

ADAPTATION FUND TRUST FUND

ADMINISTERED BY THE
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
AS INTERIM TRUSTEE

WORLD BANK REFERENCE
TF069013

FINANCIAL STATEMENT AND
INDEPENDENT AUDITORS' REPORT
June 30, 2010

THE WORLD BANK GROUP
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ADAPTATION FUND TRUST FUND**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE***Expressed in U.S. dollars*

	Notes	February 27, 2009 (date of inception) to June 30, 2010
Proceeds from monetization of Certified Emission Reductions	3	\$ 105,920,741
Contributions :	4	
Kingdom of Spain		57,092,250
Principality of Monaco		12,252
Other		566
Total contributions		<u>57,105,068</u>
Net investment income	5	<u>388,791</u>
Total receipts		<u><u>163,414,600</u></u>
Administrative budget	6	5,518,427
Advances repaid to donors of the Trust Fund for the Secretariat for the Adaptation Fund Board (TF071015)	7	691,340
Total disbursements		<u><u>6,209,767</u></u>
Excess of receipts over disbursements before foreign currency adjustments		157,204,833
Foreign currency adjustments	2	<u>(47,376)</u>
Excess of receipts over disbursements after foreign currency adjustments		157,157,457
Fund Balance:		
Beginning of period		<u>-</u>
End of period		<u><u>\$ 157,157,457</u></u>
Fund balance consists of:		
Trust Fund's share of the cash and investments in the Pool	8	<u><u>\$ 157,157,457</u></u>

ADAPTATION FUND TRUST FUND

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 1 - Organization

The Adaptation Fund (AF) was established under the Kyoto Protocol (KP) to the United Nations Framework Convention on Climate Change (UNFCCC), by the Parties to the KP (CMP) at their December 2007 meeting in Bali, Indonesia. The purpose of the AF is to finance climate change adaptation projects in eligible developing countries who are parties to the KP. The KP also established the Clean Development Mechanism (CDM). Under the CDM, Certified Emission Reductions (CERs) are issued for emission-reduction projects in developing countries. Two percent of all CERs issued by the CDM are transferred to the AF. The AF is funded by the proceeds of the sale of these CERs as well as other sources of funding.

At its December 2007 meeting the CMP also established the Adaptation Fund Board as the operating body of the AF with the mandate to supervise and manage the AF under the authority and guidance of the CMP. In November 2009, the AF Board accepted an invitation by the Republic of Germany to confer legal capacity to, and to host the AF Board. The invitation is currently awaiting parliamentary approval by the Republic of Germany.

At the December 2007 meeting, the CMP, invited the International Bank for Reconstruction and Development (IBRD) to serve as the interim Trustee (the Trustee) and the Global Environment Facility (GEF) to provide secretariat (Secretariat) services to the Adaptation Fund Board to support and facilitate its activities. Both invitations were made and accepted on an interim basis. The Trustee mandate automatically expires three months after the sixth session of the CMP, unless the CMP and the Trustee affirmatively agree to extend beyond this date (March, 2011). At its meeting in September 2010, the AF Board decided to recommend to the CMP a three-year extension of IBRD's role as interim Trustee. The recommendation was considered and approved by the CMP at its December 2010 meeting in Cancun, Mexico and is currently awaiting final approval by IBRD.

The Trustee performs two core functions on behalf of the AF: (1) the sale ("monetization") of the CERs in accordance with the guidelines developed by IBRD as Trustee and approved by the AF Board; and (2) management of the Adaptation Fund Trust Fund. The Trustee established the AF Trust Fund (the Trust Fund) on February 27, 2009 (hereinafter referred to as Inception), to hold AF funds and then disburse them for projects, programs and other activities as instructed by the AF Board. The Trustee also manages the investment of AF Trust Fund balances, and provides accounting and financial reporting for the AF Trust Fund.

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 1 – Organization (continued)

The Trustee does not hold CERs in the Trust Fund. Once monetized, CERs are transferred directly to buyer accounts in exchange for cash proceeds that are deposited in the AF Trust Fund.

This financial statement reports solely upon the receipts, disbursements and fund balance of the AF Trust Fund, and does not include the activities or financial position of the AF or the AF Board,

Note 2 - Significant accounting policies

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, modified to record the share in pooled cash and investments at fair value (modified cash basis of accounting). Accordingly, net investment income includes realized and unrealized investment income (loss).

The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP) or International Financial Reporting Standards (IFRS). Receipts, with the exception of net investment income as described above, are recorded when collected (i.e., when credited to the trust fund) rather than when pledged/earned, and disbursements are recorded when paid (i.e., when debited to the trust fund).

In accordance with the modified cash basis of accounting, as described above, and with the policies adopted for the administration of this Trust Fund, certain transactions are reported in the Statement of Receipts, Disbursements and Fund Balance in the period in which the transaction is credited/debited to the Trust Fund, rather than in the period to which they relate. These may include CER monetization proceeds not credited to the Trust Fund at the financial statement date due to timing or other reasons, reposting of disbursements in the ordinary course of business, as deemed necessary, and any refunds of previous disbursements deemed by management not to be eligible in accordance with the relevant agreements.

