European Bank
for Reconstruction and Development

The Financial Intermediary Investment Special Fund

Annual Financial Report
31 December 2012

The Financial Intermediary Investment Special Fund

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Statement of comprehensive income

For the year ended 31 December 2012

	Note	Year to 31 December 2012 € 000	Restated* Year to 31 December 2011 € 000
Net interest and similar income			
From loans		**537**	447
From credit institutions		**20**	95
Fee income		**88**	195
Net unrealised gains from share investments		**8**	110
Foreign exchange movement		**285**	(540)
Other operating expenses		**-**	(55)
Operating profit before provisions and guarantees		**938**	252
Impairment (charge)/release on loan investments	4	**(97)**	65
Charge on guarantees	5	**(25)**	(424)
Net profit/(loss) for the year		**816**	(107)
Attributable to:			
Contributors		**816**	(107)
Total comprehensive income/(expense)		**816**	(107)
Attributable to:			
Contributors		**816**	(107)

Balance sheet

At 31 December 2012

	Note	31 December 2012 € 000	31 December 2012 € 000	Restated* 31 December 2011 € 000	Restated* 31 December 2011 € 000
Assets					
Placements with credit institutions			**16,384**		23,555
Other financial assets	6		**78**		235
Loan investments					
Loans	7	**13,031**		13,154	
Less: Provisions for impairment	4	**(207)**		(112)	
			12,824		13,042
Share investments	8		**149**		141
Total assets			**29,435**		36,973
Liabilities					
Other financial liabilities	9		**43**		161
Trade Facilitation Programme guarantees	5		**4,201**		4,254
Contributors' resources					
Contributions	10	**27,181**		35,145	
Reserves and accumulated loss		**(1,990)**		(2,587)	
Total contributors' resources			**25,191**		32,558
Total liabilities			**29,435**		36,973
Memorandum items					
Undrawn loan commitments and guarantees			**10,140**		16,551

*Refer to note 3

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Statement of changes in contributors' resources

For the year ended 31 December 2012	Restated* Contributions € 000	Restated* Accumulated loss € 000	Restated* Total € 000
At 31 December 2010	28,864	(462)	28,402
Contributions received	5,554	-	5,554
Distribution of funds to contributors	(603)	(2,018)	(2,621)
Revaluation of contributions	1,330	-	1,330
Total comprehensive expense for the year	-	(107)	(107)
At 31 December 2011	35,145	(2,587)	32,558
Distribution of funds to contributors	(7,522)	(219)	(7,741)
Revaluation of contributions	(442)	-	(442)
Total comprehensive income for the year	-	816	816
At 31 December 2012	**27,181**	**(1,990)**	**25,191**

Statement of cash flows

For the year ended 31 December 2012		Year to 31 December 2012		Restated* Year to 31 December 2011
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit/(loss) for the year	**816**		(107)	
Adjustments for:				
Interest income	**(557)**		(542)	
Net unrealised gains from share investments	**(8)**		(110)	
Foreign exchange movement	**(285)**		540	
Impairment charge/(release) on loan investments	**97**		(65)	
Charge on guarantees	**25**		424	
	88		140	
Interest income received	**587**		540	
Decrease/(increase) in operating assets:				
Proceeds from repayment of loans	**3,464**		909	
Fund advanced for loans	**(3,400)**		-	
Fee income receivable	**41**		(8)	
Deferred fee income receivable	**84**		(25)	
(Decrease)/increase in operating liabilities				
Accrued expenses	**(84)**		27	
Net cash from operating activities		**780**		1,583
Cash flows (used in)/from financing activities				
Contributions received	**-**		5,554	
Disbutribution of funds to contributors	**(7,741)**		(2,620)	
Net cash (used in)/from financing activities		**(7,741)**		2,934
Net (decrease)/increase in cash and cash equivalents		**(6,961)**		4,517
Cash and cash equivalents at the beginning of the year		**23,555**		18,274
Effect of foreign exchange rate changes		**(210)**		764
Cash and cash equivalents at 31 December		**16,384**		23,555

*Refer to note 3

The Financial Intermediary Investment 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 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 and liabilities 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 Financial Intermediary Investment 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.

