

**European Bank
for Reconstruction and Development**

The Financial Intermediary Investment Special Fund

**Annual Financial Report
31 December 2007**

European Bank for Reconstruction and Development

The Financial Intermediary Investment Special Fund

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The Financial Intermediary Investment Special Fund

Income statement For the year ended 31 December 2007	Note	Year to 31 December 2007 €000	Year to 31 December 2006 €000
Interest and similar income			
From loans		667	687
Other interest		892	558
Guarantee fee income		211	36
Net gains from available-for-sale share investments	3	48	-
Foreign exchange loss		(1,731)	(1,104)
Net income refunded to contributors		-	(442)
Other operating expenses	4	(22)	(76)
Operating profit/(loss) before provisions		65	(341)
Release/(charge) for provisions for impairment of loan investments	5	643	(92)
Net profit/(loss) for the year		708	(433)

Balance sheet At 31 December 2007	Note	31 December 2007 €000	31 December 2006 €000
Assets			
Placements with credit institutions		23,013	20,197
Other financial assets	6	537	529
Loan investments			
Loans	7	7,797	8,040
Less: Provisions for impairment	5	(358)	(1,178)
		7,439	6,862
Share investments			
Available-for-sale share investments	8	214	468
Total assets		31,203	28,056
Liabilities			
Other financial liabilities	9	138	197
Cumulative contributions received	10	31,318	29,096
Reserves and retained earnings		(253)	(1,237)
Total contributors' resources		31,065	27,859
Total liabilities		31,203	28,056

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Statement of cash flows For the year ended 31 December 2007	Year to 31 December 2007	Year to 31 December 2006
	€000	€000
Cash flows from operating activities		
Operating profit/(loss) for the year	708	(433)
Adjustment for:		
Interest income	(1,559)	(1,245)
Interest income reimbursable	1	1
Net gains on available-for-sale share investments	(48)	-
Provisions for impairment of loan investments	(643)	92
Foreign exchange	1,731	1,104
	<u>190</u>	<u>(481)</u>
Interest income received	1,551	1,161
Interest income reimbursed	-	(20)
Operating profit before changes in operating assets	<u>1,741</u>	<u>660</u>
(Increase)/decrease in operating assets:		
Fee income receivable	(12)	(97)
Proceeds from repayment of loans	2,736	842
Funds advanced for loans	(3,122)	(1,233)
Proceeds from sale of share investments	578	305
Decrease in operating liabilities:		
Accrued expenses	(59)	(166)
Net cash from operating activities	<u>1,862</u>	<u>311</u>
Cash flows from financing activities		
Net contributions received	<u>2,222</u>	<u>2,893</u>
Net cash from financing activities	<u>2,222</u>	<u>2,893</u>
Net increase in cash and cash equivalents	<u>4,084</u>	<u>3,204</u>
Cash and cash equivalents at beginning of year	<u>20,197</u>	<u>17,579</u>
Effect of foreign exchange rate changes	(1,268)	(586)
Cash and cash equivalents at 31 December	<u>23,013</u>	<u>20,197</u>

Statement of changes in contributors' resources For the year ended 31 December 2007

	Contributions	General reserve	Accumulated loss	Total
	€000	€000	€000	€000
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	29,096	211	(1,448)	27,859
Net contributions received	2,222	-	-	2,222
Net fair value movement of available-for-sale share investments for the year	-	276	-	276
Net profit for the year	-	-	708	708
At 31 December 2007	<u>31,318</u>	<u>487</u>	<u>(740)</u>	<u>31,065</u>

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) 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".

Standards, amendments to published standards and interpretations effective in 2007

In the current year, the Fund has adopted IFRS 7, Financial Instruments: Disclosures which is effective for accounting periods beginning on or after 1 January 2007, and the related amendment to IAS 1, Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Fund's financial instruments and management of capital.

Standards early adopted by the Fund

No standards were early adopted by the Fund in 2007.

Standards, amendments to published standards and interpretations effective in 2007 but not relevant to the Fund's operations

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Fund's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC 8, Scope of IFRS 2;
- IFRIC 9, Re-assessment of Embedded Derivatives; and
- IFRIC 10, Interim Financial Reporting and Impairment.

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

The following standards are mandatory for the Fund's accounting periods beginning on or after 1 January 2008 or later periods, but the Fund has not early adopted them:

IFRS 8, Operating Segments which is effective for accounting periods beginning on or after 1 January 2009, replaces IAS 14 and 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. 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 accounting period beginning 1 January 2009.

