European Bank
for Reconstruction and Development

The Financial Intermediary Investment Special Fund

Annual Financial Report
31 December 2014

The Financial Intermediary Investment Special Fund

Contents

The Financial Intermediary Investment Special Fund

Statement of comprehensive income

For the year ended 31 December 2014

	Note	Year to 31 December 2014 € 000	Year to 31 December 2013 € 000
Net interest and similar income			
From loans		**612**	531
From credit institutions		**14**	12
Fee income		**3**	31
Net unrealised (losses)/gains from share investments		**(80)**	1
Foreign exchange movement		**2,274**	(990)
Other operating expenses		**(45)**	(45)
Impairment charge on loan investments	3	**(127)**	(56)
Charge on guarantees		**-**	(2)
Net profit/(loss) and comprehensive income/(expense) for the year		**2,651**	(518)
Attributable to:			
Contributors		**2,651**	(518)

Balance sheet

At 31 December 2014

	Note	31 December 2014 € 000	31 December 2014 € 000	31 December 2013 € 000	31 December 2013 € 000
Assets					
Placements with credit institutions			**22,136**		16,495
Other financial assets	4		**124**		58
Loan investments					
Loans	5	**12,528**		13,176	
Less: Provisions for impairment	3	**(411)**		(259)	
			12,117		12,917
Share investments	6		**70**		150
Total assets			**34,447**		29,620
Liabilities					
Unamortised fair value of Trade Facilitation Programme (TFP) financial guarantees			**-**		10
Contributors' resources					
Contributions received	7	**34,348**		32,118	
Reserves and retained earnings/(accumulated loss)		**99**		(2,508)	
Total contributors' resources			**34,447**		29,610
Total liabilities			**34,447**		29,620
Memorandum items					
Undrawn loan commitments and guarantees			**-**		2,165

The Financial Intermediary Investment Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2014	Contributions	(Accumulated loss)/ Retained Earnings	Total
	€ 000	€ 000	€ 000
At 31 December 2012	27,181	(1,990)	25,191
Contributions received	4,671	-	4,671
Revaluation of contributions	266	-	266
Total comprehensive expense for the year	-	(518)	(518)
At 31 December 2013	32,118	(2,508)	29,610
Contributions received	4,377	-	4,377
Distribution of funds to contributors	(2,147)	(44)	(2,191)
Total comprehensive income for the year	-	2,651	2,651
At 31 December 2014	**34,348**	**99**	**34,447**

Statement of cash flows

For the year ended 31 December 2014

		Year to 31 December 2014		Year to 31 December 2013
	€ 000	€ 000	€ 000	€ 000
Cash flows from/(used in) operating activities				
Net profit/(loss) for the year	**2,651**		(518)	
Adjustments for:				
Interest income	**(626)**		(543)	
Net unrealised losses/(gains) from share investments	**80**		(1)	
Foreign exchange movement	**(2,274)**		990	
Impairment charge on loan investments	**127**		56	
Charge on guarantees	**-**		2	
	(42)		(14)	
Interest income received	**555**		521	
Decrease/(increase) in operating assets:				
Proceeds from repayment of loans	**5,726**		3,736	
Funds advanced for loans	**(4,127)**		(4,222)	
Fee income receivable	**7**		4	
Increase in operating liabilities				
TFP guarantees	**-**		(4,313)	
Net cash from/(used in) operating activities		**2,119**		(4,288)
Cash flows from financing activities				
Contributions received	**4,377**		4,671	
Disbutribution of funds to contributors	**(2,191)**		-	
Net cash from financing activities		**2,186**		4,671
Net increase in cash and cash equivalents		**4,305**		383
Cash and cash equivalents at the beginning of the year		**16,495**		16,384
Effect of foreign exchange rate changes		**1,336**		(272)
Cash and cash equivalents at 31 December		**22,136**		16,495

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 financial 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.

New and amended IFRS mandatorily effective for the current reporting period

The following new and amended standards are effective for the current reporting period:

Pronouncement	Nature of change	Impact
Investment entities – amendments to IFRS 10, IFRS 12 and IAS 27	Introduces an exception to consolidating particular subsidiaries for "investment entities", requiring instead such subsidiaries to be measured at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. New disclosure requirements are also introduced.	Not applicable as the Fund is not an investment entity.
IAS 32 (Amendment) Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities	Updates the application guidance and basis of conclusions in relation to the offsetting of financial assets and financial liabilities.	Applicable but no changes of presentation required.

