

The EBRD, owned by 61 countries and two intergovernmental institutions, aims to foster the transition from centrally planned to market economies in 29 countries from central Europe to central Asia.

The EBRD invests in virtually every kind of enterprise and financial institution, mainly in the form of loans and equity. Investments are designed to advance the transition to market economies and to set the highest standards of corporate governance. We do not finance projects that can be funded on equivalent terms by the private sector. In support of our investment activities, the EBRD conducts policy dialogue with national and local authorities to develop the rule of law and democracy.

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HIGHLIGHTS

Financial results 2003-07					
(€ million)	2007	2006	2005	2004	2003
Operating income	1,934	2,667	1,544	659	538
Expenses, depreciation and amortisation	(251)	(225)	(219)	(190)	(198)
Operating profit before provisions	1,683	2,442	1,325	469	340
Provisions for impairment of loan investments	201	(53)	197	(76)	(7)
Net profit for the year	1,884	2,389	1,522	393	333
Reserves and retained earnings	8,676	6,974	4,684	1,718	952
Provisions for impairment of loan investments (cumulative)	124	341	323	508	465
Total reserves and provisions	8,800	7,315	5,007	2,226	1,417

Annual commitments 2003-07

	2007	2006	2005	2004	2003	Cumulative 1991-2007
Number of projects ¹	353	301	276	265	222	2,596
consisting of:						
- standalone projects	187	167	156	141	129	1,575
- investments under frameworks	166	134	120	124	93	1,021
EBRD commitments (€ million) ²	5,583	4,936	4,277	4,133	3,721	36,938
Resources mobilised (€ million) ²	8,617	7,645	5,846	8,835	5,456	80,506
Total project value (€ million) ²	13,809	12,014	9,784	12,968	8,946	116,919

¹ An operation that is not linked to a framework and involves only one client is referred to as a standalone project. Operations extended to a number of clients (for example, credit lines to banks) have a framework, which represents the overall amount approved by the Board. Investments under frameworks represent the commitment to individual clients.

The calculation of "Resources mobilised" and "Total project value" has been refined to exclude amounts relating to facilities where the original commitment was made in a previous year to ensure the finance is counted only once; "EBRD commitments" include incremental EBRD finance on existing operations.

FINANCIAL RESULTS

The EBRD recorded a net profit after provisions of €1.9 billion for 2007, compared with €2.4 billion for 2006. The principal factor contributing to this decrease was a significant reduction in realised gains from the sale of share investments, an area that is variable by nature. This was partially offset by increased net interest income on the Bank's paid-in capital and retained earnings and a net credit in relation to provisions for impairment of loan investments following an update of the Bank's provisioning model during the year.

The performance of the Bank's two operating segments, Banking and Treasury, is discussed below.

Banking operations

Annual business volume and portfolio

Annual business volume¹ amounted to €5.6 billion in 2007, comprising 353 projects (2006: €4.9 billion, 301 projects). This is the highest level of annual commitments signed by the EBRD to date and represents an increase of 14 per cent over the level recorded in 2006 in volume terms, and 17 per cent by number of commitments. Responding to the demands of the Bank's countries of operations, the volume of share investments and equity-linked transactions increased sharply by 54.5 per cent to €1.7 billion (2006: €1.1 billion), the highest annual volume to date. The private sector share of business volume was 86 per cent (2006: 80 per cent).

Net cumulative business volume reached €36.9 billion by the end of 2007 (2006: €33.3 billion). Including co-financing, this amounted to a total project value of €117.0 billion (2006: €104.0 billion²). The portfolio of the Bank's net outstanding commitments grew from €17.7 billion at the end of 2006 to €19.4 billion at the end of 2007. Reflows were lower than in 2006, particularly in terms of prepayments and divestments. This reflected market conditions, especially in the later half of the year. Lower reflows, combined with the strong annual business volume, resulted in portfolio growth of 10 per cent during 2007 compared with 5 per cent in 2006. With approximately 36 per cent of the portfolio held in US dollars, the portfolio growth rate was reduced by the strengthening of the euro relative to the US dollar by 11 per cent to a year-end rate of €/US\$ 1.47.