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Accounting policies (continued)

IAS 27, Consolidated and Separate Financial Statements which is effective for accounting periods beginning on or after 1 July 2009, reduces the alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for subsidiaries in the separate financial statements of a parent, venturer or investor. The standard specifies the circumstances in which an entity must consolidate the financial statements of a subsidiary; the accounting for the changes in the level of ownership interest in a subsidiary; the accounting for the loss of control of a subsidiary; and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiary. The Fund will apply IAS 27 from its accounting period beginning 1 January 2010 but it is currently not applicable to the Fund as there are no subsidiaries.

IAS 32 and IAS 1 (Amendment), Puttable Financial Instruments and Obligations Arising on Liquidation, is effective for accounting periods beginning on or after 1 January 2009. It allows particular types of financial instruments that meet the definition of a financial liability but represent the residual interest in the net assets of the entity to be classified as equity instruments. Financial instruments that may be classified as equity instruments are those that meet the definition of puttable financial instruments, or instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. The Fund will apply IAS 32 and IAS 1 (Amendment) from its accounting period beginning 1 January 2009; the Fund's initial interpretation is that Contributors' resources will be reclassified from a liability to equity.

Standards, amendments to published standards and interpretations that are not yet effective but not relevant to the Fund's operations

The following standards, amendments to published standards and interpretations are mandatory for the Fund's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant to the Fund's operations:

- IFRS 2 (Amendment), Vesting Conditions and Cancellations (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3, Business Combinations (effective for accounting periods beginning on or after 1 July 2009);
- IAS 23 (Amendment), Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008); and
- IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset (effective for accounting periods beginning on or after 1 January 2008).

B. Significant accounting policies

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Regular way purchases and sales of available-for-sale assets are recognised on trade date, the date on which the Fund commits to purchase or sell the asset.

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Accounting policies (continued)

The Fund has classified non-associate share investments as available-for-sale. Such assets are carried at fair value on the balance sheet. Changes in fair value, including translation differences arising on assets denominated in foreign currencies, are recognised directly in reserves, as disclosed in the “Statement of changes in contributors’ resources”, until the financial asset is sold or impaired. At this time the cumulative gain or loss previously recognised in reserves is removed and included in the income statement.

The basis of fair value for unlisted available-for-sale share investments in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation technique used is net asset value.

Financial liabilities

Other financial liabilities are measured at amortised cost.

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 notification by the European Bank for Reconstruction and Development (“the Bank”) that the amount is payable under guarantees. Trade finance programme guarantees are recognised within “Other financial assets” and “Other financial liabilities” on the balance sheet.

Impairment of financial assets

Loans and receivables

Where there is objective evidence that an identified loan asset is impaired, specific provisions for impairment are recognised in the income statement. Impairment is defined 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;
- cashflow difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration in the borrowers 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 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 under the caption “Provisions for impairment of loan investments”, as summarised in note 4. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries are credited to the income statement if previously written off.

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Accounting policies (continued)

Renegotiated loans

Loans that are either impaired or past due whose terms have been renegotiated so that they are no longer considered to be impaired or past due are treated as new loans.

Available for sale share investments

Share investments are impaired when there is objective evidence that the future recoverability is in doubt. This could be indicated by a significant or prolonged decline in the fair value of a share investment below its cost. The Fund also evaluates factors such as country, industry and sector performance, changes in technology and operational and financial performance. Impairment losses recognised in profit or loss for available-for-sale share investments are not reversed through the income statement.

C. Critical accounting estimates and judgements

Preparing financial statements in conformity with IFRS requires the Fund to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period. 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.

These estimates are highly dependent on a number of variables which reflect the economic environment and financial markets of the Fund's country 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 portfolio, limits the Fund's ability to apply traditional sensitivity analysis methods.

Critical accounting estimates and judgements in respect of the Fund are as follows:

Fair value of share investments

The Fund's method for determining the fair value of share investments is described in the "Financial assets" accounting policy on page 4 and an analysis of the share investment portfolio is provided in note 8 on page 17. A sensitivity analysis of the potential impact on the Fund's operating income and reserves from a reasonable movement in the fair value of the share investment portfolio is included under market risk in the "Financial risk management" section on page 13.

