

**European Bank
for Reconstruction and Development**

The Russia Small Business Investment Special Fund

**Annual Financial Report
31 December 2007**

European Bank for Reconstruction and Development

The Russia Small Business Investment Special Fund

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Income statement		Year to	Restated
For the year ended 31 December 2007		31 December 2007	Year to 31 December 2006
	Note	€000	€000
Interest and similar income			
From loans		2,393	1,746
Other interest		985	1,458
Net interest income		3,378	3,204
Dividend income		11	-
Net losses from available-for-sale share investments	3	(29)	(183)
Foreign exchange loss		(163)	(16)
Other operating expenses	4	(6)	(7)
Operating profit before provisions		3,191	2,998
Release of provisions for impairment of loan investments and guarantees	5	1,489	561
Net profit for the year		4,680	3,559

Balance sheet		31 December		31 December	
At 31 December 2007		2007	2006	2006	2006
	Note	€000	€000	€000	€000
Assets					
Placements with credit institutions			10,522		25,479
Other financial assets	6		647		378
Loan investments					
Loans	7	43,008		30,914	
Less: Provisions for impairment	5	(1,703)		(3,280)	
			41,305		27,634
Share investments					
Available-for-sale share investments	8		2,925		1,158
Total assets			55,399		54,649
Liabilities					
Other financial liabilities	9		6		7
Provisions for impairment of guaranteed parallel investments	5		3,730		4,413
Contributions	10	59,351		59,351	
Reserves and retained earnings		(7,688)		(9,122)	
Total contributors' resources			51,663		50,229
Total liabilities			55,399		54,649

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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	Restated Year to 31 December 2006 €000
Cash flows from operating activities			
Operating profit for the year	4,680		3,559
Adjustment for:			
Interest income	(3,378)		(3,204)
Net losses from available-for-sale share investments	29		183
Provisions for impairment of loan investments and guarantees	(1,489)		(561)
Foreign exchange	163		16
	<u>5</u>		<u>(7)</u>
Interest received	3,054		3,082
Net payments under guaranteed parallel investments	-		(47)
Loan write-off recovery	27		-
Operating profit before changes in operating assets	<u>3,086</u>		<u>3,028</u>
Decrease/(increase) in operating assets:			
Proceeds from repayment of loans	5,501		6,287
Funds advanced for loans	(21,444)		(8,805)
Proceeds from sale of share investments	8		3
Decrease in operating liabilities:			
Accrued expenses	(1)		(48)
Net cash (used in)/from operating activities		(12,850)	465
Net (decrease)/increase in cash and cash equivalents		(12,850)	465
Cash and cash equivalents at beginning of year		25,479	28,191
Effect of foreign exchange rate changes		(2,107)	(3,177)
Cash and cash equivalents at 31 December		10,522	25,479

Statement of changes in contributors' resources

For the year ended 31 December 2007	Contributions €000	General reserve €000	Other reserves and retained earnings €000	Total €000
At 31 December 2005	59,351	1,343	(9,253)	51,441
Net fair value movement of available-for-sale share investments for the year	-	493	-	493
Foreign exchange movement between functional and presentational currencies	-	-	(5,264)	(5,264)
Profit for the year (restated)	-	-	3,559	3,559
At 31 December 2006	59,351	1,836	(10,958)	50,229
Net fair value movement of available-for-sale share investments for the year	-	1,804	-	1,804
Foreign exchange movement between functional and presentational currencies	-	-	(5,050)	(5,050)
Profit for the year	-	-	4,680	4,680
At 31 December 2007	59,351	3,640	(11,328)	51,663

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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 as modified by the revaluation of available-for-sale financial assets.

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

Significant changes in the financial statements

During the year the functional currency of the Fund was reclassified from euro to US dollar. The Fund has retrospectively applied this reclassification and the effect of the restatement was to decrease foreign exchanges losses in the income statement by €5,050,000 for the year ended 31 December 2006.