Amendments to published standards

IFRS 7 (Amendment), Financial Instruments: Disclosures – Transfers of Financial Assets, is effective for accounting periods beginning on or after 1 July 2011. The amendment requires disclosure of information that will assist in understanding the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities. This amendment is not considered to be relevant to the Fund's activities.

Standards, amendments to published standards and interpretations that are not yet effective and have not been adopted early by the Fund

The following standards, amendments to published standards and interpretations are mandatory for the Fund's accounting periods beginning on or after 1 January 2013 or later periods. The Fund has not adopted them early and is currently considering their impact.

Pronouncement	Nature of change	IASB effective date
IFRS 7 (Amendment) Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities	The amendment requires disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.	Accounting periods beginning on or after 1 January 2013
IFRS 9 (Oct 2010): Financial Instruments – Liabilities	The standard maintains the two measurement classifications of amortised cost and fair value through profit or loss for financial liabilities. However, for financial liabilities measured at fair value through profit or loss, changes in fair value due to own credit risk are to be presented in other comprehensive income.	Accounting periods beginning on or after 1 January 2015
IFRS 10: Consolidated Financial Statements	The standard establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.	Accounting periods beginning on or after 1 January 2013

IFRS 11: Joint Arrangements	The standard establishes the principles for financial reporting by parties to a joint arrangement.	Accounting periods beginning on or after 1 January 2013
IFRS 12: Disclosure of Interests in Other Entities	The standard consolidates the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.	Accounting periods beginning on or after 1 January 2013
IFRS 13: Fair Value Measurement	The standard defines fair value, establishes a single framework for measuring fair value and requires disclosures about fair value measurements.	Accounting periods beginning on or after 1 January 2013
IAS 1 (Amendment): Presentation of Financial Statements	The amendment requires entities to group items presented in other comprehensive income on the basis of whether they are potentially re-classifiable to profit or loss.	Accounting periods beginning on or after 1 July 2012
IAS 19 (Amendment): Employee Benefits	There are various amendments to the standard including: ▪ elimination of the option to defer the recognition of gains and losses through the use of the corridor method; ▪ streamlining the presentation of changes in assets and liabilities arising from defined benefit plans; ▪ enhancing disclosure requirements for defined benefit plans.	Accounting periods beginning on or after 1 January 2013
IAS 27 (Reissued): Separate Financial Statements	The reissued standard requires an entity preparing separate financial statements to account for investments in subsidiaries, joint ventures and associates at cost or in accordance with *IFRS 9: Financial Instruments*.	Accounting periods beginning on or after 1 January 2013
IAS 28 (Reissued): Investments in Associates and Joint Ventures	The reissued standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	Accounting periods beginning on or after 1 January 2013
IAS 32 (Amendment) Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities	The amendment updates the application guidance and basis of conclusions in relation to the offsetting of financial assets and financial liabilities.	Accounting periods beginning on or after 1 January 2014

A number of existing standards were reviewed by the IASB in May 2012 as part of the IFRS improvements project. The following amendment is relevant to the Fund but does not have a significant impact on the Fund's financial statements:

- IAS 1, Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2013).

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 share investments held by the Fund are measured at fair value through profit or loss.

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 used is net asset value.

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. The IASB's second instalment to IFRS 9, relating to financial liabilities, was issued in October 2010. It is effective for accounting periods beginning on or after 1 January 2015.

All financial liabilities are measured at amortised cost.

Impairment of financial assets

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

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

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

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

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

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

Financial guarantees

Trade Facilitation Programme ("TFP") guarantees represent standby letters of credit issued in favour of confirming banks who have undertaken the payment risk of issuing banks and also guarantees over the European Bank for Reconstruction and Development's ("the Bank") TFP loans within specific eligible countries. TFP guarantees are provided on a first-loss basis over the principal losses on the Bank's TFP transactions.