IFRS not yet mandatorily effective but adopted early

IFRS 9: Financial Instruments is the IASB's replacement project for IAS 39. The Standard has developed in phases and was completed in July 2014 with a mandatory application date for annual reporting periods beginning on or after January 1, 2018. The Fund adopted the first phase 'recognition and measurement of financial assets' (November 2009) in its 2010 financial statements. See the accounting policy for financial assets for more details.

IFRS not yet mandatorily effective and not adopted early

The following standards are not yet effective and have not been adopted early.

Pronouncement	Nature of change	Potential Impact
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010). Hedge accounting (November 2013). Impairment methodology and introduction of 'fair value through other comprehensive income' measurement category for financial assets represented by simple debt instruments (July 2014). IFRS 9 to be adopted in its entirety for annual reporting periods beginning on or after January 1, 2018.	The Fund is yet to assess the potential impact of adopting this standard
Amendments to: IFRS 10: Consolidation Financial Statements and IAS 28: Investments in Associates and Joint Ventures	Provides guidance for the accounting for the loss of control of a subsidiary as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund is yet to assess the potential impact of adopting this standard
Amendments to: IFRS 11: Joint Arrangements	Provides guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. Effective for accounting periods beginning on or after 1 July 2016.	The Fund is yet to assess the potential impact of adopting this standard
IFRS 15: Revenue from Contracts with Customers	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Effective for annual reporting periods beginning on or after 1 January 2017.	The Fund is yet to assess the potential impact of adopting this standard
Amendments to: IAS 1: Presentation of Financial Statements	Various amendments to improve presentation and disclosure under IAS 1. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund is yet to assess the potential impact of adopting this standard
Amendments to: IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets	Clarification of acceptable methods of depreciation and amortisation. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund is yet to assess the potential impact of adopting this standard

A number of existing standards were reviewed by the IASB in December 2014 as part of the IFRS annual improvements cycle. It is the Fund's opinion that none of these amendments, effective for accounting periods beginning on or after 1 January 2016, will have a material impact on the Fund's financial statements.

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 of the 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.

All financial liabilities are measured at amortised cost, except for financial guarantees which are measured in accordance with IAS 39, as described under "financial guarantees" below.

Financial guarantees

The Fund provides guarantees to the European Bank for Reconstruction and Development ("the Bank") to cover principal losses the Bank may incur from providing its own guarantees under its Trade Facilitation Programme ("TFP"). The Fund's resources are allocated into a TFP sub-account and the TFP guarantees are provided on a first-loss basis.

When a guarantee is issued, it is initially recognised at its fair value. This is measured as the present value of the fees to be received by the Fund for the provision of those guarantees. This initial fair value represents both an asset for the Fund and a liability for the same amount.

The initial fair value for both the asset and the liability is subsequently amortised to nil over the life of the guarantee using the effective interest rate method, unless it is probable that the guarantee will need to be settled and the settlement amount can be reliably estimated. In this case, the liability is measured at the higher of the initial fair value less cumulative amortisation or the expenditure required to settle the commitment at the balance sheet date.

Financial guarantees are recognised within other financial assets and other financial liabilities.

As at 31 December 2014 there are no financial guarantees remaining.

Impairment of financial assets

Financial assets at amortised cost
The Fund has not adopted early that part of IFRS 9 which relates to impairments and therefore still applies IAS 39: Financial Instruments. 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 general provision). 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.

Contributors' resources

The Fund recognises contributions received from the 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.

Interest and fees

Interest is recorded on an accruals basis using the effective interest method. All interest income is recognised within '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 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.

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 6. 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.

Financial guarantees
The Fund's method for determining the TFP financial guarantees is described under "Financial guarantees" within the accounting policies section of the report and further explained within credit risk 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 2014 were €411,000 (2013: €259,000). 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 three "notches" or detailed ratings within the Bank's probability of default rating scale, this would result in a reduction of €352,000 (2013: €216,000) in portfolio provisions on loan investments.
- Conversely, if all loan investments were downgraded by three "notches" or detailed risk ratings within the Bank's probability of default rating scale, this would result in a charge to the income statement of €1,360,000 (2013: €983,000) in relation to portfolio provisions for loans.

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 €305,000 (2013: €200,000).

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 2014 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 10 per cent change in the weighting assigned to the Bank's own experience would lead to a change in portfolio provisions of +/- €49,000 (2013: €32,000)

Loss given default rates

- A change in loss given default rates by ten percentage points would lead to a change in portfolio provisions of +/- €54,000 (2013: €36,000)

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.

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 net 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.

