December 2016 € million**	31 December 2015 € million	31 December 2015 € million
Assets					
Placements with credit institutions	5		**219**		234
Contributions receivable			**220**		115
Total assets			**439**		349
Liabilities and contributor's resources					
Accrued expenses	7		**40**		26
Total liabilities			**40**		26
Contributions	8	**680**		540	
Reserves and accumulated loss		**(281)**		(217)	
Total contributor's resources			**399**		323
Total liabilities and contributor's resources			**439**		349

The EBRD Shareholder Special Fund

Statement of changes in contributor's resources

For the year ended 31 December 2016

	Contributions € million	Accumulated loss € million	Total € million
At 31 December 2014	410	(177)	233
Contributions received	130	-	130
Total comprehensive expense for the year	-	(40)	(40)
At 31 December 2015	540	(217)	323
Contributions received and receivable	140	-	140
Total comprehensive expense for the year	-	(64)	(64)
At 31 December 2016	**680**	**(281)**	**399**

Statement of cash flows

For the year ended 31 December 2016	**€ million**	**Year to 31 December 2016 € million**	€ million	Year to 31 December 2015 € million
Cash flows used in operating activities				
Net loss for the year	**(64)**		(40)	
Adjustments for:				
Foreign exchange movement	**-**		(1)	
	(64)		(41)	
Increase in operating liabilities:				
Accrued expenses	**14**		8	
Net cash used in operating activities		**(50)**		(33)
Cash flows from financing activities				
Contributions received	**35**		15	
Net cash from financing activities		**35**		15
Net decrease in cash and cash equivalents		**(15)**		(18)
Effect of foreign exchange rate changes		-		1
Cash and cash equivalents at the beginning of the year		**234**		251
Cash and cash equivalents at 31 December		**219**		234

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 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 EBRD Shareholder 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 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).	The Fund is yet to assess the potential impact of adopting this standard.

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

B. Significant accounting policies

Financial assets - Classification and measurement

The Fund early adopted the first instalment of IFRS 9: Financial Instruments, concerning the classification and measurement of financial assets, with effect from 1 January 2010. Pursuant to that adoption, the Fund classifies its financial assets in the following categories: those measured at amortised cost and those measured at fair value. This classification depends on both the contractual characteristics of the assets and the business model adopted for their management.

Financial assets at amortised cost
An investment is classified as 'amortised cost' only if both of the following criteria are met: the objective of the Fund's business model is to hold the asset to collect the contractual cash flow; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, interest being consideration for the time value of money and the credit risk associated with the principal amount outstanding.

Investments meeting these criteria are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. They are subsequently measured at amortised cost using the effective interest method less any impairment. The Fund's financial assets at amortised cost are recognised at settlement date.

Financial assets at fair value
If either of the two criteria above is not met, the debt instrument is classified as 'fair value through profit or loss'. All of the share investments held by the Fund were measured at fair value through profit or loss in 2015.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation technique is based on the price offered by a buyer.

The Fund's share investments are recognised on a trade date basis.

At initial recognition, the Fund measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur.

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, expect for financial guarantees which are measured in accordance with IAS 39, as described under "Financial guarantees" below.

Financial guarantees

The Fund's resources are also used to guarantee a proportion of principal losses of loan investments made by participating banks ("PB") under specific signed loan agreements. 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 PB any fee for its guarantee, its 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. The Fund's financial guarantee liability is considered immaterial at 31 December 2016 (2015: immaterial).

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.

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

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.

Interest

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

Disbursements for technical cooperation and investment grants

Disbursements for technical cooperation, which represent payments for services provided to the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

Capital expenditure (investment) grants are disbursed in coordination with the related European Bank for Reconstruction and Development ("the Bank") loan resources, generally directly to the contractor. Disbursements are made periodically and upon verification of the investment.

Incentive fees

Incentive fees represent amounts incurred for a period to be paid to clients ("Borrowers") or end-borrowers under credit lines extended by the Bank. The fees are calculated for each sub-project in line with the eligibility criteria set out in the Loan agreement between the Bank and the Borrower. Payments to Borrowers are made either on the basis of disbursement made in a relevant reporting period or verification of the investment. Incentives to end-borrowers are made on the basis of verification of the investment.

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 outstanding share investments are nil at 31 December 2016 and immaterial at 31 December 2015.

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 EBRD Shareholder Special Fund

Risk management

The purpose of the Fund is to assist the Bank to achieve its mandate of promoting transition towards open market-oriented economies by preparing the way for future Bank-financed projects and improving the investment climate in the Bank's countries of operations.

The resources of the Fund may be used to finance:
- Technical assistance (or cooperation) which involves the provision of services, usually those of consultants, to provide expertise to clients in the Bank's countries of operations;
- Non-technical assistance initiatives which are principally used to provide working capital, incentive fees or to pay for goods and works contracts in support of Bank investment operations; and
- Investment activities which may include guarantees, equity or debt financing.

As the primary purpose of the Fund is to assist the Bank to achieve its transition mandate 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 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 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 either 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 counterparties could default on their contractual obligations.

The carrying amounts of financial assets presented on the balance sheet best represents the Fund's maximum exposure to credit risk at 31 December 2016 and 31 December 2015, without taking account of any collateral held or other credit enhancements.