Issued TFP financial guarantees are initially recognised at their fair value, and subsequently measured at the higher of the initial fair value less cumulative amortisation or, where applicable, the expenditure required to settle the commitment at the balance sheet date. The latter is recognised when it is both probable that the guarantee will need to be settled and the settlement amount can be reliably estimated. Financial guarantees are recognised within other financial assets and other financial liabilities.

Contributors' resources

The Fund recognises contributions received from contributors as a liability on the basis that should a contributor choose to withdraw from the Fund, the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

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.

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.

Contributions

Contributions received in currencies other than euro are translated into euro at the exchange rates ruling at the time of the transaction. They are subsequently revalued at the year end exchange rate.

Interest and fees

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

Fees received in respect of services provided over a period of time are recognised as income as the services are provided. Other fees and commissions are classified as income when received.

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 may require the Fund to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The Fund's critical accounting estimates and judgements are as follows:

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the Accounting Policies section of the report and an analysis of the share investment portfolio is provided in note 8. Where relevant market data is not available, extrapolation and interpolation of existing data has been used. Where unobservable market data has been used, a sensitivity analysis has been included within the Risk Management section of the report.

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

Portfolio provisions for the unidentified impairment of loan investments at 31 December 2012 were €207,000 (2011: €112,000). The sensitivity of portfolio provisions to key variables used in determining the level of impairment is provided below.

Risk ratings

- If all loan investments were upgraded by one category on the Bank's probability of default rating, this would result in a credit to the income statement of €145,000 due to a reduction in portfolio provisions.
- Conversely, if all loan investments were downgraded by one category on the Bank's probability of default rating, this would result in a charge to the income statement of €385,000.

Loss emergence period

- Provisions for unidentified impairment are made to reflect losses arising from events existing but not identified at the balance sheet date and which will emerge within a 12 month period from that date. If the loss emergence period was reduced to three months it is broadly estimated that this would result in a decrease in portfolio provisions charged to the income statement of €168,000.

Probability of default rates

- In determining the probabilities of default for each risk rating, the relative weighting applied to external data and the Bank's own experience is reviewed annually. The 2012 general provisioning methodology applies a 50 per cent weighting to the Bank's own experience and a 50 per cent weighting to external data, which is consistent with the methodology approved in the previous year. A decrease in the weighting assigned to the Bank's own experience to 40 per cent (60 per cent external default data) would lead to an increase in portfolio provisions of €30,000, increasing provisions for unidentified impairment of loan investments to €237,000. Similarly, an increase in the weighting assigned to the Bank's own experience to 60 per cent (40 per cent external default data) would lead to a decrease in portfolio provisions of €30,000, decreasing provisions for unidentified impairment of loan investments to €177,000.

Loss given default rates

- A decrease in loss given default rates by 10 percentage points would lead to a decrease in portfolio provisions of €31,000, reducing provisions for unidentified impairment of loans to €176,000.
- An increase in loss given default rates by 10 percentage points would lead to a corresponding increase in portfolio provisions for unidentified impairment of loans by €31,000, to a total of €238,000.

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

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Risk management

The Fund was established to support financial intermediaries in the Bank's countries of operations by providing loans, investing in equity capital and providing guarantees or other credit support.

As the primary purpose of the Fund is to encourage development in the countries of operations, rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate, foreign exchange and equity price risk.

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 borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could become impaired.

The carrying amounts of financial assets presented on the balance sheet, together with undrawn commitments as shown under memorandum items, best represents the Fund's maximum exposure to credit risk at 31 December 2012 and 31 December 2011, without taking account of any collateral held or other credit enhancements.