Standards, amendments to published standards and interpretations effective in 2007

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

Standards early adopted by the Fund

No standards were early adopted by the Fund in 2007.

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

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

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

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

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

IFRS 8, Operating Segments which is effective for accounting periods beginning on or after 1 January 2009, replaces IAS 14 and requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The Fund has assessed the impact of IFRS 8 and concluded that it is not expected to impact the operating segments of the Fund and that the main additional disclosures will be in relation to the determination and measurement of the Fund's operating segments. The Fund will apply IFRS 8 from its accounting period beginning 1 January 2009.

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Accounting policies (continued)

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

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

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

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

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

B. Significant accounting policies

Financial assets

Loans and receivables

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

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

Available-for-sale

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

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

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Accounting policies (continued)

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

Financial liabilities

Other financial liabilities are measured at amortised cost.

Impairment of financial assets

Loans and receivables

Where there is objective evidence that an identified loan asset is impaired, specific provisions for impairment are recognised in the income statement. Impairment is defined as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

The carrying amount of the asset is reduced directly only upon write off. Resulting adjustments include the unwinding of the discount in the income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

The criteria that the Fund uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cashflow difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration in the borrowers competitive position; and
- deterioration in the value of collateral.

Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis. The methodology used for assessing such impairment is based on a risk-rated approach for non-sovereign assets. The Fund calculates impairment on an incurred loss basis. Impairment is deducted from the asset categories on the balance sheet.

Impairment, less any amounts reversed during the year, is charged to the income statement under the caption "Provisions for impairment of loan investments", as summarised in note 5. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries are credited to the income statement if previously written off.

Renegotiated loans

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

Available for sale share investments

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

Financial guarantees

The Fund resources are used to guarantee the principal losses of the European Bank for Reconstruction and Development ("the Bank") investments in which the Fund makes a parallel investment.

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Accounting policies (continued)

The Fund receives no benefit for being a party to these guarantees, i.e. no fees are received and there are no preferential lending arrangements on behalf of the Fund where parallel lending exists. As there is no implied value of these guarantees to the Fund, they are deemed outside of the scope of IAS 39. Any subsequent provisioning is determined under IAS 37 Provisions, Contingent Liabilities and Contingent Assets when it is both probable that the guarantee will require to be settled and that the settlement amount can be reliably estimated. Such provisions are included in “Provisions for impairment of guaranteed parallel investments” on the balance sheet.

C. Critical accounting estimates and judgements

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

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

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

Fair value of share investments

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

Provisions for the impairment of loan investments

The Fund’s method for determining the level of impairment of loan investments is described in the “Impairment of financial assets” accounting policy on page 5 and further explained under credit risk in the “Financial risk management” section on page 8. Portfolio provisions for the impairment of loan investments at 31 December 2007 were €665,000. Had all loan investments been downgraded by one risk rating category, portfolio provisions would have been approximately €1,260,000 resulting in a charge to the income statement of €595,000. Had all loan investments been upgraded by one risk rating category, portfolio provisions would have been approximately €269,000 resulting in a credit to the income statement of €96,000.

The methodology and assumptions used for estimating provisions for the impairment of loan investments are reviewed regularly to reduce any differences between loss estimates and actual experience. This is further explained in the “Credit risk management and measurement” section on page 8.

D. Foreign currencies

The functional currency of the Fund is US dollars. The unit of measurement for the presentation of the financial statements of the Fund is euro (€). Transactions, including disbursements for technical cooperation, in foreign currencies are translated into euro at exchange rates ruling at the time of the transaction. Commitments net of disbursements made, in currencies other than euro, are translated at spot rates as at 31 December 2007. Monetary assets denominated in currencies other than euro are translated into euro at spot rates as at 31 December 2007. Revenue and expense items are translated into euro at the exchange rate on the date on which they occurred. Exchange gains and losses arising from the translation of US dollar assets, liabilities and transactions during the year are taken to contributors’ resources. Exchange gains and losses arising from the translation of non-functional currency denominated assets, liabilities and transactions during the year are taken to the income statement.

