

**European Bank
for Reconstruction and Development**

The Balkan Region Special Fund

**Annual Financial Report
31 December 2007**

European Bank for Reconstruction and Development

The Balkan Region Special Fund

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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		279	223
Fee income		38	39
Foreign exchange loss		(2)	(2)
Disbursements for technical cooperation	3	(191)	(159)
Other operating expenses	4	(7)	(7)
Net income refunded on termination of contribution agreements	5	-	(107)
Net profit/(loss) for the year		117	(13)

Balance sheet At 31 December 2007	Note	31 December 2007 €000	31 December 2006 €000
Assets			
Placements with credit institutions		7,163	8,015
Other financial assets	6	216	588
Total assets		7,379	8,603
Liabilities and contributors' resources			
Other financial liabilities	7	58	1,399
Contributors' resources			
Contributions	8	9,779	9,779
Reserves and retained earnings		(2,458)	(2,575)
Total contributors' resources		7,321	7,204
Total liabilities		7,379	8,603

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Statement of cash flows For the year ended 31 December 2007	Year to 31 December 2007 €000	Year to 31 December 2006 €000
Cash flows from operating activities		
Operating profit/(loss) for the year	117	(13)
Adjustment for:		
Interest income	(279)	(223)
Foreign exchange	2	2
	<u>(160)</u>	<u>(234)</u>
Interest income received	<u>277</u>	<u>199</u>
Operating profit before changes in operating assets	117	(35)
Decrease/(increase) in operating assets:		
Advances	59	(80)
Fee income receivable	315	(33)
(Decrease)/increase in operating liabilities		
Accrued expenses	(1,341)	1,084
Net cash (used in)/from operating activities	<u>(850)</u>	<u>936</u>
Cash flows from financing activities		
Contributions refunded on termination of a contribution agreement	-	(1,218)
Net cash used in financing activities	<u>-</u>	<u>(1,218)</u>
Net decrease in cash and cash equivalents	<u>(850)</u>	<u>(282)</u>
Cash and cash equivalents at beginning of year	8,015	8,299
Effect of foreign exchange rate changes	(2)	(2)
Cash and cash equivalents at 31 December	<u>7,163</u>	<u>8,015</u>

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

	Contributions €000	Accumulated loss €000	Total €000
At 31 December 2005	10,997	(2,562)	8,435
Termination of contribution agreement	(1,218)	-	(1,218)
Loss for the year	-	(13)	(13)
At 31 December 2006	9,779	(2,575)	7,204
Profit for the year	-	117	117
At 31 December 2007	9,779	(2,458)	7,321

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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.

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.

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.

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Accounting policies (continued)

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

The Fund's financial assets are comprised of receivables which are non derivative financial assets with fixed or determinable payments.

Financial liabilities

All financial liabilities are measured at amortised cost.

Financial guarantees

Issued Trade Facilitation Programme 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.

C. 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)

D. Interest and fees

Interest is recorded on an accruals basis.

Fees received in respect of services provided over a period of time are recorded as income over the period during which the services are provided. Other fees and commissions are taken to income when received.

E. 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 received in currencies other than euro 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.

F. 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.

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. This definition includes balances of cash and current accounts with foreign banks.

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 assist the reconstruction of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Romania and Serbia (the “Balkan Countries”) by acting as a funding facility, comprising funds to finance investments, technical cooperation activities and to provide guarantees.

As the purpose of the Fund is to promote development in the Balkan Countries, rather than to generate a return on its assets, not all financial risks are actively managed by the Fund. Credit risk is jointly managed with the Bank; however the Fund does not hedge against market risk and is hence exposed to foreign exchange risk and interest rate risk.

A. Credit risk

Credit risk is the potential loss that could result from the default of 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 exposed to credit risk as set out in the following table because counterparties could default on their contractual obligations.