Risk governance

The Fund follows the Bank's risk governance procedures as below:

Matters related to Bank-wide risk and associated policies and procedures are considered by the Risk Committee. The Risk Committee is accountable to the President. It oversees all aspects of the Banking portfolio across all sectors and countries, and provides advice on Risk Management policies, measures and controls. It also approves proposals for new products submitted by Banking. The membership comprises senior managers across the Bank including representatives from Risk Management, Finance, Banking and the Office of the General Counsel.

The Risk Committee is chaired by the Vice President Risk and Chief Risk Officer (VP & CRO) who is ultimately responsible for the independent identification, measurement, monitoring and mitigation of all risks incurred by the Bank. The VP & CRO has the overall responsibility for formulating the risk management strategy.

The Managing Director Risk Management reports directly to the VP & CRO and leads the overall management of the Risk Department. The Risk Department provides an independent assessment of risks associated with individual projects investments and loans undertaken by the Bank and performs an ongoing review of the portfolio to monitor the risk presented by projects investments and loans from inception to exit. It develops and maintains the Risk Management policies to facilitate Banking operations and promotes risk awareness across the Bank.

In exercising its responsibilities, Risk Management is guided by its mission to:
• Provide assurance to stakeholders that risk decision-making in the Bank is balanced and within agreed appetite, and that control processes are rigorously designed and applied; and
• Support the Bank's business strategy including the maximisation of transition impact through provision of efficient and effective delivery of risk management advice, challenge and decision making.

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 be impaired.

The carrying amounts of financial assets presented on the balance sheet, together with the undrawn commitments and guarantees as shown under memorandum items, best represents the Fund's maximum exposure to credit risk at 31 December 2014 and 31 December 2013, 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.

Underlying principles and procedures
The Board of Directors ("the Board") approves a credit process document that defines the procedures for the approval, management and review of Banking exposures. The Audit Committee periodically reviews the credit process and its review is submitted to the Board for approval.

Individual projects
The Operations Committee, which is chaired by the First Vice President Banking and whose membership comprises senior managers of the Bank, including the VP & CRO and Managing Director Risk Management, reviews all Banking projects prior to their submission for Board approval. A number of frameworks for smaller projects are considered by the Small Business Investment Committee or by senior management under a delegated authority framework supervised by the Operations Committee. The project approval process is designed to ensure compliance with the Bank's criteria for sound banking, transition impact and additionality. It 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 approving significant changes to existing operations.

The Equity Committee acts as the governance committee for the equity portfolio and reports to the Operations Committee.

Risk Management conducts reviews of all 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. It also reviews the fair value of equity investments.

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

EBRD internal ratings

Probability of default (PD)
The Bank assigns its internal risk ratings to all counterparties, including borrowers, investee companies, guarantors and sovereigns in the Banking portfolio. Risk ratings reflect the financial strength of the counterparty as well as consideration of any implicit support, for example from a major shareholder. The sovereign rating takes into consideration the ratings assigned by external rating agencies. For non-sovereign operations, probability of default ratings are normally capped by the sovereign rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign rating.

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.

<table>
<tr><th>EBRD risk rating category</th><th>EBRD risk rating</th><th>External rating equivalent</th><th>Category name</th><th>Broader category</th></tr>
<tr><td>1</td><td>1.0</td><td>AAA</td><td>Excellent</td><td rowspan="4">Investment Grade</td></tr>
<tr><td>2</td><td>1.7
2.0
2.3/2.5</td><td>AA+
AA
AA-</td><td>Very Strong</td></tr>
<tr><td>3</td><td>2.7
3.0
3.3</td><td>A+
A
A-</td><td>Strong</td></tr>
<tr><td>4</td><td>3.7
4.0
4.3</td><td>BBB+
BBB
BBB-</td><td>Good</td></tr>
<tr><td>5</td><td>4.7
5.0
5.3</td><td>BB+
BB
BB-</td><td>Fair</td><td>Risk class 5</td></tr>
<tr><td>6</td><td>5.7
6.0
6.3</td><td>B+
B
B-</td><td>Weak</td><td>Risk class 6</td></tr>
<tr><td>7</td><td>6.7
7.0
7.3</td><td>CCC+
CCC
CCC-/CC/C</td><td>Special Attention</td><td rowspan="2">Classified</td></tr>
<tr><td>8</td><td>8.0</td><td>D</td><td>Expected Loss/Impaired</td></tr>
</table>

Loss given default (LGD)
The Bank also assigns loss given default ratings on a scale of 0 per cent to 100 per cent determined by the seniority of the instrument in which the Bank invested and the jurisdiction and sector of the transaction.