Provisions for the impairment of loan investments

The Fund's method for determining the level of impairment of loan investments is described in the "Impairment of financial assets" accounting policy on page 5 and further explained under credit risk in the "Financial risk management" section on page 8. Portfolio provisions for the impairment of loan investments at 31 December 2007 were €358,000. Had all loan investments been downgraded by one risk rating category portfolio provisions would have been approximately €342,000 resulting in a credit to the income statement of €16,000. In addition, loan investments risk rated 7 would have become individually impaired resulting in additional specific provisions for identified impairment of approximately €1,342,000. Had all loan investments been upgraded by one risk rating category portfolio provisions would have been approximately €138,000 resulting in a credit to the income statement of €20,000.

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. This is further explained in the "Credit risk management and measurement" section on page 8.

D. 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 2007. 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.

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Accounting policies (continued)

E. Interest 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. Dividends relating to share investments are recognised when received.

F. 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 2007.

G. 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.

H. 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.

I. Comparatives

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

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Financial risk management

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

As the primary purpose of the Fund is not 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 the default of a counterparty or the deterioration of its creditworthiness, which could materialise in its downgrading by a rating agency, at any time until the maturity of the longest-dated transaction outstanding with that counterparty. The Fund is also exposed to concentration risk, which is the risk arising from a significant proportion of the portfolio being allocated to a specific country, industry sector, obligor, and type of instrument or individual transaction.

The Fund is exposed to credit risk because borrowers and counterparties could default on their contractual obligations, or the value of the Fund's investments could be impaired.

Maximum exposure to credit risk before collateral held, other credit enhancements or impaired provisions

	2007	2006
	€000	€000
Placements with and advances to credit institutions	23,013	20,197
Other financial assets	537	529
Loan investments	7,797	8,040
Share investments	214	468
Undrawn commitments	14,953	10,750
Maximum credit risk exposure	46,514	39,984

The above table represents a worse case scenario of credit risk exposure to the Fund at 31 December 2007 and 2006, without taking account of any collateral held, other credit enhancements attached or provisions for impairment. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Credit risk management and measurement

The Bank conducts regular reviews of individual exposures within the Fund's portfolio. Generally, projects are formally reviewed by Risk Management once or twice a year depending on risk, or more frequently for those that are perceived to be more vulnerable to possible default. Regular reviews continue after project completion for non-sovereign exposures. Each review includes a consideration of the project risk rating and, for equity investments, fair value. For underperforming projects, the review examines the level of impairment and corresponding specific provisions. Control of disbursement is managed by the Operation Administration Unit (OAU) within the Office of the General Counsel, which is responsible for checking compliance with project conditionality prior to disbursement. OAU also checks that correct procedures are followed in line with the Bank's approved policy. The management of investments considered to be in jeopardy may be transferred from the Banking teams to the Corporate Recovery Unit, which reports jointly to Risk Management and Banking, in order to manage the restructuring work-out process.

All projects and countries of operations are assigned credit risk ratings on an internal scale from 1 (lowest risk) to 10 (highest risk). The Fund maintains three types of risk ratings: project, country and overall. The project rating is determined on the basis of the financial strength of the risk counterparty and the risk mitigation built into the project structure. The country rating is assessed internally, taking into consideration the ratings assessed by external rating agencies. For non-sovereign operations, the overall rating is the numerically higher of the project and country rating. The exception to this is where the Fund has recourse to unconditional sponsor support from outside the country of operations, in which case the overall rating is the same as the project rating. For the performing portfolio, portfolio provisions for impairment are based on the Bank's Risk Capital Model. This is designed to approximate incurred losses calculated on the basis of objective evidence of impairment, the Bank's experience, and project, sector and country risks. In 2007, the extent to which the Bank's historic loss experience is reflected within the Risk Capital Model has increased given the greater period of loss experience now available.

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Financial risk management (continued)

This resulted in a reduction in the loan portfolio provisioning levels and contributed to the net credit of €643,000 for provisions for impairment of loan investments during the year.

Projects are reviewed on a regular basis to identify promptly any changes required in the assigned risk ratings, and any actions required to mitigate increased risk.

The table below shows the Bank's internal rating scale and how this maps to the external ratings of Standard & Poor's (S&P).