Maximum exposure to credit risk before collateral held or other credit enhancements

	2007	2006
	€000	€000
Placements with credit institutions	7,163	8,015
Other financial assets	216	588
Undrawn commitments for guarantees	5,393	4,719
Maximum credit exposure	12,772	13,322

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

Placements with credit institutions

The Bank’s Treasury Credit Risk Management team assesses the creditworthiness of financial institutions through the synthesis of externally provided credit research and market data and with reference to external rating benchmarks from approved rating agencies to determine if the counterparties are adequate.

Placements with Credit institutions are rated between AAA (excellent) and A- (very good) by Standard & Poor’s.

Other financial assets

Other financial assets represent interest income receivable from the Fund’s placements, Business Advisory Services Programme (“BAS”) advances and guarantee fees payable by the Bank to the Fund. Within fee income receivable of €125,000 at 31 December 2007, €36,000 was past due but not considered impaired.

Interest and guarantee fee income receivable is risk rated between AAA and A-. BAS advances are held with institutions in local countries of operations and may be risk rated below A-, however balances are monitored to ensure credit exposure is minimal.

Guarantees

At 31 December 2007, the Bank had outstanding guarantees under the Balkan Region Trade Facilitation Programme for which, in the event of a future default, losses incurred by the Bank will be refunded from the resources of the Fund. At 31 December 2007, the Fund’s maximum exposure under such guarantees was €5.4 million (2006: €4.7 million). No provisions have been recognised against this exposure. The Fund does not actively manage credit risk on its guarantee exposure.

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Financial risk management (continued)

<i>Analysis by geographic area</i>	2007	2006
	€000	€000
Bosnia and Herzegovina	1,947	1,335
Former Yugoslav Republic of Macedonia	2,571	3,184
Montenegro	-	67
Serbia	875	133
At 31 December	5,393	4,719

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 and foreign exchange 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 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	Non-interest- bearing funds	Total
	€000	€000	€000
Interest rate risk at 31 December 2007			
Assets			
Placements with credit institutions	7,163	-	7,163
Other financial assets	-	216	216
Total assets	7,163	216	7,379
Liabilities			
Other financial liabilities	-	(58)	(58)
Total contributors' resources	-	(7,321)	(7,321)
Total liabilities	-	(7,379)	(7,379)
Interest sensitivity gap at 31 December 2007	7,163	(7,163)	-
	Up to and including 1 month	Non-interest- bearing funds	Total
	€000	€000	€000
Interest rate risk at 31 December 2006			
Assets			
Placements with credit institutions	8,015	-	8,015
Other financial assets	-	588	588
Total assets	8,015	588	8,603
Liabilities			
Other financial liabilities	-	(1,399)	(1,399)
Total contributors' resources	-	(7,204)	(7,204)
Total liabilities	-	(8,603)	(8,603)
Interest sensitivity gap at 31 December 2006	8,015	(8,015)	-

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Financial risk management (continued)

The table below summarises 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	3.78	4.58	2.75	4.53

Foreign exchange risk

	United States		Total
	Euro	dollars	
Net currency position at 31 December 2007	€000	€000	€000
Assets			
Placements with credit institutions	7,149	14	7,163
Other financial assets	216	-	216
Total assets	7,365	14	7,379
Liabilities			
Other financial liabilities	(58)	-	(58)
Total contributors' resources	(7,321)	-	(7,321)
Total liabilities	(7,379)	-	(7,379)
Net currency position at 31 December 2007	(14)	14	-

	United States		Total
	Euro	dollars	
Net currency position at 31 December 2006	€000	€000	€000
Assets			
Placements with credit institutions	8,000	15	8,015
Other financial assets	588	-	588
Total assets	8,588	15	8,603
Liabilities			
Other financial liabilities	(1,399)	-	(1,399)
Total contributors' resources	(7,204)	-	(7,204)
Total liabilities	(8,603)	-	(8,603)
Net currency position at 31 December 2006	(15)	15	-

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

Sensitivity analysis

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

- Proportional foreign exchange rate movement of +13.4 per cent (appreciation of euro) and -13.4 per cent (depreciation of euro) against the United States dollar (2006: +13.7 per cent/-13.7 per cent), from a EUR:USD spot rate of 1.4716.
- 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: +138bp/-138bp) of United States dollar market interest rates from year end rates of 4.7 per cent.