Credit risk management and measurement

As previously stated, the Fund participates jointly with the Bank in the financing of investments in the Bank's countries of operations. It therefore benefits from the same governance process employed by the Bank in the measurement and management of credit exposures, which is described below.

The Board of Directors approves a credit process document that defines the procedures for the approval, management and review of Banking exposures by the Operations Committee. The Audit Committee reviews the credit process annually and its review is submitted to the Board for approval.

Banking projects are reviewed by the Operations Committee which is chaired by the First Vice President Banking and whose membership comprises senior managers of the Bank. The Operations Committee is responsible for reviewing all Banking operations prior to their submission for Board approval. This includes a number of frameworks for smaller projects which are then each considered by the Small Business Investment Committee. Both committees review projects to ensure they meet the Bank's criteria for sound banking, transition impact and additionality. The Operations Committee operates within the authority delegated by the Board, via the Executive Committee, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for overseeing Banking portfolio management and approving significant changes to existing operations. Risk Management is responsible for recommendations for provisions for the impairment of Banking loans and reports these quarterly to the Operations Committee. The Equity Committee acts as governance committee for the equity portfolio.

The Bank conducts reviews of 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. For share investments it also reviews the fair value. At the recommendation of Risk Management, investments considered to be in jeopardy may be transferred from Banking teams to the Corporate Recovery Unit – which reports jointly to Risk Management and Banking – in order to manage the restructuring work-out and recovery process.

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 PD[1] Rating	EBRD Risk Class[2]	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	
6	5.7 6.0 6.3	B+ B B-	Weak	
7	6.7 7.0 7.3	CCC+ CCC CCC-	Special Attention	Classified
8	8.0	CC/CD	Expected Loss/Impaired	Classified

Disbursements are managed by the Operations Administration Unit (OAU) within the Office of the General Counsel (OGC). The OAU is responsible for checking compliance with loan and other project agreements and ensuring that correct procedures are followed in line with approved policy. Waivers, consents and amendments of loan covenants and conditionality are prepared by the OAU and are approved by Banking, Risk Management and, where required, by the OGC, the Office of the Chief Economist and the Environment and Sustainability Department.

Counterparty risk ratings reflect the financial strength of the risk counterparty as well as consideration of any implicit support, for example from a major shareholder. For non-sovereign operations, probability of default ratings are normally capped by the local sovereign rating, except where the Bank has recourse to a guarantor from outside the country of operations which may have a better rating than the local sovereign rating. During the year the Bank continued to roll out some changes in its probability of default rating process and methodology to improve calibration and consistency. The Bank also assigns loss given default ratings on a scale of 0 per cent to 100 per cent determined by seniority, jurisdiction and sector of the transaction.

The Bank's general portfolio provisions are based on an assumed value for the probability of default rating assigned to each transaction by Risk Management and loss given default parameters based on product seniority and legal jurisdiction. Both the assumed probability of default value and the loss given default assumptions remain more conservative than the Bank's own default and recovery experience.

Risk Management reports on the development of the portfolio as a whole on a quarterly basis to the Audit Committee. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio and within various sub-portfolios. It also includes reporting on compliance with all portfolio risk limits including explanation of any limit breaches.

Placements with credit institutions
The Fund's placements with credit institutions were all internally risk rated between 2 and 3 (approximately AA++ to A- in terms of S&P equivalent).

Other financial assets
Other financial assets represent interest receivable on loans and TFP guarantee fees payable by the Bank to the Fund.

[1] Probability of default
[2] Risk rating 9 and 10 were eliminated during 2012 due to limited additional information content and are now grouped in rating category 8.0.

