

**European Bank
for Reconstruction and Development**

The Financial Intermediary Investment Special Fund

**Annual Financial Report
31 December 2006**

European Bank for Reconstruction and Development

The Financial Intermediary Investment Special Fund

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The Financial Intermediary Investment Special Fund

Income statement		Year to	Year to
For the year ended 31 December 2006		31 December 2006	31 December 2005
	Note	€000	€000
Interest and similar income			
From loans		687	439
Other interest		558	318
Fee income	4	36	105
Foreign exchange (loss)/gain		(1,104)	1,128
Net income refunded to contributors		(442)	-
Other operating expenses	5	(76)	(320)
Operating (loss)/profit before provisions		(341)	1,670
Provisions for impairment of loan investments	6	(92)	(705)
Net (loss)/profit for the year		(433)	965

Balance sheet		31 December		Restated
At 31 December 2006		2006	2006	31 December
	Note	€000	€000	€000
Assets				
Placements with credit institutions			20,197	17,579
Other assets	7		529	360
Loan investments				
Loans	8	8,040		8,645
Less: Provisions for impairment	6	(1,178)		(1,573)
			6,862	7,072
Share investments				
Available-for-sale share investments	9		468	540
Total assets			28,056	25,551
Liabilities				
Other liabilities	11		197	385
Contributions	12	29,096		26,203
Reserves and retained earnings		(1,237)		(1,037)
Total contributors' resources			27,859	25,166
Total liabilities			28,056	25,551

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Statement of cash flows For the year ended 31 December 2006	Year to 31 December 2006	Restated Year to 31 December 2005
	€000	€000
Cash flows from operating activities		
Operating (loss)/profit for the year	(433)	965
Adjustment for:		
Provisions for impairment of loan investments	92	705
Unwinding of the discount relating to the identified impairment of loans	-	(24)
Foreign exchange	1,104	(1,128)
Operating profit before changes in operating assets	<u>763</u>	<u>518</u>
(Increase)/decrease in operating assets:		
Interest and fee income receivable and prepaid expenses	(169)	(285)
Proceeds from repayment of loans	842	386
Funds advanced for loans	(1,233)	(4,048)
Proceeds from sale of share investments	305	-
(Decrease)/increase in operating liabilities:		
Accrued expenses	(188)	362
Net cash from/(used in) operating activities	<u>320</u>	<u>(3,067)</u>
Cash flows from financing activities		
Net contributions received	<u>2,893</u>	<u>6,526</u>
Net cash from financing activities	<u>2,893</u>	<u>6,526</u>
Net increase in cash and cash equivalents	<u>3,213</u>	<u>3,459</u>
Cash and cash equivalents at beginning of year	<u>17,579</u>	<u>13,540</u>
Effect of foreign exchange rate changes	(595)	580
Cash and cash equivalents at 31 December	<u>20,197</u>	<u>17,579</u>

Statement of changes in contributors' resources

For the year ended 31 December 2006	Contributions	General reserve	Accumulated loss	Total
	€000	€000	€000	€000
At 31 December 2004	19,677	-	(1,980)	17,697
Transitional restatement of opening balances for fair value of share investments	-	76	-	76
At 1 January 2005	19,677	76	(1,980)	17,773
Net fair value movement of available-for-sale share investments for the year	-	(98)	-	(98)
Net contributions received	6,526	-	-	6,526
Net profit for the year	-	-	965	965
At 31 December 2005	26,203	(22)	(1,015)	25,166
Net contributions received	2,893	-	-	2,893
Net fair value movement of available-for-sale share investments for the year	-	233	-	233
Net loss for the year	-	-	(433)	(433)
At 31 December 2006	<u>29,096</u>	<u>211</u>	<u>(1,448)</u>	<u>27,859</u>

The Financial Intermediary Investment Special Fund

Notes to the financial statements

1 Creation of the Special Fund

The creation of The Financial Intermediary Investment Special Fund ("the Fund") was approved by the Board of Directors ("the Board") of the European Bank for Reconstruction and Development ("the Bank") at its meeting of 16 December 1996 and is administered, *inter alia*, under the terms of Rules and Regulations of such Special Fund approved by the Board on that date. The Fund became operational on 22 May 1997 following the receipt of the first contributions.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to support financial intermediaries in the Bank's countries of operations.