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

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Financial risk management (continued)

	Interest rate risk (IR)		Foreign exchange rate risk	
	+ 118 bp of EUR IR + 32 bp of USD IR	- 118 bp of EUR IR - 32 bp of USD IR	+13.4 per cent	-13.4 per cent
31 December 2007	Carrying	Profit/(loss)	Profit/(loss)	Profit/(loss)
	€000	€000	€000	€000
Financial assets				
Placements with credit institutions	7,163	84	(84)	(2)
Other financial assets	216	-	-	-
Impact on financial assets	7,379	84	(84)	(2)
Financial liabilities				
Other financial liabilities	(58)	-	-	-
Total contributors' resources	(7,321)	-	-	-
Impact on financial liabilities	(7,379)	-	-	-
Total increase/(decrease)		84	(84)	2

	Interest rate risk (IR)		Foreign exchange rate risk	
	+ 88 bp of EUR IR + 138 bp of USD IR	- 88 bp of EUR IR - 138 bp of USD IR	+13.7 per cent	-13.7 per cent
31 December 2006	Carrying amount	Profit/(loss)	Profit/(loss)	Profit/(loss)
	€000	€000	€000	€000
Financial assets				
Placements with credit institutions	8,015	71	(71)	(2)
Other financial assets	588	-	-	-
Impact on financial assets	8,603	71	(71)	(2)
Financial liabilities				
Other financial liabilities	(1,399)	-	-	-
Total contributors' resources	(7,204)	-	-	-
Impact on financial liabilities	(8,603)	-	-	-
Total increase/(decrease)		71	(71)	2

C. 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.

Liquidity position

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.

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Financial risk management (continued)

	Up to and including 1 month	Over 1 month and up to and including 3 months	Over 3 months and up to and including 1 year	Over 1 year and up to and including 5 years	Maturity undefined	Total
	€000	€000	€000	€000	€000	€000
Liquidity position at 31 December 2007						
Assets						
Placements with credit institutions	7,163	-	-	-	-	7,163
Other financial assets	88	82	32	14	-	216
Total assets	7,251	82	32	14	-	7,379
Liabilities						
Other financial liabilities	-	-	(7)	-	(51)	(58)
Total contributors' resources	-	-	-	-	(7,321)	(7,321)
Total liabilities	-	-	(7)	-	(7,372)	(7,379)
Net liquidity position at 31 December 2007	7,251	82	25	14	(7,372)	-
Cumulative net liquidity position at 31 December 2007	7,251	7,333	7,358	7,372	-	-

	Up to and including 1 month	Over 1 month and up to and including 3 months	Over 3 months and up to and including 1 year	Over 1 year and up to and including 5 years	Maturity undefined	Total
	€000	€000	€000	€000	€000	€000
Liquidity position at 31 December 2006						
Assets						
Placements with credit institutions	8,015	-	-	-	-	8,015
Other financial assets	147	410	25	6	-	588
Total assets	8,162	410	25	6	-	8,603
Liabilities						
Other financial liabilities	(1,267)	(110)	(8)	-	(14)	(1,399)
Total contributors' resources	-	-	-	-	(7,204)	(7,204)
Total liabilities	(1,267)	(110)	(8)	-	(7,218)	(8,603)
Net liquidity position at 31 December 2006	6,895	300	17	6	(7,218)	-
Cumulative net liquidity position at 31 December 2006	6,895	7,195	7,212	7,218	-	-

D. Management of contributor's resources

Contributor's resources of the Fund comprises pledged contributions net of accumulated losses of the Fund. At 31 December 2007, the Fund had two project sub-accounts: a Trade Facilitation sub-account and a Technical Cooperation sub-account. Under the Rules and Regulations of the Fund, the Fund resources may be used to provide technical assistance and guarantees within the Balkan Countries.