EBRD Rating	External Rating Equivalent - S&P	Description of Grade	EBRD Category
1	AAA	Investment grade	Excellent
2	AA+ , AA , AA-	Investment grade	Strong
3	A+ , A , A-	Investment grade	Very good
4	BBB	Standard monitoring	Good
5	BB+ , BB , BB-	Standard monitoring	Satisfactory
6	B+ , B	Standard monitoring	Acceptable
6W	B-	Standard monitoring	Watch
7	CCC	Special monitoring	Special attention
8	CC	Special monitoring	Substandard
9	C	Special monitoring	Doubtful
10	D	Sub-standard	Expected loss

Loan investments

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

	Neither past due nor impaired €000	Portfolio impairment provision €000	Total loans net of impairment provision €000	Loans %	Impairment provision * %
31 December 2007					
Rating 6: acceptable	5,631	(119)	5,512	72.2	2.1
Rating 6W: watch	824	(41)	783	10.6	5.0
Rating 7: special attention	1,342	(198)	1,144	17.2	14.8
Total	7,797	(358)	7,439	100.0	4.6
31 December 2006					
Rating 6: acceptable	5,268	(196)	5,072	65.5	3.7
Rating 6W: watch	2,088	(759)	1,329	26.0	36.4
Rating 7: special attention	684	(223)	461	8.5	32.6
Total	8,040	(1,178)	6,862	100.0	14.7

* as a percentage of loan balance

There were no renegotiated loans during the year that would otherwise be classified as past due or impaired (2006: nil). There were no past due or impaired loans at 31 December 2007.

Available for sale share investments

Set out below is an analysis of the Fund's available for sale share investments for each of the Bank's internal rating categories. As at 31 December 2007, the Fund had no share investments classified as impaired.

	Cost €000	Fair value €000
31 December 2007		
Rating 6: acceptable	1	214
Total	1	214
31 December 2006		
Rating 6W: watch	531	468
Total	531	468

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Financial risk management (continued)

Placements with credit institutions

The Bank's Treasury Credit Risk Management team assesses the credit worthiness of all financial institutions used by the Fund, assigns internal credit ratings based on internal analysis of approved counterparties' creditworthiness through the synthesis of externally provided credit research and market data and with reference to external rating benchmarks from approved rating agencies.

The Fund's placements with credit institutions are all internally rated between 1 and 3 (AAA to A- in terms of S&P equivalent).

Other financial assets

Other financial assets represent interest income receivable from the Fund's placements and loans, and guarantee fees payable by the Bank to the Fund. Interest receivable on placements and guarantees fees receivable are internally risk rated between 1 and 3. Interest receivable on loans is internally risk rated between 6 and 7.

Undrawn commitments

	2007	2006
	€000	€000
Loans	453	759
Guarantees ¹	14,500	9,991 ²
At 31 December	14,953	10,750

¹ Trade finance guarantees represent standby letters of credit issued in favour of confirming banks who have undertaken the payment risk of issuing banks in the Bank's countries of operations.

² Guarantee exposure in Georgia has been restated to reflect the donor approved regional limit as follows:

	€000
Guarantee exposure	
At 31 December 2006	13,221
Restatement of guarantee exposure	(3,230)
At 1 January 2007	9,991

Guarantees

At 31 December 2007, 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 2007, the Fund's maximum exposure under such guarantees was €14.5 million (2006: €10.0 million). No provisions have been recognised against this exposure. The Fund does not actively manage credit risk on its guarantee exposure.

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at their carrying amounts by geographic region.

	Share				Share				Total restated
	Loans	investments	Guarantees	Total	Loans	investments	Guarantees	Total	
	2007	2007	2007	2007	2006	2006	restated 2006	restated 2006	
	€000	€000	€000	€000	€000	€000	€000	€000	
Armenia	-	-	1,500	1,500	-	-	370	370	
Azerbaijan	1,042	-	299	1,341	537	-	111	648	
Georgia	2,378	-	5,000	7,378	2,279	-	5,000	7,279	
Kyrgyz Republic	2,047	-	-	2,047	2,620	-	-	2,620	
Moldova	68	-	3,000	3,068	152	-	900	1,052	
Romania	1,540	-	-	1,540	2,310	-	-	2,310	
Russian Federation	-	-	4,041	4,041	-	-	744	744	
Slovenia	-	214	-	214	-	468	-	468	
Tajikistan	42	-	-	42	142	-	-	142	
Ukraine	680	-	660	1,340	-	-	2,866	2,866	
At 31 December	7,797	214	14,500	22,511	8,040	468	9,991	18,499	

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Financial risk management (continued)

B. Market risk

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

Market risk management and measurement

As discussed at the beginning of the financial 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 table below provides information on the extent of the Fund's interest rate exposure, based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date.