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Accounting policies (continued)

E. Interest and dividends

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

F. Contributions

Contributions are 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.

G. Cash and cash equivalents

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

H. Taxation

In accordance with Article 53 of the Agreement Establishing the Bank dated 29 May 1990, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported.

I. Comparatives

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

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Financial risk management

The Fund was established to improve to assist the development of small businesses in the private sector in the Russian Federation. To achieve this, the resources of the Fund may be used to:

- participate along side the Bank in providing loans to small businesses the Russian Federation;
- participate along side the Bank in equity investments in the Russian Federation; and
- provide guarantees on a first loss basis on the Bank's parallel loans and investments in the region.

As the primary purpose of the Fund is to assist the development of small businesses in Russia rather than to generate a return on its assets, most financial risks are not actively managed by the Fund. As the Fund participates in investments jointly with the Bank, credit risk is jointly managed; however the Fund does not hedge against market risk and is hence exposed to interest rate, foreign exchange and equity price rate risk.

A. Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness, which could materialise in its downgrading by a rating agency, at any time until the maturity of the longest-dated transaction outstanding with that counterparty. The Fund is also exposed to concentration risk, which is the risk arising from a significant proportion of the portfolio being allocated to a specific country, industry sector, obligor, and type of instrument or individual transaction.

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

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

	2007	2006
	€000	€000
Placements with credit institutions	10,522	25,479
Other financial assets	647	378
Loan investments	43,008	30,914
Share investments	2,925	1,158
Undrawn commitments	51,663	68,619
Maximum credit risk exposure	108,765	126,548

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

Credit risk management and measurement

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

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Financial risk management (continued)

All projects and countries of operations are assigned credit risk ratings on an internal scale from 1 (lowest risk) to 10 (highest risk). The Fund maintains three types of risk ratings: project, country and overall. The project rating is determined on the basis of the financial strength of the risk counterparty and the risk mitigation built into the project structure. The country rating is assessed internally, taking into consideration the ratings assessed by external rating agencies. For non-sovereign operations, the overall rating is the numerically higher of the project and country rating.

The exception to this is where the Fund has recourse to unconditional sponsor support from outside the country of operations, in which case the overall rating is the same as the project rating. For the performing portfolio, portfolio provisions are based on the Bank's Risk Capital Model. This is designed to approximate incurred losses calculated on the basis of objective evidence of impairment, the Bank's experience, and project, sector and country risks. In 2007, the extent to which the Bank's historic loss experience is reflected within the Risk Capital Model has increased given the greater period of loss experience now available. This resulted in a reduction in the loan portfolio provisioning levels and contributed to the net credit of €1,489,000 for provisions for impairment of loan investments during the year.

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

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

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

Loan investments

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

	Neither past due nor impaired	Impaired	Total	Portfolio provisions for unidentified impairment	Specific provisions for identified impairment	Total net of impairment provision	Loans %	Impairment provision %
	€000	€000	€000	€000	€000	€000		
31 December 2007								
Rating 5: satisfactory	8,918	-	8,918	(28)	-	8,890	20.7	0.3
Rating 6: acceptable	20,777	-	20,777	(295)	-	20,482	48.3	1.4
Rating 6W: watch	12,275	-	12,275	(342)	-	11,933	28.5	2.8
Rating 10: expected loss	-	1,038	1,038	-	(1,038)	-	2.4	100.0
Total	41,970	1,038	43,008	(665)	(1,038)	41,305	100.0	4.0
31 December 2006								
Rating 5: satisfactory	9,968	-	9,968	(77)	-	9,891	32.2	0.8
Rating 6: acceptable	12,455	-	12,455	(354)	-	12,101	40.3	2.8
Rating 6W: watch	7,332	-	7,332	(1,690)	-	5,642	23.7	23.0
Rating 10: expected loss	-	1,159	1,159	-	(1,159)	-	3.7	100.0
Total	29,755	1,159	30,914	(2,121)	(1,159)	27,634	100.0	10.6

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

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Financial risk management (continued)

Available for sale share investments

Set out below is an analysis of the Fund's available for sale share investments for each of the Bank's internal rating categories. Share investments risk rated 8 and above are considered impaired.