2 President's responsibilities

The President of the Bank is responsible for preparing the financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

3 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.

i 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) and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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 Fund's policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below in "critical accounting estimates and judgements".

ii Significant changes in the financial statements

Amendments to published standards effective in 2006

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts

This amendment requires issued financial guarantees to be initially recognised at their fair value, and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the balance sheet date. The Fund has retrospectively applied this Amendment and the effect of the restatement was to increase both other assets and other liabilities by €45,000 at 31 December 2005 to reflect guarantee fees receivable and deferred income from financial guarantees. The recognition of the present value of the fees receivable has no impact on the financial statements.

Standards early adopted by the Fund

No standards were early adopted by the Fund in 2006.

Standards, amendments and interpretations effective in 2006 but not relevant to the Fund's operations

The following new standards, amendments and interpretations to existing standards are mandatory for the Fund's 2006 financial statements but are not relevant to the Fund's operations:

- IAS 19 (Amendment), Employee Benefits;

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Notes to the financial statements (continued)

3 Accounting policies (continued)

- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting for Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Standards that are not yet effective and have not been early adopted by the Fund

The following standards have been published that are mandatory for the Fund's accounting period beginning on 1 January 2007 or later periods but that the Fund has not early adopted:

IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for accounting periods from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including an analysis of sensitivity to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. IAS 1 (Amendment) introduces disclosures about the level of an entity's capital and how it manages that capital. The Fund has assessed the impact of IFRS 7 and IAS 1 (Amendment) and concluded that the main additional disclosures will be in relation to sensitivity analysis. The Fund will apply IFRS 7 and IAS 1 (Amendment) from its annual period beginning 1 January 2007.

IFRS 8, Operating Segments (effective for accounting periods from 1 January 2009)

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The Fund has assessed the impact of IFRS 8 and concluded that it is not expected to impact the operating segments of the Fund and that the main additional disclosures will be in relation to the determination and measurement of the Fund's operating segments. The Fund will apply IFRS 8 from its annual period beginning 1 January 2009.

Interpretations to existing standards that are not yet effective and not relevant for the Fund's operations

The following interpretations to existing standards have been published that are mandatory for the Fund's accounting period beginning on 1 January 2007 or later periods but are not relevant for the Fund's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for accounting periods from 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for accounting periods from 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for accounting periods from 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for accounting periods from 1 November 2006);
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for accounting periods from 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective for accounting periods from 1 January 2008).

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Notes to the financial statements (continued)

3 Accounting policies (continued)

Changes in critical accounting policies, accounting estimates and judgements in the prior period

Fair valuation of unlisted share investments

Prior to 2005, the Bank valued the Fund's unlisted share investments at historic cost, less any provisions for impairment. In 2005 the Bank performed an assessment of the fair value of the share investment portfolio as at 1 January 2005 and 31 December 2005. As a result of the assessment the Bank enhanced its valuation techniques so that unlisted equity could be measured at fair value.

As fair value could not be reliably measured prior to 2005 it was impracticable to restate 2004 comparatives for unlisted share investments. At 1 January 2005 the Fund released portfolio provisions for the unidentified impairment of share investments and specific provisions for the identified impairment of share investments, totalling €704,000, to reserves. In addition the Fund restated all unlisted share investments to fair value resulting in a decrease to the Fund's reserves of €628,000. The total impact on the Fund's opening reserves was a net increase of €76,000.

iii Significant accounting policies

Financial assets

Loans

Loans originated by the Fund are measured at amortised cost using the effective yield method less any provision for impairment or uncollectibility. Loans are recognised at settlement date.

Available-for-sale

This category comprises the Fund's non-associate share investments. Such assets are measured at fair value on the balance sheet with changes in fair value recorded through reserves, as disclosed in the "statement of changes in contributors' resources", until the financial asset is sold or determined to be impaired. At this time the cumulative profit or loss previously recognised in reserves is removed and included in the income statement.

The basis of fair value for unlisted share investments is determined using valuation techniques appropriate to the market and industry of each investment. Purchases and sales of share investments are recorded at trade date. Note 10 analyses unlisted share investments.