Repricing interval At 31 December 2007	Up to	Over 1 month	Over 3 months	Non-interest- bearing funds	Total
	and including 1 month	and including 3 months	and including 1 year		
	€000	€000	€000	€000	€000
Assets					
Placements with credit institutions	23,013	-	-	-	23,013
Other financial assets	-	-	-	537	537
Loans	2,129	1,198	4,470	-	7,797
Provisions for impairment	-	-	-	(358)	(358)
Share investments	-	-	-	214	214
Total assets	25,142	1,198	4,470	393	31,203
Liabilities					
Other financial liabilities	-	-	-	(138)	(138)
Total contributors' resources	-	-	-	(31,065)	(31,065)
Total liabilities	-	-	-	(31,203)	(31,203)
Interest sensitivity gap at 31 December 2007	25,142	1,198	4,470	(30,810)	-

At 31 December 2006	Up to	Over 1 month	Over 3 months	Non-interest- bearing funds	Total
	and including 1 month	and including 3 months	and including 1 year		
	€000	€000	€000	€000	€000
Assets					
Placements with credit institutions	20,197	-	-	-	20,197
Other financial 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 financial 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)	-

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Financial risk management (continued)

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

	United		United	
	Euro	States dollars	Euro	States dollars
	2007	2007	2006	2006
	%	%	%	%
Assets				
Placements with credit institutions	3.80	4.22	2.76	3.78
Loans	6.40	9.07	6.54	9.77

Foreign exchange risk

Net currency position

	Euro	United States dollars	Other currencies	Total
	€000	€000	€000	€000
Net currency position at 31 December 2007				
Assets				
Placements with credit institutions	11,832	11,181	-	23,013
Other financial assets	375	162	-	537
Loans	1,540	6,257	-	7,797
Provisions for impairment	(22)	(336)	-	(358)
Share investments	-	-	214	214
Total assets	13,725	17,264	214	31,203
Liabilities				
Other financial liabilities	(105)	(33)	-	(138)
Total contributors' resources	-	(31,065)	-	(31,065)
Total liabilities	(105)	(31,098)	-	(31,203)
Net currency position at 31 December 2007	13,620	(13,834)	214	-

	Euro	United States dollars	Other currencies	Total
	€000	€000	€000	€000
Net currency position at 31 December 2006				
Assets				
Placements with credit institutions	10,347	9,850	-	20,197
Other financial 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 financial 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	-

The exchange rate used for the conversion of assets and liabilities denominated in US dollars into eur at 31 December 2007, where appropriate, was 1.4716 (2006: 1.3168).

The Financial Intermediary Investment Special Fund

Financial risk management (continued)

Sensitivity analysis

Based on historic data the following movements are considered reasonably possible over a 12 month period:

- Proportional foreign exchange rate movement of +13 per cent (appreciation of euro) and -13 per cent (depreciation of euro) against the United States dollar, from a EUR:USD spot rate of 1.4716 (2006: +14 per cent/-14 per cent)
- A parallel shift of +118 basis points (bp)/-118bp (2006: +88bp/-88bp) in euro market interest rates from year end rates of 4.7 per cent and +32bp/-32bp (2006: +138/-138) in USD market interest rates from year end rates of 4.7 per cent.
- Proportional other price risk movement of equity securities listed on relevant bench mark indices of 32 per cent (2006: 35 per cent).

If these movements were to occur, the impact on the profit and loss, and reserves for each category of financial instrument held at the balance date is shown below.

	Carrying amount	Interest rate risk (IR)		Foreign exchange rate risk		Equity price risk	
		+ 118 bp of EUR IR + 32 bp of USD IR	- 118 bp of EUR IR - 32 bp of USD IR	+13 per cent	-13 per cent	+32 per cent	-32 per cent
	Profit/(loss)	Profit/(loss)	Profit/(loss)	Profit/(loss)	Other movements in reserves	Other movements in reserves	
	€000	€000	€000	€000	€000	€000	
31 December 2007							
Financial assets							
Placements with credit institutions	23,013	175	(175)	(1,286)	1,286	-	
Other financial assets	537	-	-	(19)	19	-	
Loans	7,797	38	(38)	(720)	720	-	
Provisions for impairment	(358)	-	-	-	-	-	
Share investments	214	-	-	-	-	68	
Impact on financial assets		213	(213)	(2,025)	2,025	68	
Financial liabilities							
Other financial liabilities	(138)	-	-	4	(4)	-	
Total contributors' resources	(31,065)	-	-	-	-	-	
Impact on financial liabilities		-	-	4	(4)	-	
Total increase/(decrease)		213	(213)	(2,021)	2,021	68	

