

**European Bank
for Reconstruction and Development**

The SME Finance Facility Special Fund

**Annual Financial Report
31 December 2006**

European Bank for Reconstruction and Development

The SME Finance Facility Special Fund

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Income statement		Year to	Year to
For the year ended 31 December 2006		31 December 2006	31 December 2005
	Note	€000	€000
Interest and similar income		702	513
Net (losses)/gains from share investments at fair value through profit or loss	4	(451)	289
Performance fees payable	5	(12,666)	(15,929)
Disbursements for technical cooperation	6	(4,451)	(3,060)
Fund manager fees payable	7	-	(100)
Other operating expenses	8	(88)	(263)
Net loss for the year		(16,954)	(18,550)

Balance sheet		31 December	31 December
At 31 December 2006		2006	2005
	Note	€000	€000
Assets			
Placements with credit institutions		22,560	29,419
Other assets	9	87	43
Share investments	10		
Share investments at fair value through profit or loss		1,412	2,253
Available-for-sale share investments		729	1,392
		2,141	3,645
Contributions receivable	11	60,000	67,000
Total assets		84,788	100,107
Liabilities and contributor's resources			
Other liabilities	12	4,966	3,531
Total liabilities		4,966	3,531
Contributions	11	173,000	173,000
Reserves and retained earnings		(93,178)	(76,424)
Total contributor's resources		79,822	96,576
Total liabilities and contributor's resources		84,788	100,107

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Statement of changes in contributor's resources For the year ended 31 December 2006

	Contributions €000	General reserve €000	Accumulated loss €000	Total €000
At 31 December 2004	155,000	-	(58,152)	96,848
Transitional restatement of opening balances for fair value of share investments	-	222	-	222
At 1 January 2005	155,000	222	(58,152)	97,070
Contribution agreement	18,000	-	-	18,000
Net fair value movement of available-for-sale share investments for the year	-	56	-	56
Net loss for the year	-	-	(18,550)	(18,550)
At 31 December 2005	173,000	278	(76,702)	96,576
Net fair value movement of available-for-sale share investments for the year	-	200	-	200
Net loss for the year	-	-	(16,954)	(16,954)
At 31 December 2006	173,000	478	(93,656)	79,822

Statement of cash flows For the year ended 31 December 2006

	Year to 31 December 2006 €000	Year to 31 December 2005 €000
Cash flows from operating activities		
Operating loss for the year	(16,954)	(18,550)
Adjustments for:		
Net losses/(gains) from share investments at fair value through profit or loss	451	(289)
Operating loss before changes in operating assets	(16,503)	(18,839)
(Increase)/decrease in operating assets:		
Interest receivable and prepaid expenses	(44)	22
Proceeds from sale of share investments	2,364	227
Funds advanced for share investments	(1,111)	(1,852)
Decrease/(increase) in operating liabilities:		
Accrued expenses	1,431	(681)
Other liabilities	4	-
Net cash used in operating activities	(13,859)	(21,123)
Cash flows from financing activities		
Contributions	7,000	21,000
Net cash from financing activities	7,000	21,000
Net decrease in cash and cash equivalents	(6,859)	(123)
Cash and cash equivalents at beginning of year	29,419	29,542
Cash and cash equivalents at 31 December	22,560	29,419

The SME Finance Facility Special Fund

Notes to the financial statements

1 Creation of the Special Fund

The creation of The SME Finance Facility Special Fund ("the Fund") was approved by the Board of Directors ("the Board") of the European Bank for Reconstruction and Development ("the Bank") at its meeting of 7 April 1999 and is administered, *inter alia*, under the terms of Rules and Regulations of such Special Fund approved by the Board on that date. On 19 April 1999, the Bank entered into a contribution arrangement ("the Arrangement") in respect of the Fund with the European Community ("EC").

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to alleviate the financing problems of small and medium-sized enterprises ("the SMEs") in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia ("the Accession countries").

The Fund comprises two windows: (i) the Loan, Guarantee and Leasing Window (incorporating the Rural Sub-Window) and (ii) the Equity Window.