Provisions for impairment of loan investments

Where there is objective evidence that an identified loan is impaired, specific provisions for impairment are recognised in the income statement. Impairment is defined as the difference between the carrying value of the asset and the net present value of expected future cash flows, determined using the instrument's original effective interest rate where applicable. The Bank's Risk Management Vice Presidency normally reviews assets for impairment every six months, and sometimes more frequently. 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.

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 applied in the month of disbursement. The effect of applying the Fund's methodology is considered to approximate to the calculation of impairment on an incurred loss basis, being the difference between the carrying value of the groups of similar assets and the net present value of their expected future cash flows. 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 under the caption "provisions for impairment of loan investments", as summarised in note 6. When a loan is deemed uncollectable the principal is written off against the related estimated impairment. Subsequent recoveries are credited to the income statement if previously written off.

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Notes to the financial statements (continued)

3 Accounting policies (continued)

Financial guarantees

Issued financial guarantees are initially recognised at their fair value, and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the balance sheet date. The latter is determined upon consideration of objective evidence that the guarantee is impaired and is recognised when it is both probable that the guarantee will require to be settled and that the settlement amount can be reliably estimated.

iv Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Preparing financial statements in conformity with IFRS requires the Fund to make estimates and assumptions 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- fair value of available-for-sale share investments; and
- provisions for impairment of loan investments.

These estimates are highly dependent on a number of variables which reflect the economic environment and financial markets of the Fund's countries of operations but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The resultant volatility, combined with a lack of comparable information in relation to the Fund's banking portfolio, limits the Fund's ability to apply traditional sensitivity analysis methods.

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

v Foreign currencies

The unit of measurement for the presentation of the financial statements of the Fund is euro (€). Monetary assets and liabilities denominated in foreign currencies are translated into euro at spot rates as at 31 December 2006. Non-monetary items are expressed in euro at the exchange rates ruling at the time of the transaction. Revenue and expense items are translated into euro at the exchange rate on the date on which they occurred. Exchange gains or losses arising from the translation of assets, liabilities and transactions during the year are taken to the income statement.

vi Interest, fees and commissions and dividends

Interest is recorded on an accruals basis using the effective yield method. Interest is recognised on impaired loans through unwinding the discount used in the present value calculations applied to expected future cash flows.

Commitment fees are deferred in accordance with IAS 18, together with the related direct costs of originating and maintaining the commitment, and are recognised in interest income over the period from disbursement to repayment of the related loan. If the commitment expires without the loan being drawn down, the fee is recognised as income on expiry.

Dividends relating to share investments are recognised when received.

vii Contributions

Contributions are disclosed as receivable on the date of signature of a contribution agreement by the Bank and a contributor. Contributions received are translated into euro at the exchange rates ruling at the time of the transaction. Outstanding contributions are translated into euro at spot rates as at 31 December 2006.

viii Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, which are available for use at short notice and which are subject to insignificant risk of changes in value.

The Financial Intermediary Investment Special Fund

Notes to the financial statements (continued)

3 Accounting policies (continued)

ix Taxation

In accordance with Article 53 of the Agreement Establishing the Bank dated 29 May 1990, 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.

x Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

4 Fee income

	2006	2005
	€000	€000
Guarantee fees	36	104
Other	-	1
Total fee income	36	105

5 Other operating expenses

Other operating expenses comprise administrative expenses directly relating to the Fund and include fees payable to the Bank for operating the Fund, calculated in accordance with contribution agreements. External auditors' remuneration in respect of the Fund is borne by the Bank.

6 Provisions for impairment of loan investments

	2006	2005
	€000	€000
Charge for the year		
Portfolio provisions for the unidentified impairment of loan investments:		
Non-sovereign risk assets	176	551
Specific provisions for the identified impairment of loan investments:		
Non-sovereign risk assets	(84)	154
Provisions for impairment of loan investments	92	705

	2006	2005
	€000	€000
Movement in provisions		
At 1 January	1,573	968
Charge for the year	92	705
Unwinding of the discount relating to the identified impairment of loans ¹	-	(24)
Foreign exchange adjustments	(106)	74
Release against amounts written off	(381)	(150)
At 31 December	1,178	1,573

Analysed between:

Portfolio provisions for the unidentified impairment of loans:		
Non-sovereign risk assets	1,178	1,108
Specific provisions for the identified impairment of loans:		
Non-sovereign risk assets	-	465
Deducted from assets at 31 December	1,178	1,573

¹ Included in interest income in 2005 is €24,000 relating to the unwinding of the net present value discount.