	Carrying amount	Interest rate risk (IR)		Foreign exchange rate risk		Equity price risk	
		+ 88 bp of EUR IR + 138 bp of USD IR	- 88 bp of EUR IR - 138 bp of USD IR	+14 per cent	-14 per cent	+35 per cent	-35 per cent
	Profit/(loss)	Profit/(loss)	Profit/(loss)	Profit/(loss)	Other movements in reserves	Other movements in reserves	
	€000	€000	€000	€000	€000	€000	
31 December 2006							
Financial assets							
Placements with credit institutions	20,197	227	(227)	(1,210)	1,210	-	
Other financial assets	529	-	-	(23)	23	-	
Loans	8,040	99	(99)	(704)	704	-	
Provisions for impairment	(1,178)	-	-	-	-	-	
Share investments	468	-	-	-	-	164	
Impact on financial assets		326	(326)	(1,937)	1,937	164	
Financial liabilities							
Other financial liabilities	(197)	-	-	11	(11)	-	
Total contributors' resources	(27,859)	-	-	-	-	-	
Impact on financial liabilities		-	-	11	(11)	-	
Total increase/(decrease)		326	(326)	(1,926)	1,926	164	

The Financial Intermediary Investment Special Fund

Financial risk management (continued)

3. Liquidity risk

Liquidity is the availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due.

Liquidity risk management process

All contributions received are placed with credit institutions and are immediately available to meet the financial commitments of the Fund.

The table below provides an analysis of assets, liabilities and contributors' resources into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the maturity undefined category. Figures in the table represent undiscounted cashflows.

	Up to and including 1 month	Over 1 month and up to and including 3 month	Over 3 months and up to and including 1 year	Over 1 year and up to and including 5 years	Over 5 years	Maturity undefined	Total
	€000	€000	€000	€000	€000	€000	€000
Liquidity position at 31 December 2007							
Assets							
Placements with credit institutions	23,013	-	-	-	-	-	23,013
Other financial assets	210	197	84	46	-	-	537
Loans	-	-	2,692	4,199	906	-	7,797
Provision for impairment	-	-	(238)	(107)	(13)	-	(358)
Share investments	-	-	-	-	-	214	214
Total assets	23,223	197	2,538	4,138	893	214	31,203
Liabilities							
Other financial liabilities	-	(20)	(13)	-	-	(105)	(138)
Total contributors' resources	-	-	-	-	-	(31,065)	(31,065)
Total liabilities	-	(20)	(13)	-	-	(31,170)	(31,203)
Net liquidity position at 31 December 2007	23,223	177	2,525	4,138	893	(30,956)	-
Cumulative net liquidity position at 31 December 2007	23,223	23,400	25,925	30,063	30,956	-	-
	Up to and including 1 month	Over 1 month and up to and including 3 month	Over 3 months and up to and including 1 year	Over 1 year and up to and including 5 years	Over 5 years	Maturity undefined	Total
	€000	€000	€000	€000	€000	€000	€000
Liquidity position at 31 December 2006							
Assets							
Placements with credit institutions	20,197	-	-	-	-	-	20,197
Other financial assets	182	189	85	73	-	-	529
Loans	-	-	347	7,693	-	-	8,040
Provision for impairment	-	-	(10)	(1,168)	-	-	(1,178)
Share investments	-	-	-	-	-	468	468
Total assets	20,379	189	422	6,598	-	468	28,056
Liabilities							
Other financial liabilities	-	(76)	(13)	-	-	(108)	(197)
Total contributors' resources	-	-	-	-	-	(27,859)	(27,859)
Total liabilities	-	(76)	(13)	-	-	(27,967)	(28,056)
Net liquidity position at 31 December 2006	20,379	113	409	6,598	-	(27,499)	-
Cumulative net liquidity position at 31 December 2006	20,379	20,492	20,901	27,499	27,499	-	-

The Financial Intermediary Investment Special Fund

Financial risk management (continued)

D. Management of contributors' resources

Contributors' resources of the Fund comprises pledged contributions net of reserves and accumulated losses of the Fund. Under the Rules & Regulations of the Fund, the Fund resources may be used to provide loans, equity investments and guarantees.