2 President's responsibilities

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

3 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

i Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions. The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below in "critical accounting estimates and judgements".

ii Significant changes in the financial statements

Amendments to published standards effective in 2006

IAS 39 (Amendment), The Fair Value Option

This amendment permits the irrevocable designation on initial recognition of financial instruments that meet certain conditions as ones to be measured at fair value through profit or loss. The conditions that are required to be met under the amendment are where such designation eliminates or significantly reduces an accounting mismatch, when a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and when an instrument contains an embedded derivative that meets particular conditions. From 1 January 2005 the Fund has designated its associate share investments and high-risk equity funds at fair value through profit or loss as the performance of these assets is managed on a fair value basis in accordance with the Bank's risk management and accounting policies.

Standards early adopted by the Fund

No standards were early adopted by the Fund in 2006.

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Notes to the financial statements (continued)

3 Accounting policies (continued)

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

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

- IAS 19 (Amendment), Employee Benefits;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting for Forecast Intragroup Transactions;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

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

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

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

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

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

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. As the Fund currently comprises a single primary segment (Banking operations) and one geographic region ("the Accession countries") IFRS 8 is not expected to impact the financial statements. The Fund will apply IFRS 8 from its annual period beginning 1 January 2009.

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

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

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

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Notes to the financial statements (continued)

3 Accounting policies (continued)

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

IAS 28 (Amendment), Investments in Associates

Prior to 2005 all share investments were accounted for as available-for-sale financial assets as the Fund did not issue consolidated financial statements under the requirements of the previous IAS 28. As of 1 January 2005, the Fund applied the exemption for venture capital organisations under IAS 28 Revised 2005. This permitted the Fund to designate share investments, previously held as available-for-sale, as financial assets at fair value through profit or loss.

The Fund has chosen to designate all associate share investments as financial assets at fair value through profit or loss with changes in fair value included in the income statement. All remaining share investments continue to be designated as available-for-sale financial assets.

Prior to 2005 the Bank concluded that it could not reliably measure the fair value of the Fund's unlisted share investments and as such it was impracticable to restate 2004 comparatives for unlisted associate share investments.

Fair valuation of unlisted share investments

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

As fair value could not be reliably measured prior to 2005 it was impracticable to restate 2004 comparatives for unlisted share investments. At 1 January 2005 the Fund released portfolio provisions for the unidentified impairment of share investments, totalling €609,000, to reserves. In addition the Fund restated all unlisted share investments to fair value resulting in a reduction to the Fund's reserves of €387,000. The total impact on the Fund's opening reserves was a net increase of €222,000.

iii Significant accounting policies

Financial assets

Financial assets at fair value through profit or loss

This category comprises the Fund's associate share investments. Such assets are measured at fair value on the balance sheet with changes in fair value recorded in the income statement. The basis of fair value for unlisted share investments is determined using valuation techniques appropriate to the market and industry of each investment. Purchases and sales of share investments are recorded at trade date. Note 10 analyses unlisted share investments.

Available-for-sale

This category comprises the Fund's non-associate share investments. Such assets are measured at fair value on the balance sheet with changes in fair value recorded through reserves, as disclosed in the "statement of changes in contributor's resources", until the financial asset is sold or determined to be impaired. At this time the cumulative profit or loss previously recognised in reserves is removed and included in the income statement. The basis of fair value for unlisted share investments is determined using valuation techniques appropriate to the market and industry of each investment. Purchases and sales of share investments are recorded at trade date. Note 10 analyses unlisted share investments.

iv Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Preparing financial statements in conformity with IFRS requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

The SME Finance Facility Special Fund

Notes to the financial statements (continued)

3 Accounting policies (continued)

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the fair value of available-for-sale share investments and financial assets at fair value through profit or loss. These estimates are highly dependent on a number of variables which reflect the economic environment and financial markets of the Fund's countries of operations but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The resultant volatility, combined with a lack of comparable information in relation to the Fund's banking portfolio, limits the Fund's ability to apply traditional sensitivity analysis methods.

v Contributions

Contributions are recognised as receivable in the balance sheet on the date of signature of a contribution agreement by the Bank and a contributor. Contributions receivable have not been discounted on a present value basis as there has been no indication as to the precise payment date of outstanding contributions. The Fund is satisfied that they will be realised for the amounts stated in the financial statements.