Impaired loss provisioning

Impaired definition
An asset is designated as impaired when either the borrower is more than 90 days past due on payment to any material creditor, or when the counterparty is considered unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realising security, if held.

Provisioning methodology
A specific provision is raised on all impaired assets accounted for at amortised cost. The provision represents the amount of impairment loss, being the difference between the outstanding amount from the client and the expected recovery amount. The expected recovery amount is equal to the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

General portfolio provisions
In the performing portfolio, provisions are held against losses incurred but not identified at the balance sheet date. These amounts are based on the PD rates associated with the rating assigned to each transaction, the LGD parameters reflecting product seniority and legal jurisdiction, and the Exposure at Default (EAD). EAD is calculated based on outstanding operating assets and the expected disbursement of committed but not yet disbursed amounts between the occurrence of the impairment event and a loan being identified as impaired.

Credit risk exposures

Placements with credit institutions
The Fund's placements with credit institutions were all classified in internal credit rating risk categories 2 and 3 (approximately AA+ to A- in terms of the 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.

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 category	Neither past due nor impaired € 000	Total %	Portfolio provisions for unidentified impairment € 000	Total loans net of impairment provisions € 000	Impairment provisions %
5: Fair	2,169	17.3	(7)	2,162	0.3
6: Weak	9,536	76.1	(281)	9,255	2.9
7: Special attention	823	6.6	(123)	700	14.9
At 31 December 2014	**12,528**	**100.0**	**(411)**	**12,117**	**3.3**
Risk category					
5: Fair	5,783	43.9	(19)	5,764	0.3
6: Weak	7,030	53.4	(184)	6,846	2.6
7: Special attention	363	2.7	(56)	307	15.4
At 31 December 2013	13,176	100.0	(259)	12,917	2.0

Guarantees
At 31 December 2014, the Bank had no outstanding guarantees under the TFP as all outstanding guarantees remaining in the Netherlands TFP Sub-account were discharged during the year. As such at 31 December 2014, the Fund's maximum exposure under such guarantees was nil (2013: €2.2 million).

The unamortised fair value of TFP financial guarantees shown on the balance sheet as at 31 December 2013 represent the initial fair value recognised when the guarantees were issued less cumulative amortisation. The Fund does not actively manage credit risk on its guarantee exposure.

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

Risk category	**Guaranteed TFP transactions 2014 € 000**	Guaranteed TFP transactions 2013 € 000
6: Weak	**-**	22
7: Special attention	**-**	2,143
31 December	**-**	2,165

Concentration of credit risk exposure

The following table breaks down the main credit risk exposures at the carrying amount by geographical region.

	Loans 2014 € 000	**Undrawn commitments and guarantees 2014 € 000**	**Total 2014 € 000**	Loans 2013 € 000	Undrawn commitments and guarantees 2013 € 000	Total 2013 € 000
Azerbaijan	**3,292**	**-**	**3,292**	363	-	363
Georgia	**-**	**-**	**-**	-	2,165	2,165
Mongolia	**3,527**	**-**	**3,527**	3,630	-	3,630
Romania	**2,040**	**-**	**2,040**	3,400	-	3,400
Tunisia	**1,500**	**-**	**1,500**	-	-	-
Turkey	**2,169**	**-**	**2,169**	5,783	-	5,783
At 31 December	**12,528**	**-**	**12,528**	13,176	2,165	15,341

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 floating rate loan investments are repriced to market interest rates within one and six months respectively, therefore the exposure to interest rate risk is considered to be minimal.

The Fund also has a number of fixed rate loan investments. Based on a reasonable basis point change in the underlying interest rates, the potential impact to the Fund’s net profit 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 2014 € 000	United States dollars 2014 € 000	Total € 000
Total assets	15,172	19,275	**34,447**
Total liabilities	-	(34,447)	**(34,447)**
Net currency position at 31 December 2014	**15,172**	**(15,172)**	**-**

	Euro 2013 € 000	United States dollars 2013 € 000	Total € 000
Total assets	16,231	13,389	29,620
Total liabilities	(2,197)	(27,423)	(29,620)
Net currency position at 31 December 2013	14,034	(14,034)	-

Based on the average five year absolute rolling average movement in the United States dollar to euro exchange rate, the potential impact on the Fund's net profit from a 5 per cent strengthening or weakening (2013: 6 per cent) is €722,000 (2013: €795,000).

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 13 per cent movement (2013: 20 per cent) in equity prices is €9,000 (2013: €30,000).