This financial statement is not intended to be a presentation in conformity with U.S. GAAP or IFRS; however, certain information pertaining to the fair value of financial instruments held in the pooled cash and investments is presented in accordance with the applicable U.S. GAAP pronouncements as described below.

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 2 - Significant accounting policies (continued)

U.S. GAAP defines fair value, establishes a consistent framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires disclosure about fair value measurements. It also requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. Notes 5 and 8 provide further details on the fair value measurement of the pooled cash and investments.

Amounts paid into the Trust Fund, but not yet disbursed are managed by IBRD which maintains an investment portfolio (the Pool) for all trust funds administered by IBRD, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes (the World Bank Group). IBRD maintains all trust fund assets separate and apart from the funds of the World Bank Group. The Pool is divided into sub-portfolios to which allocations are made based on fund specific investment horizons, risk tolerances and/or other eligibility requirements for trust funds with common characteristics as determined by IBRD in accordance with the Trust Fund agreements. Generally, the Pool is invested in cash and liquid financial instruments such as money market instruments, government and agency obligations, mortgage-backed securities and other high-grade bonds. The Pool may include securities pledged as collateral under repurchase agreements with other counterparties and receivables from resale agreements for which it has accepted collateral. Additionally, the Pool includes derivative contracts such as currency forward contracts, currency swaps and interest rate swaps.

The Pool is a trading portfolio and is reported at fair value for which gains/losses are included in net investment income. The share in pooled cash and investments represents the Trust Fund's allocated share of the Pool's fair value at the end of the reporting period.

Transactions in currencies other than the Trust Fund's reporting currency of U.S. dollars are initially recorded at the market rates of exchange in effect on the date of the transaction. Fund balances at the end of each reporting period that are not denominated in U.S. dollar are translated using the rate in effect for that date. The use of different exchange rates on the date of transaction and at the end of each reporting period may result in a translation adjustment.

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 2 - Significant accounting policies (continued)

Expenditures made from IBRD's own resources on behalf of the Trust Fund are reimbursed to IBRD on a regular basis. To the extent that disbursements were made in currencies other than U.S. dollars, IBRD may be reimbursed a different amount due to the difference in exchange rates on different dates. Transaction gains or losses on disbursements, if any, are borne by IBRD.

Note 3 – Proceeds from monetization of Certified Emission Reductions

Cash proceeds from the monetization of Certified Emission Reductions executed by IBRD as Trustee are recorded as receipts by the Trust Fund. Conversions of proceeds received in Euro (or any other currency) into U.S. dollars are initiated by IBRD as Trustee upon receipt of funds.

Note 4 – Contributions

Contributions are received in various currencies and are converted into U.S. dollars by IBRD as Trustee, upon the receipt of both the funds and the signed and countersigned donation agreement.

Note 5 – Net investment income

Net investment income consists of the Trust Fund's allocated share of the following: interest income earned by the Pool, realized gains/losses from sales of securities and unrealized gains/losses resulting from recording the assets held by the Pool at fair value. Net investment income in the amount of \$388,791 was credited to the Trust Fund for the period from Inception to June 30, 2010, of which \$362,061 represents net investment income based on its allocated share of the cash and investments in the Pool and \$26,730 represents net investment income earned on administrative budget transferred to the Trustee and Secretariat (see Note 6).

Note 6 – Administrative budget

Upon approval by the AF Board, the Trust Fund transfers administrative budget to the Trustee and the Secretariat as reimbursement for the fees, costs and expenses incurred by the Trustee and the Secretariat in connection with performing the functions under their respective terms and conditions. The administrative budgets transferred are subject to a fiscal year end adjustment based on actual costs incurred, and will be recorded in the Trust Fund as and when received.

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 6 – Administrative budget (continued)

Included in Administrative Budget are AF Board expenses which consist solely of daily subsistence allowance (DSA) payments to AF Board members associated with their attendance at the AF Board meetings. Prior to each Board meeting, the funds are transferred to the entity with whom the Secretariat has entered into an agreement to provide logistical support and other services, including the distribution of DSA to Board members.

The Trust Fund transferred Administrative Budget in the amount of \$5,518,427 during the period from Inception to June 30, 2010, as follows:

<u>Administrative budget:</u>	<u>Amount</u>
Secretariat	\$ 2,669,683
Trustee	2,707,015
AF Board expenses	141,729
Total	<u>\$ 5,518,427</u>

Note 7 – Advances repaid to donors of the Trust Fund for the Secretariat for the Adaptation Fund Board

The Trust Fund for the Secretariat for the Adaptation Fund Board (a separate trust fund administered by the World Bank Group: reference no. TF071015) was established to receive advances from donors to fund AF activities prior to funds becoming available from the monetization of CERs. The activities and financial position of TF071015 are reported separate from the financial statement of this Trust Fund. In accordance with the respective agreements, some advances made to the Trust Fund for the Secretariat for the Adaptation Fund Board are reimbursable and have been repaid from the Trust Fund (i.e., advances were received by and recorded in TF071015, and reimbursed to the donors from this Trust Fund).