	Available-for-sale share investments at cost €000	Available-for-sale share investments at fair value €000
31 December 2007		
Rating 6: acceptable	331	2,925
Rating 9: doubtful	950	-
Total	1,281	2,925
31 December 2006		
Rating 6: acceptable	1,265	1,158
Total	1,265	1,158

Placements with credit institutions

Placements with credit institutions are generally risk rated between 1 and 3 (AAA to A- in terms of S&P equivalents), with the exception of counterparties approved for local currency activities. At 31 December 2007 the Fund's euro accounts were risk rated 3, the US dollar account was risk rated 2, and the Russian rouble account was risk rated 5.

Other financial assets

Other financial assets represent interest income receivable from the Fund's placements, internally risk rated between 2 to 3 and interest receivable on loans, internally risk rated between 5 to 6W.

Guarantees

In accordance with Section 5.04 (i) of the Rules and Regulations of the Fund, the Fund will bear losses arising on investments financed by the Fund and parallel investments by the Bank up to a maximum aggregate amount of US\$ 75.0 million. Thereafter losses will be borne equally by the Fund and the Bank.

At 31 December 2007, the Bank has outstanding loans and share investments amounting to €16.8 million, for which potential future losses incurred by the Bank may be refunded from the resources of the Fund (2006: €8.5 million). At 31 December 2007, the Fund's maximum exposure under such guarantees is €7.5 million (2006: €4.0 million), of which €3.7 million (2006: €1.4 million) is disclosed as "Provisions for impairment of guaranteed parallel investments" on the balance sheet (note 5). The remainder is disclosed in undrawn commitments as guarantees.

The Fund does not actively manage credit risk on its guarantee exposure.

Undrawn commitments and guarantees

	2007 €000	2006 €000
Loans	7,904	9,003
Guarantees	43,759	59,616
At 31 December	51,663	68,619

Concentration of credit risk exposure

The Fund is exposed to credit risk on its investments in one geographic region, the Russian Federation. The Fund's loan portfolio is concentrated in a single industry sector, finance, specifically depository credit (banks).

B. Market risk

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

Market risk management and measurement

As discussed at the beginning of the financial risk management section, the Fund does not actively monitor or hedge against market risk.

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Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

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

Repricing interval	Up to	Over 1 month	Over 3 months	Over 1 year	Non-interest-bearing funds	Total
	and including	and up to	and up to	and up to		
at 31 December 2007	1 month	3 months	1 year	5 years	€000	€000
Assets						
Placements with credit institutions	10,496	-	-	-	26	10,522
Other financial assets	-	-	-	-	647	647
Loans	9,426	17,035	6,714	8,795	1,038	43,008
Provisions for impairment	-	-	-	-	(1,703)	(1,703)
Available-for-sale share investments	-	-	-	-	2,925	2,925
Total assets	19,922	17,035	6,714	8,795	2,933	55,399
Liabilities						
Other financial liabilities	-	-	-	-	(6)	(6)
Provisions for impairment of guaranteed parallel investments	-	-	-	-	(3,730)	(3,730)
Total contributors' resources	-	-	-	-	(51,663)	(51,663)
Total liabilities	-	-	-	-	(55,399)	(55,399)
Interest sensitivity gap at 31 December 2006	19,922	17,035	6,714	8,795	(52,466)	-
Repricing interval at 31 December 2006						
	Up to	Over 1 month	Over 3 months	Over 1 year	Non-interest-bearing funds	Total
	and including	and up to	and up to	and up to		
	1 month	3 months	1 year	5 years	€000	€000
	€000	€000	€000	€000	€000	€000
Assets						
Placements with credit institutions	25,464	-	-	-	15	25,479
Other financial assets	-	-	-	-	378	378
Loans	4,177	4,446	11,680	9,452	1,159	30,914
Provisions for impairment	-	-	-	-	(3,280)	(3,280)
Available-for-sale share investments	-	-	-	-	1,158	1,158
Total assets	29,641	4,446	11,680	9,452	(570)	54,649
Liabilities						
Other financial liabilities	-	-	-	-	(7)	(7)
Provisions for impairment of guaranteed parallel investments	-	-	-	-	(4,413)	(4,413)
Total contributors' resources	-	-	-	-	(50,229)	(50,229)
Total liabilities	-	-	-	-	(54,649)	(54,649)
Interest sensitivity gap at 31 December 2006	29,641	4,446	11,680	9,452	(55,219)	-

