



Pilot Auction Facility Trust Fund

Financial Report

Prepared by the Trustee

As of December 31, 2016



Table of Contents

Table of Contents

| | |
|---|---|
| Introduction | 3 |
| PAF Trust Fund Financial Summary as of December 31, 2016 | 4 |
| 1. PAF Trust Fund Summary – Inception through December 31, 2016 | 5 |
| 2. Pledges and Contributions as of December 31, 2016 | 6 |
| 3. Asset Mix and Investment Income | 7 |
| 4. Cumulative Funding Decisions | 8 |
| 5. Funds Available | 9 |



Introduction

The Pilot Auction Facility (PAF) was initiated as a result of a report from the Methane Finance Study Group¹, an international group of experts convened at the request of the G8. It is an innovative climate finance mechanism that pioneers the use of auctions to allocate scarce public resources and leverage private sector financing to stimulate investment in projects that reduce greenhouse gas emissions at low cost by piloting the auction of tradeable put options which would guarantee a floor price for qualifying emission credits.

The PAF Trust Fund was established in December 2014. This report covers the financial status of the PAF Trust Fund, and is produced by the Trustee in accordance with the Trustee's role in the PAF Framework, as set forth under Section E, which states:

“The Trustee will prepare annual financial reports of the PAF Trust Fund.”

In addition, Section 6 of the Standard Provisions in the Contribution Agreement/Arrangement states as follows:

“The Trustee will maintain separate records and ledger accounts in respect of the funds deposited in the Trust Fund and transfers made therefrom. The Trustee will report to the Participants Committee annually on the financial status of the Trust Fund including information on the status of Contributions, investment income, commitments, transfers and funds available for allocation of funding by the Participants Committee.”

¹ “Methane Finance Study Group Report, Using Pay-for-Performance Mechanism to Finance Methane Abatement”, Methane Finance Study Group. 2013.



PAF Trust Fund Financial Summary as of December 31, 2016

Pledges and Contributions:

A pledge represents a contributor's expression of intent to make a contribution. Pledges are converted to Contributions by way of a countersigned Contribution Agreement/Arrangement.

As of December 31, 2016, pledges and contributions to the PAF Trust Fund totaled US\$eq. 53.40 million. Of this amount, US\$eq. 46.17 million has been deposited into the PAF Trust fund.

Investment Income:

As of December 31, 2016, the PAF Trust Fund earned investment income of approximately USD 0.40 million on the liquid balances in the Trust Fund. The PAF Trust Fund portfolio has returned 0.94% in calendar year 2016. The PAF Trust Fund balance is allocated to a short term fixed income portfolio.

Funding Approvals:

As of December 31, 2016, the PAF Participants Committee had approved funding from the PAF Trust Fund totaling USD 58.96 million, in respect of the budget for three auctions and administrative budgets of the PAF to support the activities of the PAF Secretariat and Trustee.

Cash Transfers:

The Trustee has transferred USD 9.43 million up to December 31, 2016, including USD 2.65 million related to bond redemption for the first auction.

Funds Held in Trust:

Funds Held in Trust² reflect contributions paid-in from contributors, investment income, and other income less cash transfers. Funds Held in Trust as of December 31, 2016 amounted to US\$eq. 37.29 million.

² Funds Held in Trust represents balance of cash, investments and unencashed promissory notes (if any) as of the reporting date.

1. PAF Trust Fund Summary – Inception through December 31, 2016

In USD millions

| | Total | % of Total |
|---|--------------|---------------|
| <u>Donor Pledges and Contributions</u> | | |
| Contributions | 53.40 | 100.0% |
| Pledges | - | 0.0% |
| Total Pledges and Contributions | 53.40 | 100.0% |

| | | |
|---|--------------|---------------|
| <u>Cumulative Resources</u> | | |
| <u>Resources received</u> | | |
| Cash Receipts | 46.17 | 85.6% |
| Investment Income earned | 0.40 | 0.7% |
| Other Income a/ | 0.14 | 0.3% |
| Total Resources Received | 46.72 | 86.6% |
| <u>Resources not yet received</u> | | |
| Contributions not yet received | 7.22 | 13.4% |
| Pledges | - | 0.0% |
| Total resources not yet received | 7.22 | 13.4% |
| Total Potential Resources (A) (in USD millions) c/ | 53.94 | 100.0% |