The Fund is not subject to any external capital requirement constraints, however, commitments under loans, equity investments and guarantees cannot exceed the available fund balance. In 2007 this limit was not exceeded. Guarantee exposure for 2006 has been restated downwards to the donor approved regional limit.

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 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 Net gains from available-for-sale share investments

	2007	2006
	€000	€000
Net realised gains from available-for-sale share investments	48	-
Net gains from available-for-sale share investments	48	-

4 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.

5 Provisions for impairment of loan investments

	2007	2006
	€000	€000
(Release)/charge for the year	€000	€000
Portfolio provisions for the unidentified impairment of loan investments:		
Non-sovereign risk assets	(643)	176
Specific provisions for the identified impairment of loan investments:		
Non-sovereign risk assets	-	(84)
Provisions for impairment of loan investments	(643)	92
Movement in provisions		
At 1 January	1,178	1,573
(Release)/charge for the year	(643)	92
Foreign exchange adjustments	(177)	(106)
Release against amounts written off	-	(381)
At 31 December	358	1,178
<i>Analysed between:</i>		
Portfolio provision for the unidentified impairment of loans:		
Non-sovereign risk assets	358	1,178
At 31 December	358	1,178

The Financial Intermediary Investment Special Fund

Notes to the financial statements (continued)

6 Other financial assets

	2007	2006
	€000	€000
Interest receivable	277	281
Fee income receivable	260	248
At 31 December	537	529

7 Loan investments

	2007	2006
	€000	€000
At 1 January	8,040	8,645
Disbursements during the year	3,122	1,233
Repayments and prepayments	(2,736)	(842)
Foreign exchange movements	(629)	(615)
Written off	-	(381)
At 31 December	7,797	8,040
Impairment at 31 December (note 4)	(358)	(1,178)
Total loan investments net of impairment at 31 December	7,439	6,862
Undrawn commitments		
At 31 December	453	759

8 Available-for-sale share investments

	2007	2006
	€000	€000
Outstanding disbursements		
At 1 January	531	1,266
Disposals at cost	(530)	(305)
Written off	-	(430)
At 31 December	1	531
Fair value adjustment		
At 1 January	(63)	(726)
Movement in fair value revaluation	276	233
Impairment	-	430
At 31 December	213	(63)
Fair value at 31 December	214	468

9 Other financial liabilities

	2007	2006
	€000	€000
Deferred income from financial guarantees	105	108
Management fee payable	20	76
Interest refundable	13	13
At 31 December	138	197

The Financial Intermediary Investment Special Fund

Notes to the financial statements (continued)

10 Contributions

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

	Executing agency	2007 €000		2006 €000	
Cumulative contributions received					
Netherlands	-	9,500		9,500	
Taipei China	ICDF	20,971		18,749	
United States of America	USAID	847		847	
		31,318		29,096	
Memorandum item - Contributions receivable					
Taipei China	ICDF	2,039		4,556	
		2,039		4,556	
At 31 December		33,357		33,652	
Total contributions including contributions receivable					
	Executing agency	2007 €000	2007 %	2006 €000	2006 %
Netherlands	-	9,500	28.5	9,500	28.2
Taipei China	ICDF	23,010	69.0	23,305	69.3
United States of America	USAID	847	2.5	847	2.5
At 31 December		33,357	100.0	33,652	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.

11 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.

12 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 2007, the activities of the Fund comprised a single primary segment (Banking operations) and ten countries as disclosed in the credit risk section under concentration risk. Consequently, no additional disclosure is required.

13 Post balance sheet events

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

14 Related parties

The Fund has no related parties other than the Bank. During the year ended 31 December 2007 the Fund paid the Bank a management fee for operating the Fund of €75,000 (2006: €304,000). There was an accrued management fee of €22,000 payable by the Fund to the Bank as at 31 December 2007 (2006: €76,000).

Independent auditor's report to 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 2007 which comprise the income statement, the balance sheet, the statement of changes in contributors' resources, the statement of cash flows, the accounting policies, financial risk management 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 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 Fund at 31 December 2007 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 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

5 March 2008

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.