vi Disbursements for technical cooperation

Disbursements for technical cooperation, which represent payments for consultancy services provided to the Fund over a period of time, are recorded as expenditure over the period during which the services are received.

vii 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.

viii 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.

ix Comparatives

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

4 Net (losses)/gains from share investments at fair value through profit or loss

	2006	2005
	€000	€000
Net unrealised (losses)/gains from associate share investments	(451)	289
Net (losses)/gains from assets at fair value through profit or loss	(451)	289

5 Performance fees

Performance fees are incentive payments to banks and leasing companies participating in SME lending and leasing activities in the Accession countries. They are calculated as a percentage of actual financing extended to SMEs from loans advanced by the Bank and are either deducted from loan interest amounts payable to the Bank or paid directly to the participating leasing companies and participating banks.

6 Disbursements for technical cooperation

	Commitments approved	Disbursements	Undrawn commitments
	€000	€000	€000
Projects in operation			
At 31 December 2004	55,828	29,395	26,433
Movement in the year	1,661	3,060	(1,399)
At 31 December 2005	57,489	32,455	25,034
Movement in the year	5,819	4,451	1,368
At 31 December 2006	63,308	36,906	26,402

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Notes to the financial statements (continued)

7 Fund manager fees

Fund manager fees represent amounts payable in respect of the management cost of the Fund's equity investments held under the equity window.

8 Other operating expenses

Other operating expenses comprise administrative expenses directly relating to the Fund and include a management fee payable to the Bank which is set at 1.25 per cent of each contribution instalment. External auditors' remuneration of €7,400 (2005: €7,100) is payable by the Bank from this management fee.

9 Other assets

	2006 €000	2005 €000
Interest receivable on placements	87	37
Bank charges recoverable	-	6
At 31 December	87	43

10 Share investments

	Share investments at fair value through profit or loss €000	Available-for-sale share investments €000	Total share investments €000
Outstanding disbursements			
At 31 December 2004	-	2,062	2,062
Designated as fair value through profit or loss	1,517	(1,517)	-
At 1 January 2005	1,517	545	2,062
Disbursements	964	888	1,852
Disposals at cost	(227)	-	(227)
At 31 December 2005	2,254	1,433	3,687
Disbursements	1,006	105	1,111
Disposals at cost	(1,396)	(968)	(2,364)
At 31 December 2006	1,864	570	2,434
Fair value adjustment			
At 31 December 2004	-	(609)	(609)
Designated as fair value through profit or loss	(431)	431	-
Transitional restatement of opening balances to fair value	141	81	222
At 1 January 2005	(290)	(97)	(387)
Movement in fair value revaluation	289	56	345
At 31 December 2005	(1)	(41)	(42)
Movement in fair value revaluation	(451)	200	(251)
At 31 December 2006	(452)	159	(293)
Fair value at 31 December 2006	1,412	729	2,141
Fair value at 31 December 2005	2,253	1,392	3,645

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Notes to the financial statements (continued)

11 Contributions

Contributions received and receivable from the EC are set out below:

	2006 €000	2005 €000
Cumulative contributions received	113,000	106,000
Contributions receivable	60,000	67,000
Total contributions at 31 December	173,000	173,000

No replenishment agreements were signed during the year (2005: €18 million). A contribution of €7million was received from the EC on 8 September 2006 (2005: €21 million).

12 Other liabilities

	2006 €000	2005 €000
Performance fees payable	1,412	1,721
Disbursements for technical cooperation payable	3,550	1,673
Other operating expenses payable	-	137
Other liabilities	4	-
Total other liabilities as at 31 December	4,966	3,531

13 Undrawn commitments

	2006 €000	2005 €000
Disbursements for technical cooperation	26,402	25,034
Share investments	8,929	10,040
At 31 December	35,331	35,074

14 Liquidity position

The table below provides an analysis of assets, liabilities and contributor's 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.