The Fund is not subject to any external capital requirement constraints. However, technical assistance commitments cannot exceed the available balance in the Technical Cooperation sub-account and guarantee exposure cannot exceed contributions received in the Trade Facilitation sub-account. In 2006 and 2007 this limit was not exceeded.

The Balkan Region Special Fund

Notes to the financial statements

1. Creation of the Special Fund

The creation of The Balkan Region Special Fund ("the Fund") was approved by the Board of Directors ("the Board") of the Bank on 15 September 1999 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 7 December 1999 following the signing of the first contribution agreement.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to assist the reconstruction of the Balkan Countries, through the Bank's Balkan Region Action Plan. The Action Plan was extended in 2001 to cover projects in Serbia and Montenegro, when it became a recipient member country of the Bank. Activities of the Fund may include investments and technical cooperation.

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. Disbursements for technical cooperation

	Commitments approved €000	Disbursements €000	Undrawn commitments €000
Projects in operation			
At 31 December 2005	2,715	2,133	582
Movement in the year	(134)	42	(176)
At 31 December 2006	2,581	2,175	406
Movement in the year	(325)	(61)	(264)
At 31 December 2007	2,256	2,114	142
Completed projects			
At 31 December 2005	1,554	1,554	-
Movement in the year	117	117	-
At 31 December 2006	1,671	1,671	-
Movement in the year	252	252	-
At 31 December 2007	1,923	1,923	-
Total projects			
At 31 December 2005	4,269	3,687	582
Movement in the year	(17)	159	(176)
At 31 December 2006	4,252	3,846	406
Movement in the year	(73)	191	(264)
At 31 December 2007	4,179	4,037	142

4. Other operating expenses

Other operating expenses comprise administrative expenses directly relating to the Fund and includes external auditors' remuneration of €6,300 (2006: €7,400).

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Notes to the financial statements (continued)

5. Contributions and net income refunded on termination of contribution agreements

A contribution agreement between the Bank and the Netherlands for €1.16 million was terminated by mutual consent on 31 December 2004. Contributions were refunded to the Netherlands periodically since termination as the underlying trade facilitation transactions expired. At 31 December 2007, no further contributions or net income payments were due to the Netherlands.

6. Other financial assets

	2007	2006
	€000	€000
Interest receivable on placements	70	68
Business Advisory Services Programme advances	21	80
Fee income receivable	125	440
At 31 December	216	588

7. Other financial liabilities

	2007	2006
	€000	€000
Contributions and net income refundable	-	1,267
Disbursements for technical cooperation payable	-	110
Deferred income from financial guarantees	51	14
Other	7	8
At 31 December	58	1,399

8. Contributions

Cumulative contributions received from the donor countries are set out below:

	2007	2007	2006	2006
	€000	%	€000	%
Austria	276	2.8	276	2.8
Canada	1,472	15.1	1,472	15.1
Denmark	750	7.7	750	7.7
Norway	1,568	16.0	1,568	16.0
Switzerland	4,218	43.1	4,218	43.1
Taipei China	1,495	15.3	1,495	15.3
At 31 December	9,779	100.0	9,779	100.0

9. Undrawn commitments

	2007	2006
	€000	€000
Disbursements for technical cooperation	142	406
Guarantees ¹	5,393	4,719
At 31 December	5,535	5,125

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 Balkan Countries.

10. 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 2007, the activities of the Fund comprised a single primary segment (Banking operations) and one geographic region (the "Balkan Countries"). Consequently, no additional disclosure is required.

11. Fair value of financial assets and liabilities

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

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Notes to the financial statements (continued)

12. Post balance sheet events

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

13 Related parties

The Fund has no related parties other than the Bank. The Fund pays the Bank a fee for operating the Fund, calculated as 2.5 and 5 per cent of each contribution instalment received relating to investment and technical cooperation activities respectively. No fee was paid to the Bank during the year ended 31 December 2007 (2006: nil).

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 Balkan Region 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.