| | | |
|--|---------------|---------------|
| <u>Cumulative Funding Decisions</u> | | |
| Auction | 52.32 | 88.7% |
| Administrative Budget | 6.64 | 11.3% |
| Total Funding Decisions Net of Cancellations (B) | 58.96 | 100.0% |
| Total Potential Resources Net of Funding Decisions (A) - (B) c/ | (5.02) | |
| Commitment Fee to IBRD a/ | 0.14 | |
| Total Potential Resources Net of Funding Decisions and Commitment Fee to IBRD a/ c/ | (5.16) | |

| | | |
|--|----------------|--|
| <u>Funds Available</u> | | |
| Funds Held in Trust with no restrictions | 37.29 | |
| Approved Amounts Pending Cash Transfers | 49.67 | |
| Total Funds Available to Support Participants Committee Decisions b/ c/ | (12.38) | |

Note: Sub-totals may not add up to due to rounding

a/ Represents commitment fee based on outstanding unpaid amount of Sweden's contribution

b/ Total amount of Funds Available does not include the balance of Sweden's contribution receivable of USD 7.22 million (to be paid at the time of bond redemption), but Sweden's total contribution amount is considered when planning the size of future auctions

c/ Does not include proceeds from sale of put options (premium) totaling approximately USD 12.5 million



2. Pledges and Contributions as of December 31, 2016

In millions

| Pledges and Contributions | | | | | | |
|-------------------------------------|------|--|--|--|--|-----------------------------|
| Updated as of December 31, 2016 | | | | | | |
| Contributor | Curr | Pledge in Currency of Contribution | Effective (or signed) Contribution | Effective (or signed) Contribution USDeq. | Receipts in Currency of Contribution | Receipts in USDeq. a/ |
| Climate Cent Foundation | USD | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Germany | EUR | 15.00 | 15.00 | 18.40 | 15.00 | 18.40 |
| Sweden | USD | 15.00 | 15.00 | 15.00 | 7.78 | 7.78 |
| Switzerland | USD | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| United States | USD | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |
| Total Contributions Received | | | | | | 46.17 |

a/ Represents actual USD receipts

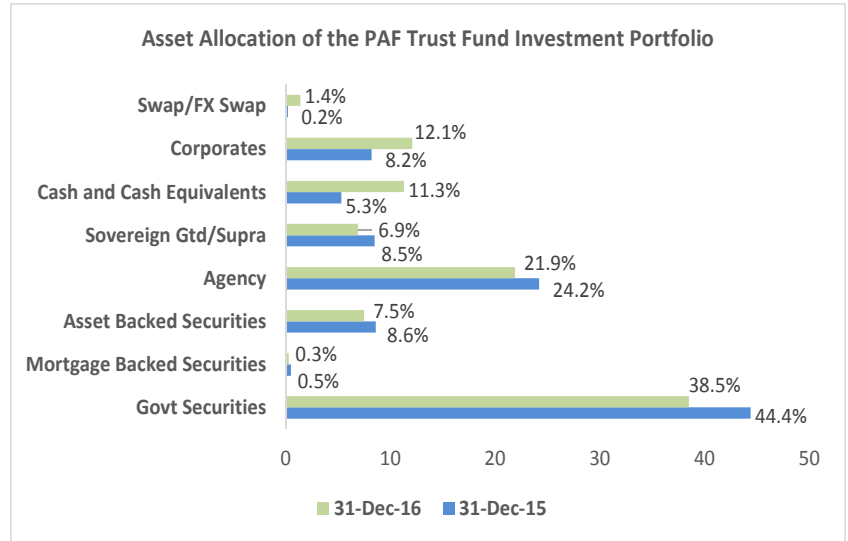
Note: totals may not add up to due to rounding