Loan investments

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

Risk rating	**Neither past due nor impaired € 000**	**Total %**	**Portfolio provisions for unidentified impairment € 000**	**Total net of impairment € 000**	**Impairment provisions * %**
Rating 5: Fair	6,218	47.7	(20)	6,198	0.3
Rating 6: Weak	6,813	52.3	(187)	6,626	2.7
At 31 December 2012	**13,031**	**100.0**	**(207)**	**12,824**	**1.6**

Risk rating	Neither past due nor impaired € 000	Total %	Portfolio provisions for unidentified impairment € 000	Total net of impairment € 000	Impairment provisions * %
Rating 5: Fair	7,898	60.0	(34)	7,864	0.4
Rating 6: Weak	5,256	40.0	(78)	5,178	1.5
At 31 December 2011	13,154	100.0	(112)	13,042	0.9

* as a percentage of loan balance

Guarantees

At 31 December 2012, the Bank had outstanding guarantees under the TFP for which, in the event of a future default, losses incurred by the Bank will be refunded in part from the resources of the Fund. At 31 December 2012, the Fund’s maximum exposure under such guarantees was €6.3 million (2011: €13.2 million) of which €4.2 million (2011: €4.3 million) is recognised as “TFP guarantees” on the balance sheet.

Undrawn loan commitments and guarantees

Set out below is an analysis of the Fund’s undrawn commitments for loan investments and maximum exposure for guarantees for each of the Bank’s relevant internal risk rating categories.

Risk rating	**Undrawn loan commitments 2012 € 000**	**Guaranteed TFP transactions 2012 € 000**	Undrawn loan commitments 2011 € 000	Guaranteed TFP transactions 2011 € 000
Rating 5: Fair	**-**	**198**	-	-
Rating 6: Weak	**3,793**	**817**	3,400	7,875
Rating 7: Special attention	**-**	**1,131**	-	1,022
Rating 8: Expected loss/impaired	**-**	**4,201**	-	4,254
31 December	**3,793**	**6,347**	3,400	13,151

Concentration of credit risk exposure

The following table breaks down the Fund's guarantee credit exposures by geographic region.

	Loans 2012 € 000	**Undrawn commitments and guarantees 2012 € 000**	**Total 2012 € 000**	Loans 2011 € 000	Undrawn commitments and guarantees 2011 € 000	Total 2011 € 000
Armenia	**-**	**-**	**-**	-	1,568	1,568
Azerbaijan	**-**	**-**	**-**	389	-	389
Georgia	**-**	**2,146**	**2,146**	-	6,162	6,162
Mongolia	**-**	**3,793**	**3,793**	-	-	-
Moldova	**-**	**-**	**-**	-	1,167	1,167
Romania	**3,400**	**-**	**3,400**	-	3,400	3,400
Turkey	**9,631**	**-**	**9,631**	12,765	-	12,765
Ukraine	**-**	**4,201**	**4,201**	-	4,254	4,254
At 31 December	**13,031**	**10,140**	**23,171**	13,154	16,551	29,705

The Fund's investment portfolio is concentrated in a single industry sector, finance.

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk for the Fund are interest rate risk, foreign exchange risk and equity risk.

Market risk management and measurement

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

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

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

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

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

	Euro 2012 € 000	United States dollars 2012 € 000	Total € 000
Total assets	16,002	13,433	**29,435**
Total liabilities	(200)	(29,235)	**(29,435)**
Net currency position at 31 December 2012	**15,802**	**(15,802)**	**-**

	Euro 2011 € 000	United States dollars 2011 € 000	Total € 000
Total assets	22,509	14,464	36,973
Total liabilities	(6,436)	(30,537)	(36,973)
Net currency position at 31 December 2011	16,073	(16,073)	-

Based on the five year rolling average movement in the United States dollar to euro exchange rate, the potential impact on the Fund’s net profit from a 7 per cent strengthening or weakening (2011: 9 per cent) is €1,034,000 (2011: €1,254,000).

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 expects the effect of equity price risk on net profit will bear a linear relationship to the movement in equity indices.

Based on the five year rolling average movement in the Stoxx EU Enlarged TMI index, the potential impact on the Fund’s net profit from a 31 per cent movement (2011: 30 per cent) in equity prices is €46,000 (2011: €42,000).