Included in the placements with credit institutions is a €111.3 million (2014: €164.3million) placement with the Royal Bank of Scotland via a tri-party repurchase arrangement, with Euroclear acting as the custodian. This arrangement involves the Fund receiving, as collateral, highly liquid securities equal to the value of the placement, for a period of approximately one month. The credit risk on the placement is fully mitigated by collateral held. On termination of the arrangement, the placement and collateral are returned to the respective parties, and a new arrangement is entered into based on the Fund's excess available cash. Euroclear ensures that the value of the securities held covers the full value of the placement on a daily basis.

The Fund is not entitled to sell or repledge the collateral outside of a default. The Fund has not taken possession of any securities held as collateral during the year.

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 and Head of Client Services Group and its membership comprises senior managers of the Bank, including the VP Risk & Compliance, CRO and the 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 President, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee.

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 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	Investment Grade
3	2.7 3.0 3.3	A+ A A-	Strong	Investment Grade
4	3.7 4.0 4.3	BBB+ BBB BBB-	Good	Investment Grade
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	Classified

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified in internal credit rating risk categories 2 and 3 (approximately AA+ to A- in terms of the S&P equivalent).

Other financial assets
Other financial assets include Business Advisory Services Programme ("BAS") and Secretariat Office advances. BAS and Secretariat Office advances are held with institutions in local countries of operations and may be risk rated below A-; however balances are monitored to ensure credit exposure is minimal.

Financial guarantees
At 31 December 2016 the total loans disbursed by the Bank to the PB's are €16.5 million (2015: €3 million).

The guarantee is provided over the sub-loans made from the PB to a sub-borrower. A guarantee liability will be recognised when the loan from the Bank has been disbursed to the PB, and the PB has the funds available to on-lend to sub-borrowers. At 31 December 2016 the total on-lent from the PB to sub-borrowers is €8 million (2015: €0.5million).

The maximum exposure under the guarantees is €800,000. Accordingly, no liability or expense is recognised as the effect on the financial statements is considered immaterial.

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, foreign exchange and equity price risk.

Market risk management and measurement

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

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

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

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

The Fund's net exposure to foreign exchange risk is considered to be minimal as outlined in the table below.

	Euro 2016 € million	**United States dollars 2016 € million**	**Total € million**
Total assets	426	13	**439**
Total liabilities	(39)	(1)	**(40)**
Net currency position at 31 December 2016	**387**	**12**	**399**

	Euro 2015 € million	United States dollars 2015 € million	Total € million
Total assets	339	10	349
Total liabilities	(22)	(4)	(26)
Net currency position at 31 December 2015	317	6	323

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund's share investment was disposed of during the year and therefore there is no equity price risk to the Fund.

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 share 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 also 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 Fund's exposure to liquidity risk is considered to be minimal.

The EBRD Shareholder 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 April 2008 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 after the Governors of the Bank adopted the 2007 Net Income Allocation Resolution during its Annual Meeting on 18-19 May 2008.

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 the 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. Disbursements for technical cooperation

	Commitments approved € million	**Disbursements € million**	**Undrawn commitments € million**
Total projects			
At 31 December 2014	158	(140)	18
Movement in the year	25	(36)	(11)
As at 31 December 2015	183	(176)	7
Movement in the year	46	(46)	-
As at 31 December 2016	**229**	**(222)**	**7**

4. Disbursement to other funds

In 2016 the Board approved a disbursement of €6.85 million to the ETC Local Currency Risk Sharing Special Fund (2015: nil), of which €1.85 million was still payable as at 31 December 2016.

5. Placements with credit institutions

	2016 € million	2015 € million
Cash and cash equivalents	**219**	233
Business Advisory Services offices advances	**-**	1
At 31 December	**219**	234

6. Share investments

IFRS 7 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

The Fund's share investment was fully disposed of in 2016.

7. Accrued expenses

	2016 € million	2015 € million
Disbursements for technical cooperation	**34**	25
Management fees payable	**4**	1
Disbursements payable to other funds	**2**	-
At 31 December	**40**	26

8. Contributions received and receivable

During 2016 the Fund received contributions of €140 million (2015: €130 million), of which €105 million are receivable as at 31 December 2016 (2015: €115 million). The total contributions receivable at 31 December 2016 are €220 million.

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

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

10. Undrawn commitments

	2016 € million	2015 € million
Disbursements for technical cooperation	**7**	7
Incentive payments	**11**	2
First loss risk sharing guarantees	**4**	1
Investment grants	**41**	25
At 31 December	**63**	35

11. 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.

12. Related parties

The Fund's only related party is the Bank.

The Bank is entitled to charge the Fund a management fee, as determined by the Board of Directors, each time a contribution is made to the Fund. Management fees of €5.5 million were charged during the year (2015: € 1.3 million). There was an accrued management fee payable of €4.45 million by the Fund to the Bank at 31 December 2016 (2015: 1.3 million).

During 2016 the Bank reimbursed the Fund €40,000 of bank charges (2015: €22,000). €4,000 is receivable as at 31 December 2016 (2015: €22,000).

External auditor's remuneration of €6,700 (2015: €7,700) is payable by the Bank from the management fee.
In 2014 the Bank approved an extension of the term of appointment from four year to five with a maximum of two consecutive terms. Deloitte LLP (UK) completed its first four year term in 2014 and has been re-appointed for the five year period 2015 – 2019.

The fall in the fees for audit services paid to the Bank's external auditor from 2015 to 2016 is attributable to movements in the value of the 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 Shareholder 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 12.

In our opinion the Financial Statements present fairly, in all material respects, the financial position of the EBRD Shareholder 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