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 2014, the Fund had four 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 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 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. Provisions for impairment of loan investments

	2014	2013
Charge for the year	**€ 000**	€ 000
Portfolio provisions for the unidentified impairment of loan investments	**127**	56
Impairment charge on loan investments	**127**	56
Movement in provisions		
At 1 January	**259**	207
Charge for the year to the income statement	**127**	56
Foreign exchange adjustments	**25**	(4)
At 31 December	**411**	259
Analysed between		
Portfolio provisions for the unidentified impairment of loan investments	**411**	259
At 31 December	**411**	259

4. Other financial assets

	2014	2013
	€ 000	€ 000
Interest receivable	**124**	41
Fee income receivable from financial guarantees	**-**	7
Unamortised fair value of TFP financial guarantees	**-**	10
At 31 December	**124**	58

5. Loan investments

	2014	2013
Operating assets	**€ 000**	€ 000
At 1 January	**13,176**	13,031
Disbursements	**4,127**	4,222
Repayments	**(5,726)**	(3,736)
Foreign exchange movements	**951**	(341)
At 31 December	**12,528**	13,176
Impairment at 31 December	**(411)**	(259)
Total loan investments net of impairment at 31 December	**12,117**	12,917

6. 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.

	2014	2013
	€ 000	€ 000
Outstanding disbursements		
At 1 January	**1**	1
At 31 December	**1**	1
Fair value adjustment		
At 1 January	**149**	148
Movement in fair value revaluation	**(80)**	1
At 31 December	**69**	149
Fair value at 31 December	**70**	150

7. Contributions

	Executing agency	**2014 € 000**	2013 € 000
Cumulative contributions received			
Netherlands	-	**-**	2,147
Taipei China	ICDF	**34,348**	29,971
		34,348	32,118
Memorandum item - Contributions pledged not yet due			
Taipei China	ICDF	**-**	4,356
		-	4,356
At 31 December		**34,348**	36,474

	Executing	**2014**	**2014**	2013	2013
Total contributions	**agency**	**€ 000**	**%**	€ 000	%
Netherlands	**-**	**-**	**-**	2,147	5.9
Taipei China	ICDF	**34,348**	**100.0**	34,327	94.1
At 31 December		**34,348**	**100.0**	36,474	100.0

All commitments and liabilities including outstanding guarantees in the Netherlands TFP Sub-account were satisfied during the year. As such on 27 November 2014, in accordance with instructions from the contributor, €2.19 million was transferred from the Netherlands TFP Sub-account to the EBRD-Ukraine Stabilisation and Sustainable Growth Multi-Donor Account representing the uncommitted funds in the Sub-account.

8. 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.

9. 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
	2014	**2014**	**2014**	2013	2013	2013
Assets	**€ 000**	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Placements with credit institutions	**22,136**	**-**	**22,136**	16,495	-	16,495
Other financial assets	**124**	**-**	**124**	58	-	58
Loans	**4,911**	**7,617**	**12,528**	5,580	7,596	13,176
Provisions for impairment	**(161)**	**(250)**	**(411)**	(110)	(149)	(259)
Share investments	**-**	**70**	**70**	-	150	150
Total assets	**27,010**	**7,437**	**34,447**	22,023	7,597	29,620
Liabilities						
Unamortised fair value of TFP financial guarantees	**-**	**-**	**-**	10	-	10
Total contributors' resources	**34,447**	**-**	**34,447**	29,610	-	29,610
Total liabilities	**34,447**	**-**	**34,447**	29,620	-	29,620

10. Events after the reporting period

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

11. 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. During 2014 the Fund paid the Bank a management fee of €45,000 (2013: €45,000) for operating the Fund. There was no accrued management fee payable by the Fund to the Bank at 31 December 2014. External auditor's remuneration of €7,200 (2013: €6,500) is payable by the Bank from the management fee. In 2014 the Bank approved an extension of the term of appointment from four year to five with a maximum of two consecutive terms. Deloitte LLP (UK) complete its first four-year term in 2014 and has been re-appointed for the five year period 2015 – 2019. Also during 2014, the Fund received fees from the Bank in relation to TFP guarantees of €3,000 (2013: €31,000), of which none is receivable as at 31 December 2014 (2013: €7,000).

Contributions received and receivable from the contributors and amounts returned to the contributors are outlined in note 7.

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 Financial Intermediary Investment Special Fund ("the Fund") for the year ended 31 December 2014 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in contributors' resources, the statement of cash flows for the year then ended together with the accounting policies, the risk management statement and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 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 judgement, 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 Financial Intermediary Investment Special Fund as at 31 December 2014 and its financial performance and cash flows for the year 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 these matters.

Other matters

This report, including the opinion, has 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 contributors 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 2015