Note 8 - Fair value of financial instruments

As discussed in Notes 2 and 5, the cash and investments of all trust funds administered by the World Bank Group are managed in a pooled investment portfolio. The Trust Fund's share in the Pool is not traded in any market; however, the underlying assets within the Pool are traded and reported at fair value. All investment decisions are made and performance monitored at the Pool level. The disclosure on fair value measurement and fair value hierarchy is therefore provided at the Pool level.

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 8 - Fair value of financial instruments (continued)

The fair value amount of the Trust Fund's share in the pooled cash and investments at the end of the reporting period is also disclosed.

Fair Value Measurements

IBRD has an established and documented process for determining fair values. Fair value is based upon quoted market prices for the same or similar securities, where available. Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models. These models primarily use market-based or independently-sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves and may incorporate unobservable inputs. Selection of these inputs may involve judgment. To ensure the valuations are appropriate where internally-developed models are used, IBRD has various controls in place, which include both internal and periodic external verification and review.

The techniques applied in determining the fair values of financial instruments are summarized below.

Investment securities

Where available, quoted market prices are used to determine the fair value of investment securities. The Pool may include investment securities such as government and agency obligations, money market securities and corporate and asset-backed securities. For instruments for which quoted market prices are not readily available, fair values are determined using model-based valuation techniques, either internally-generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads and prepayment speeds. Unless quoted prices are available, money market instruments are reported at face value, which approximates fair value.

Securities purchased under resale agreements and securities sold under repurchase agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are reported at face value which approximates fair value.

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 8 - Fair value of financial instruments (continued)

Discount notes and plain vanilla bonds

Discount notes and plain vanilla bonds are valued using the standard discounted cash flow method, which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

Derivative contracts

Derivative contracts include currency forward contracts, currency swaps and interest rate swaps. Derivatives are valued using standard discounted cash flow methods with market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

Fair Value Hierarchy

Financial instruments representing the pooled investments for all trust funds administered by the World Bank Group are recorded at fair value and are categorized based on the priority of the inputs to the valuation technique as follows:

- Level 1: Financial instruments whose values are based on unadjusted quoted prices for identical instruments in active markets.
- Level 2: Financial instruments whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the instrument.
- Level 3: Financial instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

As of June 30, 2010, the Pool does not have any financial instruments measured at fair value on a non-recurring basis.

The following table presents the Pool's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2010. The Trust Fund's allocated share of the Pool's financial instruments may hold varying proportions among the three levels.

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 8 - Fair value of financial instruments (continued)

In millions of U.S. dollars

	Fair Value Measurement on a Recurring Basis as of June 30, 2010			
	Level 1	Level 2	Level 3	Total
Investment securities				
Government and agency obligations	\$ 4,766	\$ 7,233	-	\$ 11,999
Money market securities	801	6,426	-	7,227
Asset-backed securities	-	3,764	2	3,766
Total Investment securities	\$ 5,567	\$ 17,423	\$ 2	\$ 22,992
Securities purchased under resale agreements and securities sold under repurchase agreements, net	(303)	(13)	-	(316)
Derivatives, net	-	(59)	-	(59)
Total of financial instruments in the Pool at fair value	\$ 5,264	\$ 17,351	\$ 2	\$ 22,617

In the Pool, the carrying value of securities pledged as collateral under repurchase agreements as of June 30, 2010 was US\$316 million. During the period from Inception to June 30, 2010, neither transfers between levels nor securities in Level 3 were significant. Therefore, no further disclosures on them are included.

Financial risks related to the Pool

The Trust Fund is exposed to credit risk on its share of the cash and investments in the Pool. IBRD is limited to investing in securities with minimum credit ratings in the U.S markets or equivalent as follows:

- Money market securities - issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.
- Government and agency obligations - issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organization or any other official entity require a minimum credit rating of AA-.
- Mortgage-backed securities and asset-backed securities - minimum rating must be AAA.
- Derivatives – counterparties must have a minimum rating of A+.

NOTES TO THE FINANCIAL STATEMENT

February 27, 2009 (date of inception) to June 30, 2010

Note 8 - Fair value of financial instruments (continued)

Trust Fund's share of the cash and investments in the Pool

The Trust Fund's share of the cash and investments in the Pool, which was allocated based on the specific investment horizons, risk tolerances and other eligibility requirements pursuant to the Agreements, has a fair value of \$157,157,457 as of June 30, 2010.

As of June 30, 2010, the Trust Fund's share in the Pool is invested in a sub-portfolio of which approximately 30% of the securities are rated at least AA and 100% of the securities rated at least A+. As of June 30, 2010, this Pool sub-portfolio is invested in the following types of instruments: 99% in money market securities, and 1% in government and agency obligations.

Note 9 - Subsequent events

Management has evaluated subsequent events through December 15, 2010, the date the financial statement was available to be issued.