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Financial risk management (continued)

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

	Euro 2007 %	Russian roubles 2007 %	United States dollars 2007 %	Euro 2006 %	Russian roubles 2006 %	United States dollars 2006 %
Assets						
Placements with credit institutions	3.81	-	5.08	2.77	-	4.98
Loans	-	10.58	7.31	-	10.92	8.08

Foreign exchange risk

	Euro €000	Russian roubles €000	United States dollars €000	Total €000
Net currency position at 31 December 2007				
Assets				
Placements with credit institutions	59	26	10,437	10,522
Other financial assets	-	139	508	647
Loans	-	12,644	30,364	43,008
Provisions for impairment	-	(291)	(1,412)	(1,703)
Available-for-sale share investments	-	2,925	-	2,925
Total assets	59	15,443	39,897	55,399
Liabilities				
Other financial liabilities	(6)	-	-	(6)
Provisions for impairment of guaranteed parallel investments	-	-	(3,730)	(3,730)
Total contributors' resources	-	-	(51,663)	(51,663)
Total liabilities	(6)	-	(55,393)	(55,399)
Net currency position at 31 December 2007	53	15,443	(15,496)	-

	Euro €000	Russian roubles €000	United States dollars €000	Total €000
Net currency position at 31 December 2006				
Assets				
Placements with credit institutions	28	15	25,436	25,479
Other financial assets	-	9	369	378
Loans	-	649	30,265	30,914
Provisions for impairment	-	(149)	(3,131)	(3,280)
Available-for-sale share investments	-	1,137	21	1,158
Total assets	28	1,661	52,960	54,649
Liabilities				
Other financial liabilities	(7)	-	-	(7)
Provisions for impairment of guaranteed parallel investments	-	-	(4,413)	(4,413)
Total contributors' resources	-	-	(50,229)	(50,229)
Total liabilities	(7)	-	(54,642)	(54,649)
Net currency position at 31 December 2006	21	1,661	(1,682)	-

The Fund uses the euro as the unit of measurement for the presentation of its financial statements however the majority of its resources are denominated in United States dollars (USD). The exchange rate used for the conversion of assets and liabilities denominated in USD into euro at 31 December 2007, where appropriate, was 1.4716 (2006: 1.3168).

The Russia Small Business Investment Special Fund

Financial risk management (continued)

Sensitivity analysis

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

- Proportional foreign exchange rate movement of:
 - +13 per cent (appreciation of euro) and -13 per cent (depreciation of euro) against the United States dollar, from a EUR:USD spot rate of 1.4716 (2006: +14 per cent/-14 per cent).
 - +8 per cent (appreciation of euro) and -8 per cent (depreciation of euro) against the Russian rouble, from a EUR:RUB spot rate of 35.9865 (2006: +10 per cent/-10 per cent).
- A parallel shift of:
 - +118 basis points (bp)/-118bp (2006: +88bp/-88bp) in euro market interest rates from year end rates of 4.7 per cent.
 - +32bp/-32bp (2006: +138/-138) in USD market interest rates from year end rates of 4.7 per cent.
 - +85bp/-85bp (2006: +42bp/-42bp) in RUB market interest rates from year end rates of 5.2 per cent.
- Proportional other price risk movement of equity securities listed on relevant bench mark indices of 47 per cent (2006: 52 per cent).