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Notes to the financial statements (continued)

7 Other assets

	2006	Restated 2005
	€000	€000
Interest receivable	281	209
Fee income receivable	248	149
Other	-	2
At 31 December	529	360

8 Loan investments

	2006	2005
	€000	€000
At 1 January	8,645	4,511
Disbursements during the year	1,233	4,048
Repayments and prepayments	(842)	(386)
Foreign exchange movements	(615)	622
Written off	(381)	(150)
At 31 December	8,040	8,645
Impairment at 31 December (note 6)	(1,178)	(1,573)
Total loan investments net of impairment at 31 December	6,862	7,072
Undrawn commitments		
At 31 December	759	719

9 Share investments

	Available-for-sale unlisted share investments 2006 €000	Available-for-sale unlisted share investments 2005 €000
Outstanding disbursements		
At 1 January	1,266	1,266
Disposals at cost	(305)	-
Written off	(430)	-
At 31 December	531	1,266
Fair value adjustment		
Opening balance	(726)	(704)
Transitional restatement of opening balances to fair value	-	76
At 1 January	(726)	(628)
Movement in fair value revaluation	233	(98)
Impairment	430	-
At 31 December	(63)	(726)
Fair value at 31 December	468	540

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Notes to the financial statements (continued)

10 Analysis of operational activity

	Outstanding	Outstanding	Undrawn	Undrawn
	disbursements	disbursements	commitments	commitments
	2006	2005	2006	2005
	€000	€000	€000	€000
<i>Analysis by country</i>				
Azerbaijan	537	773	-	-
Georgia	2,279	2,536	-	-
Kyrgyz Republic	2,620	2,325	-	507
Lithuania	-	1,131	-	-
Moldova	152	-	-	212
Romania	2,310	2,310	-	-
Slovenia	531	836	-	-
Tajikistan	142	-	-	-
Ukraine	-	-	759	-
At 31 December	8,571	9,911	759	719

Outstanding disbursements are shown before provisions for impairments for loan investments and before fair value adjustments for share investments.

11 Other liabilities

	2006	Restated
	€000	2005
	€000	€000
Deferred income from financial guarantees	108	45
Management fee payable	76	305
Interest refundable	13	35
At 31 December	197	385

12 Contributions

Contributions received and receivable from the donor countries are set out below:

	Executing	2006	2005		
	Agency	€000	€000		
Cumulative contributions received					
Netherlands	-	9,500	9,500		
Taipei China	ICDF	18,749	14,987		
United States of America	USAID	847	1,716		
		29,096	26,203		
Contributions receivable					
Taipei China	ICDF	4,556	5,072		
		4,556	5,072		
At 31 December		33,652	31,275		
	Executing	2006	2005	2005	2005
	Agency	€000	%	€000	%
Netherlands	-	9,500	28.2	9,500	30.4
Taipei China	ICDF	23,305	69.3	20,059	64.1
United States of America	USAID	847	2.5	1,716	5.5
At 31 December		33,652	100.0	31,275	100.0

ICDF is an acronym for the International Cooperation and Development Fund of Taipei China. USAID is an acronym for the United States Agency for International Development.

The Financial Intermediary Investment Special Fund

Notes to the financial statements (continued)

13 Net currency position

	Euro €000	United States dollars €000	Other currencies €000	Total €000
Net currency position at 31 December 2006				
Assets				
Placements with credit institutions	10,347	9,850	-	20,197
Other assets	190	339	-	529
Loans	2,310	5,730	-	8,040
Provisions for impairment	(66)	(1,112)	-	(1,178)
Share investments	-	-	468	468
Total assets	12,781	14,807	468	28,056
Liabilities				
Other liabilities	(108)	(89)	-	(197)
Total contributors' resources	-	(27,859)	-	(27,859)
Total liabilities	(108)	(27,948)	-	(28,056)
Net currency position at 31 December 2006	12,673	(13,141)	468	-

Restated	Euro €000	United States dollars €000	Other currencies €000	Total €000
Net currency position at 31 December 2005				
Assets				
Placements with credit institutions	9,891	7,688	-	17,579
Other assets	204	156	-	360
Loans	3,012	5,633	-	8,645
Provisions for impairment	(535)	(1,038)	-	(1,573)
Share investments	-	-	540	540
Total assets	12,572	12,439	540	25,551
Liabilities				
Other liabilities	(282)	(103)	-	(385)
Total contributors' resources	-	(25,166)	-	(25,166)
Total liabilities	(282)	(25,269)	-	(25,551)
Net currency position at 31 December 2005	12,290	(12,830)	540	-

The exchange rate used for the conversion of assets and liabilities denominated in United States dollars into euro at 31 December 2006, where appropriate, was 1.3168 (2005: 1.1830).