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund’s Rules and Regulations require that loan investments, equity investments and guarantees 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’s guarantees are limited to the resources of the relevant TFP Sub-accounts. The Fund also recognises contributions received as a liability, which may be returned to the contributor upon termination of a contribution agreement only after relevant liabilities have been discharged and assets disposed of or redeemed. As a result, the Fund’s exposure to liquidity risk is considered to be minimal.

D. Management of contributors' resources

At 31 December 2012, the Fund had six Sub-accounts:

- The United States Agency for International Development (USAID) Horizonte Slovene Enterprise Fund, equity Sub-account;
- The International Cooperation and Development Fund (ICDF) Small Business Account (SBA), loan Sub-account, the SBA II, loan Sub-account and the SBA III, loan Sub-account;
- The ICDF TFP, guarantee Sub-account; and
- The Netherlands TFP, guarantee Sub-account.

The Financial Intermediary Investment 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 16 December 1996 and is administered, *inter alia*, in accordance with the AEB and under the terms of the Rules and Regulations of the Fund. The Fund became operational on 22 May 1997 following the receipt of the first contributions.

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. Restatement

In the year ended 31 December 2010 a decision was made to account for contributions as a liability instead of equity given the right of a contributor to seek a return of its contributions, subject to outstanding commitments and obligations, in circumstances other than the termination of the Fund. Upon making this change, contributions not denominated in euro should have been translated into euro at the exchange rate prevailing at that time and at each subsequent reporting date. This was not done, with each contribution continuing to be translated into euro at the exchange rate prevailing at the time of receipt of such contribution.

The prior year restatement reflects the impact of correcting this.

The effect of this restatement resulted in an increase to accumulated losses and a corresponding decrease to contributions received of €1,229,000 at 31 December 2010, and a decrease to the foreign exchange movement of €1,330,000 in 2011 resulting in a corresponding increase to contributions received of €1,330,000 at 31 December 2011.

4. Provisions for impairment of loan investments

	2012	2011
Charge/(release) for the year	**€ 000**	€ 000
Portfolio provisions for the unidentified impairment of loan investments	**97**	(65)
Impairment charge/(release) on loan investments	**97**	(65)
Movement in provisions		
At 1 January	**112**	172
Charge/(release) for the year to the income statement	**97**	(65)
Foreign exchange adjustments	**(2)**	5
At 31 December	**207**	112
Analysed between		
Portfolio provisions for the unidentified impairment of loan investments	**207**	112
At 31 December	**207**	112

5. Trade Facilitation Programme guarantees

	2012	2011
	€ 000	€ 000
At 1 January	**4,254**	3,696
Charge for the year to the income statement	**25**	424
Foreign exchange adjustments	**(78)**	134
At 31 December	**4,201**	4,254

6. Other financial assets

	2012	2011
	€ 000	€ 000
Interest receivable on loans	**24**	56
Fee income receivable from financial guarantees	**11**	52
TFP-related guarantees	**43**	127
At 31 December	**78**	235

7. Loan investments

	2012	2011
	€ 000	€ 000
At 1 January	**13,154**	13,899
Disbursements	**3,400**	-
Repayments	**(3,464)**	(909)
Foreign exchange movements	**(59)**	164
At 31 December	**13,031**	13,154
Impairment at 31 December	**(207)**	(112)
Total loan investments net of impairment at 31 December	**12,824**	13,042

8. 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 value of the Fund's share investments have been classified as Level 3, that is, those which have fair valued determined by inputs not based on observable market data.

No reasonably plausible alternative valuations have been determined as the effect on the financial statements is considered immaterial.

The table below provides information about the Fund's share investments at fair value through profit or loss.