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

	Carrying amount €000	Interest rate risk (IR)		Foreign exchange rate risk				Equity price risk	
		Profit/(loss) €000	Profit/(loss) €000	USD +13 per cent RUB +8 per cent		USD -13 per cent RUB -8 per cent		Profit/(loss) €000	Other movements in reserves €000
				+118 bp of EUR IR +32 bp of USD IR +85 bp of RUB IR	-118 bp of EUR IR -32 bp of USD IR -85 bp of RUB IR	Profit/(loss) €000	Other movements in reserves €000		
31 December 2007									
Financial assets									
Placements with credit institutions	10,522	34	(34)	(1,201)	(2)	1,201	2	-	-
Other financial assets	647	-	-	(68)	-	68	-	-	-
Loans	43,008	205	(205)	(937)	(3,493)	937	3,493	-	-
Provisions for impairment of loans	(1,703)	-	-	-	-	-	-	-	-
Share investments	2,925	-	-	-	(217)	-	217	1,375	(1,375)
Impact on financial assets	55,399	239	(239)	(2,206)	(3,712)	2,206	3,712	1,375	(1,375)
Financial liabilities									
Other financial liabilities	(6)	-	-	-	-	-	-	-	-
Provisions for impairment of guaranteed parallel investments	(3,730)	-	-	429	-	(429)	-	-	-
Total contributors' resources	(51,663)	-	-	-	-	-	-	-	-
Impact on financial liabilities	(55,399)	-	-	429	-	(429)	-	-	-
		239	(239)	(1,777)	(3,712)	1,777	3,712	1,375	(1,375)

	Carrying amount €000	Interest rate risk (IR)		Foreign exchange rate risk				Equity price risk	
		Profit/(loss) €000	Profit/(loss) €000	USD +14 per cent RUB +10 per cent		USD -14 per cent RUB -10 per cent		Profit/(loss) €000	Other movements in reserves €000
				+88 bp of EUR IR +138 bp of USD IR +42 bp of RUB IR	-88 bp of EUR IR -138 bp of USD IR -42 bp of RUB IR	Profit/(loss) €000	Other movements in reserves €000		
31 December 2006									
Financial assets									
Placements with credit institutions	25,479	351	(351)	(3,124)	(1)	3,124	1	-	-
Other financial assets	378	-	-	(46)	-	46	-	-	-
Loans	30,914	420	(420)	(59)	(3,717)	59	3,717	-	-
Provisions for impairment of loans	(3,280)	-	-	-	-	-	-	-	-
Share investments	1,158	-	-	-	(106)	-	106	602	(602)
Impact on financial assets	54,649	771	(771)	(3,229)	(3,824)	3,229	3,824	602	(602)
Financial liabilities									
Other financial liabilities	(7)	-	-	-	-	-	-	-	-
Provisions for impairment of guaranteed parallel investments	(4,413)	-	-	542	-	(542)	-	-	-
Total contributors' resources	(50,229)	-	-	-	-	-	-	-	-
Impact on financial liabilities	(54,649)	-	-	542	-	(542)	-	-	-
Total increase/(decrease)		771	(771)	(2,687)	(3,824)	2,687	3,824	602	(602)

C. Liquidity risk

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

The Russia Small Business Investment Special Fund

Financial risk management (continued)

Liquidity risk management process

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

The table below provides an analysis of assets, liabilities and contributors' resources in their 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 cash flows.