The Financial Intermediary Investment Special Fund

Notes to the financial statements (continued)

15 Interest rate risk

The table below summarises the Fund's exposure to interest rate risks. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Over 3 months and up to and including 1 year €000	Non-interest- bearing funds €000	Total €000
Interest rate risk at 31 December 2006					
Assets					
Placements with credit institutions	20,197	-	-	-	20,197
Other assets	-	-	-	529	529
Loans	1,671	2,611	3,758	-	8,040
Provisions for impairment	-	-	-	(1,178)	(1,178)
Share investments	-	-	-	468	468
Total assets	21,868	2,611	3,758	(181)	28,056
Liabilities					
Other liabilities	-	-	-	(197)	(197)
Total contributors' resources	-	-	-	(27,859)	(27,859)
Total liabilities	-	-	-	(28,056)	(28,056)
Interest sensitivity gap at 31 December 2006	21,868	2,611	3,758	(28,237)	-

	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Over 3 months and up to and including 1 year €000	Non-interest- bearing funds €000	Total €000
Restated					
Interest rate risk at 31 December 2005					
Assets					
Placements with credit institutions	17,579	-	-	-	17,579
Other assets	-	-	-	360	360
Loans	1,268	2,536	4,841	-	8,645
Provisions for impairment	-	-	-	(1,573)	(1,573)
Share investments	-	-	-	540	540
Total assets	18,847	2,536	4,841	(673)	25,551
Liabilities					
Other liabilities	-	-	-	(385)	(385)
Total contributors' resources	-	-	-	(25,166)	(25,166)
Total liabilities	-	-	-	(25,551)	(25,551)
Interest sensitivity gap at 31 December 2005	18,847	2,536	4,841	(26,224)	-

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

	United		United	
	Euro 2006 %	States dollars 2006 %	Euro 2005 %	States dollars 2005 %
Assets				
Placements with credit institutions	2.76	3.78	1.99	2.84
Loans	6.54	9.77	5.47	8.33

The Financial Intermediary Investment Special Fund

Notes to the financial statements (continued)

16 Guarantees

At 31 December 2006, the Bank had outstanding guarantees under the Trade Facilitation Programme 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 2006, the Fund's maximum exposure under such guarantees was €13.2 million (2005: €6.7 million). No provisions have been recognised against this exposure.

<i>Analysis by country</i>	2006	2005
	€000	€000
Armenia	370	506
Azerbaijan	111	-
Georgia	8,230	5,000
Moldova	900	1,163
Russian Federation	744	-
Ukraine	2,866	-
At 31 December	13,221	6,669

17 Undrawn commitments and guarantees

	2006	2005
	€000	€000
Loans	759	719
Guarantees	13,221	6,669
At 31 December	13,980	7,388

18 Fair value of financial assets and liabilities

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

19 Segment information

In accordance with IAS 14, the primary segment of the Fund is business segment and the secondary segment is geographical. At 31 December 2006, the activities of the Fund comprised a single primary segment (Banking operations) and eight countries as disclosed in notes 10 and 16. Consequently, no additional disclosure is required.

20 Post balance sheet events

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

Independent auditor's report to the 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 for the year ended 31 December 2006 which comprise the income statement, the balance sheet, the statement of changes in contributor's resources, the statement of cash flows, the accounting policies and the notes to the financial statements ("financial statements").

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 in accordance with the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 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 Fund at 31 December 2006 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Other matters

We also report to you if, in our opinion, the financial results section of the Financial Report is not consistent with the financial statements, if the Bank has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

This report, including the opinion, has been prepared for, and only for, the Bank and for the confidential use of the Contributors to the Fund 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.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

6 March 2007

The maintenance and integrity of the EBRD's website is the responsibility of the President; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing preparation and dissemination of financial statements may differ from legislation in other jurisdictions.