	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Maturity undefined €000	Total €000
Liquidity position at 31 December 2006				
Assets				
Placements with credit institutions	22,560	-	-	22,560
Other assets	87	-	-	87
Share investments	-	-	2,141	2,141
Contributions receivable	-	-	60,000	60,000
Total assets	22,647	-	62,141	84,788
Liabilities and contributor's resources				
Other liabilities	(1,389)	(3,573)	(4)	(4,966)
Total contributor's resources	-	-	(79,822)	(79,822)
Total liabilities and contributor's resources	(1,389)	(3,573)	(79,826)	(84,788)
Net liquidity position at 31 December 2006	21,258	(3,573)	(17,685)	-
Cumulative net liquidity position at 31 December 2006	21,258	17,685	-	-

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Notes to the financial statements (continued)

14 Liquidity position (continued)

	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Maturity undefined €000	Total €000
Liquidity position at 31 December 2005				
Assets				
Placements with credit institutions	22,919	6,500	-	29,419
Other assets	39	4	-	43
Share investments	-	-	3,645	3,645
Contributions receivable	-	-	67,000	67,000
Total assets	22,958	6,504	70,645	100,107
Liabilities and contributor's resources				
Other liabilities	(1,647)	(1,884)	-	(3,531)
Total contributor's resources	-	-	(96,576)	(96,576)
Total liabilities and contributor's resources	(1,647)	(1,884)	(96,576)	(100,107)
Net liquidity position at 31 December 2005	21,311	4,620	(25,931)	-
Cumulative net liquidity position at 31 December 2005	21,311	25,391	-	-

15 Interest rate risk

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

	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Over 3 months and up to and including 1 year €000	Non-interest- bearing funds €000	Total €000
Interest rate risk at 31 December 2006					
Assets					
Placements with credit institutions	22,560	-	-	-	22,560
Other assets	-	-	-	87	87
Share investments	-	-	-	2,141	2,141
Contributions receivable	-	-	-	60,000	60,000
Total assets	22,560	-	-	62,228	84,788
Liabilities and contributor's resources					
Other liabilities	-	-	-	(4,966)	(4,966)
Total contributor's resources	-	-	-	(79,822)	(79,822)
Total liabilities and contributor's resources	-	-	-	(84,788)	(84,788)
Interest sensitivity gap at 31 December 2006	22,560	-	-	(22,560)	-

The SME Finance Facility Special Fund

Notes to the financial statements (continued)

15 Interest rate risk (continued)

Interest rate risk at 31 December 2005	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Over 3 months and up to and including 1 year €000	Non-interest- bearing funds €000	Total €000
Assets					
Placements with credit institutions	18,919	4,000	6,500	-	29,419
Other assets	-	-	-	43	43
Share investments	-	-	-	3,645	3,645
Contributions receivable	-	-	-	67,000	67,000
Total assets	18,919	4,000	6,500	70,688	100,107
Liabilities and contributor's resources					
Other liabilities	-	-	-	(3,531)	(3,531)
Total contributor's resources	-	-	-	(96,576)	(96,576)
Total liabilities and contributor's resources	-	-	-	(100,107)	(100,107)
Interest sensitivity gap at 31 December 2005	18,919	4,000	6,500	(29,419)	-

The effective interest rate at 31 December 2006 for placements with credit institutions was 3.40 per cent (2005: 2.20 per cent).

16 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.

17 Segment information

In accordance with IAS 14, the primary segment of the Fund is business operation and the secondary segment is geographical. At 31 December 2006, the activities of the Fund comprised a single primary segment (Banking operations) and one geographic region ("the Accession countries"). Consequently, no additional disclosure is required.

18 Related parties

The Fund has a number of venture capital associates that it accounts for at fair value through profit or loss. At 31 December 2006, according to unaudited management information or the most recently available audited financial statements from the investee companies, they had total assets of €5.0 million (2005: €1.9 million), total liabilities of €241,000 (2005: €308,000), and for the year ended 31 December 2006 had revenue of €456,000 (2005: €2.2 million), and made a net loss of €897,000 (2005: profit of €1.2 million).

19 Post balance sheet events

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

Independent auditor's report to the Governors of the European Bank for Reconstruction and Development (the 'Bank')

Report on the Financial Statements

We have audited the financial statements of the SME Finance Facility Special Fund for the year ended 31 December 2006 which comprise the income statement, the balance sheet, the statement of changes in contributor's resources, the statement of cash flows, the accounting policies and the notes to the financial statements ("financial statements").

President's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Other matters

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

This report, including the opinion, has been prepared for, and only for, the Bank and for the confidential use of the Contributors to the Fund and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

6 March 2007

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