	2012	2011
	€ 000	€ 000
Outstanding disbursements		
At 1 January	**1**	1
At 31 December	**1**	1
Fair value adjustment		
At 1 January	**140**	30
Movement in fair value revaluation	**8**	110
At 31 December	**148**	140
Fair value at 31 December	**149**	141

9. Other financial liabilities

	2012	2011
	€ 000	€ 000
TFP-related guarantees	**43**	127
Interest refundable	**-**	34
At 31 December	**43**	161

10. Contributions

	Executing agency	2012 € 000	Restated* 2011 € 000
Cumulative contributions received			
Netherlands	-	**2,147**	8,897
Taipei China	ICDF	**25,034**	25,494
United States of America	USAID	**-**	754
		27,181	35,145
Memorandum item - Contributions receivable			
Taipei China	ICDF	**9,103**	9,271
		9,103	9,271
At 31 December		**36,284**	44,416

Total contributions including contributions receivable	**Executing agency**	**2012 € 000**	**2012 %**	2011 € 000	2011 %
Netherlands	-	**2,147**	**5.9**	8,897	20.0%
Taipei China	ICDF	**34,137**	**94.1**	34,765	78.3%
United States of America	USAID	**-**	**-**	754	1.7%
At 31 December		**36,284**	**100.0**	44,416	100.0

*Refer to note 3

On 12 January 2012, USAID terminated its grant agreements in relation to investments in the Horizonte Slovene Enterprise Fund and Slovenian Development Capital Fund. Accordingly, uncommitted funds of USD 1.167 million (€881,000) were distributed to the contributor. On 12 December 2012, a distribution of €6.86 million (2011: €2.62 million) was made to the Netherlands representing uncommitted funds in the Netherlands TFP Sub-account.

11. Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

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

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

	Current	Non-current	Total	Current	Non-current	Total
	2012	2012	2012	2011	2011	2011
Assets	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Placements with credit institutions	**16,384**	**-**	**16,384**	23,555	-	23,555
Other financial assets	**41**	**37**	**78**	185	50	235
Loans	**-**	**13,031**	**13,031**	389	12,765	13,154
Provisions for impairment	**-**	**(207)**	**(207)**	(19)	(93)	(112)
Share investments	**-**	**149**	**149**	-	141	141
Total assets	**16,425**	**13,010**	**29,435**	24,110	12,863	36,973
Liabilities						
Other financial liabilities	**43**	**-**	**43**	161	-	161
Trade Facilitation Programme guarantees	**4,201**	**-**	**4,201**	4,254	-	4,254
Total contributors' resources	**25,191**	**-**	**25,191**	32,558	-	32,558
Total liabilities	**29,435**	**-**	**29,435**	36,973	-	36,973

13. Events after the reporting period

There have been no material post-reporting date events that would require disclosure or adjustment to these financial statements.

14. Related parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee of an amount equal to one per cent of contributions received. As there were no contributions received in 2012, there were no management fees paid by the Fund to the Bank (2011: €55,000) and there was no accrued management fee payable by the Fund to the Bank at 31 December 2012 (2011: nil). External auditor's remuneration of €7,700 (2011: €5,200) is payable by the Bank from this management fee. The external auditor is appointed for a four-year term with Deloitte LLP (UK) serving as auditor for the period 2011-14. The external auditor may only serve a maximum of two consecutive terms. Also during 2012, the Fund received fees from the Bank in relation to TFP guarantees of €88,000 (2011: €195,000), of which €11,000 are receivable as at 31 December 2012 (2011: €52,000).

Contributions received and receivable from the contributors and amounts returned to the contributors are outlined in note 10.

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

Report on the financial statements

We have audited the financial statements of the Financial Intermediary Investment Special Fund ("the Fund") for the period ended 31 December 2012 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in contributor's resources, the statement of cash flows for the period then ended together with the accounting policies, the risk management section and the related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

President's responsibility for the financial statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the Financial Statements present fairly, in all material respects, the financial position of the Financial Intermediary Investment Special Fund as at 31 December 2012 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Other reporting responsibilities

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

Other Matters

The financial statements have 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
8 April 2013