	Up to and including 1 month €000	Over 1 month and up to 3 months €000	Over 3 months and up to 1 year €000	Over 1 year and up to 5 years €000	Over 5 years €000	Maturity undefined €000	Total €000
Liquidity position at 31 December 2007							
Assets							
Placements with credit institutions	10,522	-	-	-	-	-	10,522
Other financial assets	266	322	59	-	-	-	647
Loans	1,445	170	2,277	39,116	-	-	43,008
Provisions for impairment	(1,044)	(2)	(32)	(625)	-	-	(1,703)
Available-for-sale share investments	-	-	-	-	-	2,925	2,925
Total assets	11,189	490	2,304	38,491	-	2,925	55,399
Liabilities							
Other financial liabilities	-	(6)	-	-	-	-	(6)
Provisions for impairment of guaranteed parallel investments	-	-	-	-	-	(3,730)	(3,730)
Total contributors' resources	-	-	-	-	-	(51,663)	(51,663)
Total liabilities	-	(6)	-	-	-	(55,393)	(55,399)
Net liquidity position at 31 December 2007	11,189	484	2,304	38,491	-	(52,468)	-
Cumulative net liquidity position at 31 December 2007	11,189	11,673	13,977	52,468	52,468	-	-
Liquidity position at 31 December 2006							
Assets							
Placements with credit institutions	25,479	-	-	-	-	-	25,479
Other financial assets	143	120	115	-	-	-	378
Loans	1,653	-	1,618	18,530	9,113	-	30,914
Provisions for impairment	(1,163)	-	(352)	(892)	(873)	-	(3,280)
Contributions receivable	-	-	-	-	-	1,158	1,158
Total assets	26,112	120	1,381	17,638	8,240	1,158	54,649
Liabilities							
Other financial liabilities	-	(7)	-	-	-	-	(7)
Provisions for impairment of guaranteed parallel investments	-	-	-	-	-	(4,413)	(4,413)
Total contributors' resources	-	-	-	-	-	(50,229)	(50,229)
Total liabilities	-	(7)	-	-	-	(54,642)	(54,649)
Net liquidity position at 31 December 2006	26,112	113	1,381	17,638	8,240	(53,484)	-
Cumulative net liquidity position at 31 December 2006	26,112	26,225	27,606	45,244	53,484	-	-

The Russia Small Business Investment Special Fund

Financial risk management (continued)

D. Management of contributors' resources

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

The Fund is not subject to any external capital requirement constraints, however, commitments under loans, equity investments and guarantees cannot exceed the available fund balance. In 2006 and 2007 this limit was not exceeded.

The Russia Small Business Investment Special Fund

Notes to the financial statements

1 Creation of the Special Fund

The creation of The Russia Small Business Investment Special Fund ("the Fund") was approved by the Board of Directors ("the Board") of the Bank at its meeting of 18 October 1993 and is administered, inter alia, under the terms of Rules and Regulations of such Special Fund approved also by the Board on that date. The Fund became operational in 1994 when commitments by donors totalled US\$ 3.0 million and the pilot phase of the programme was further extended during that year. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from euro to United States dollars. However, consistent with the Bank's financial statements, the unit of measurement for the presentation of the Fund's financial statements is euro. The full-scale phase of the Russia Small Business Fund Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to assist the development of small businesses in the private sector in the Russian Federation.

2 President's responsibilities

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

3 Net losses from available-for-sale share investments

	2007	2006
	€000	€000
Net realised gains/(losses) from available-for-sale share investments	24	(84)
Impairment losses from available-for-sale share investments	(53)	(99)
Net losses from available-for-sale share investments	(29)	(183)

4 Other operating expenses

Other operating expenses comprise administrative expenses directly relating to the Fund. Included in this amount is external auditors' remuneration of €6,300 (2006: €7,400).