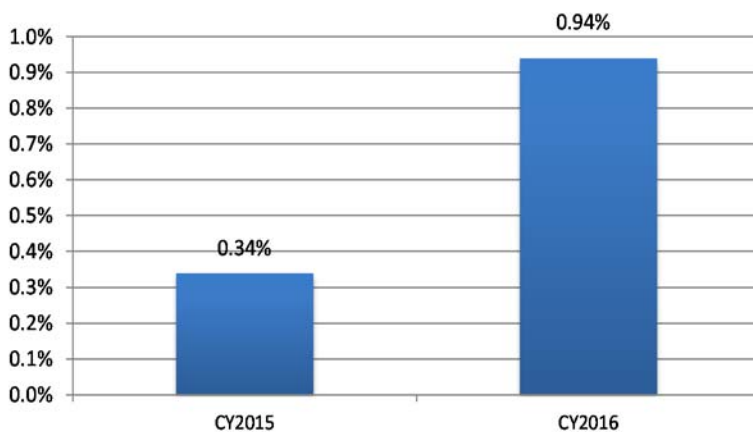
3. Asset Mix and Investment Income

ASSET MIX

Funds held in trust by the World Bank (as the Trustee) are maintained in a commingled investment portfolio (the “Pool”) for all trust funds administered by the World Bank. On July 1, 2015, the World Bank formally adopted the Conditional Value-at-Risk (CVaR) measure as the risk constraint in the management of trust funds. Funds are managed such that the expected maximum loss, as measured by the CVaR, at the portfolio’s investment horizon, is not to exceed 1% with 99% confidence.



The portfolio allocation by asset class has the largest allocations to government securities, agency, cash and cash equivalents, corporates, and asset backed securities.



INVESTMENT RETURNS

The PAF funds are invested in accordance with the investment strategy established for all of the trust funds administered by the World Bank. The PAF funds are invested in a short term fixed income portfolio with an investment horizon of one year. The PAF Trust Fund portfolio (which totaled approximately USD 37.29 million at end-December 2016) earned approximately USD 0.40 million in investment income since inception.



4. Cumulative Funding Decisions

In USD millions

| Activity | As of December 31, 2016 |
|------------------------------|------------------------------------|
| Auctions a/ | |
| First Auction | 19.34 |
| Second Auction | 19.98 |
| Third Auction | 13.00 |
| Sub-total | 52.32 |
| Administrative Budget | |
| Secretariat | 5.61 |
| Trustee | 1.03 |
| Sub-total | 6.64 |
| Total | 58.96 |

a/ Represents (i) actual bond redemption amount transferred from the PAF Trust Fund; and (ii) amount of bond redemptions due through 2020



5. Funds Available

In USD millions

| | <u>As of December 31, 2016</u> | <u>As of December 31, 2015</u> | <u>Change since last report</u> |
|---|--------------------------------|--------------------------------|---------------------------------|
| | (a) | (b) | (a) - (b) |
| 1. Cumulative Receipts | 46.72 | 33.04 | 13.68 |
| a. Cash receipts from Contributors | 46.17 | 32.90 | 13.28 |
| b. Investment Income earned on undisbursed balances | 0.40 | 0.06 | 0.34 |
| c. Other Income a/ | 0.14 | 0.08 | 0.06 |
| 2. Cumulative Cash Transfers | 9.43 | 4.91 | 4.52 |
| a. Bond redemption | 2.65 | - | 2.65 |
| b. Administrative Budget | 6.64 | 4.83 | 1.80 |
| c. Commitment Fee to IBRD a/ | 0.14 | 0.08 | 0.06 |
| 3. Funds Held in Trust (3 = 1 - 2) | 37.29 | 28.13 | 9.16 |
| 4. Funding Decisions Pending Cash Transfer | 49.67 | 25.00 | 24.67 |
| 5. Funds available to support Participants Committee decisions (5 = 3 - 4) b/ c/ | (12.38) | 3.13 | (15.51) |

a/ Represents commitment fee based on outstanding unpaid amount of Sweden's contribution
b/ Total amount of Funds Available does not include the balance of Sweden's contribution receivable of USD 7.22 million (to be paid at the time of bond redemption), but Sweden's total contribution amount is considered when planning the size of future auctions
c/ Does not include proceeds from sale of put options (premium) totaling approximately USD 12.5 million

Note: Sub-totals may not add up to due to rounding