5 Provisions for impairment of loan investments and guarantees

	Loans	Guarantees	Total	Loans	Guarantees	Total
(Release)/charge for the year	€000	€000	€000	€000	€000	€000
Portfolio provisions for the unidentified impairment of assets:						
Non-sovereign risk assets	(1,243)	-	(1,243)	(673)	-	(673)
Specific provision for the identified impairment of assets:						
Non-sovereign risk assets	(27)	(219)	(246)	(111)	223	112
Provisions for impairment of loan investments and guarantees	(1,270)	(219)	(1,489)	(784)	223	(561)
Movement in provisions						
At 1 January	3,280	4,413	7,693	4,450	4,746	9,196
(Release)/charge for the year	(1,270)	(219)	(1,489)	(784)	223	(561)
Foreign exchange adjustments	(334)	(464)	(798)	(453)	(482)	(935)
Release against amounts written off	-	-	-	(44)	(74)	(118)
Recovery of amounts previously written off	27	-	27	111	-	111
At 31 December	1,703	3,730	5,433	3,280	4,413	7,693

The Russia Small Business Investment Special Fund

Notes to the financial statements (continued)

Analysed between:	Loans		Guarantees		Total	Total	
	€000	€000	€000	€000	2007	2006	2006
Portfolio provisions for the unidentified impairment of assets:							
Non-sovereign risk assets	665	-	665		2,121	-	2,121
Specific provision for the identified impairment of assets:							
Non-sovereign risk assets	1,038	-	1,038		1,159	-	1,159
Deducted from assets	1,703	-	1,703		3,280	-	3,280
Provisions for impairment of guaranteed parallel investments	-	3,730	3,730		-	4,413	4,413
At 31 December	1,703	3,730	5,433		3,280	4,413	7,693

6 Other financial assets

	2007	2006
	€000	€000
Interest receivable	647	378
At 31 December	647	378

7 Loan investments

	2007	2006
	€000	€000
Operating assets		
At 1 January	30,914	31,443
Disbursements	21,444	8,805
Repayments and prepayments	(5,501)	(6,287)
Write-offs	-	(44)
Foreign exchange movements	(3,849)	(3,003)
At 31 December	43,008	30,914
Impairment at 31 December (note 5)	(1,703)	(3,280)
Total operating assets net of impairment at 31 December	41,305	27,634

8 Share investments

	2007	2006
	Available-for-sale unlisted share investments	Available-for-sale unlisted share investments
	€000	€000
At 1 January	1,265	1,268
Adjustment to prior disposals/disposals	16	(3)
At 31 December	1,281	1,265
Fair value adjustment		
At 1 January	(107)	(501)
Movement in fair value revaluation	1,804	493
Impairment losses on available-for-sale share investments	(53)	(99)
At 31 December	1,644	(107)
Fair value at 31 December	2,925	1,158

9 Other financial liabilities

	2007	2006
	€000	€000
Audit fees payable	6	7
At 31 December	6	7

The Russia Small Business Investment Special Fund

Notes to the financial statements (continued)

10 Contributions

Contributions received from the donor countries are set out below:

Total contributions	2007		2006	
	€000	%	€000	%
Canada	2,707	4.6	2,707	4.6
France	7,686	12.9	7,686	12.9
Germany	9,843	16.5	9,843	16.5
Italy	8,401	14.2	8,401	14.2
Japan	21,162	35.7	21,162	35.7
Switzerland	2,360	4.0	2,360	4.0
United States of America	7,192	12.1	7,192	12.1
At 31 December	59,351	100.00	59,351	100.00

11 Fair value of financial assets and liabilities

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

12 Segment information

In accordance with IAS 14, the primary segment of the Fund is business 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 (Russian Federation). Consequently, no additional disclosure is required.

13 Post balance sheet events

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

14 Related parties

The Fund has no related parties other than the Bank. During the year ended 31 December 2007 the Fund paid the Bank no management fees for operating the Fund (2006: nil). There are no accrued management fees payable by the Fund to the Bank as at 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 Russia Small Business Investment Special Fund for the year ended 31 December 2007 which comprise the income statement, the balance sheet, the statement of changes in contributors' resources, the statement of cash flows, the accounting policies, financial risk management and the notes to the financial statements ("financial statements").

President's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Fund at 31 December 2007 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Other matters

We also report to you if, in our opinion, the Bank has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

5 March 2008

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