The number and volume of pipeline projects increased during 2007, with the Board approving 191 projects. These consisted of loans and share investments totalling €5.5 billion, compared with 181 projects totalling €5.1 billion in 2006. The level of Board approvals in 2007 was the highest annual level to date. At the end of 2007, cumulative Board approvals, net of cancellations, totalled €40.8 billion (2006: €37.6 billion).

Gross disbursements³ totalled €4.1 billion in 2007, up from €3.8 billion in 2006. Operating assets amounted to €15.6 billion (2006: €13.4 billion), comprising €9.0 billion of disbursed outstanding loans (2006: €8.3 billion) and €6.6 billion of disbursed outstanding share investments at fair value (2006: €5.1 billion).

The Bank continued to attract additional co-financing funds, which amounted to €4.2 billion by the end of 2007 (2006: €4.0 billion). The Bank mobilised €3.2 billion from private sector institutions (2006: €2.6 billion), €439 million from official co-financing (2006: €629 million), €506 million from international financial institutions (2006: €788 million) and €51 million from export credit agencies (2006: €38 million). In addition, the Bank's activities continued to be strongly supported by donor funding, including the Special Funds programme and technical and investment cooperation funds.

Financial performance

Banking operations achieved a net profit after the full allocation of expenses, provisions and the return on net paid-in capital of €1.9 billion for 2007, compared with a net profit of €2.3 billion in 2006. The principal factor contributing to this decrease was a significant reduction in realised gains from the sale of share investments at €575 million in 2007, compared with €1.3 billion in 2006. This was partially offset by a net credit in relation to provisions for impairment of loan investments of €201 million (2006: charge of €53 million) following an update to the Bank's provisioning model during the year.

Total provisions for Banking loan operations on an incurred loss basis amounted to €124 million at the end of 2007 (2006: €341 million). Relative to operating assets, this represented 0.25 per cent of sovereign loans (2006: 0.70 per cent) and 1.69 per cent of non-sovereign loans (2006: 5.16 per cent). During 2007 the extent to which the Bank's historic loss experience is reflected within the Risk Capital Model, upon which portfolio provisions are based, has increased given the greater period of loss experience now available. This was the principal factor contributing to the reduction in the loan portfolio provisioning levels during the year.

The contribution from share investments to the Bank's income statement is expected to continue to show significant variability from year to year given its dependence on the timing of share investment exits and the volatility of equity markets. Share investment exits are mainly linked to the completion of the Bank's transition role in the specific operation and the opportunity, in the market or otherwise, to sell its holding. The volatility of the equity markets is expected to result in further variability in the fair value of associate share investments, high-risk equity funds and equity derivatives accounted for in the income statement.

Treasury operations

Portfolio

The value of assets under Treasury management at 31 December 2007 was €14.7 billion (2006: €14.3 billion). This comprised €8.4 billion of debt securities (2006: €8.6 billion), €1.8 billion of collateralised placements (2006: €2.6 billion) and €4.5 billion of placements with credit institutions (2006: €3.1 billion).

At the end of 2007, 3.0 per cent of Treasury assets were managed by a total of eight external asset managers (2006: 3.2 per cent). The externally managed portfolios comprised €14 million (2006: €20 million) in a eurodenominated interest rate trading programme⁴ and €432 million (2006: €440 million) in a US dollar-denominated triple-A-rated mortgage-backed securities programme. The funds are managed by independent managers in order to obtain specialised services and investment techniques and to establish third-party performance benchmarks. These independent managers are required to comply with the same investment guidelines that the Bank applies to its internally managed funds.

Financial performance

Treasury operations achieved an operating profit of €66 million in 2007 after the full allocation of expenses and the return on net paid-in capital but before the fair value movement on non-qualifying and ineffective hedges. This compared with an operating profit of €92 million on the same basis for 2006. In 2007 a loss of €72 million was incurred on the fair value movement on non-qualifying and ineffective hedges (2006: €14 million). These losses were sustained as a result of a small number of hedge failures together with higher than normal ineffectiveness in qualifying hedges. This was due to the turbulent market conditions that caused a widening of cross-currency basis spreads in a number of the funding currencies in which the Bank issues bonds. After the €72 million loss for the fair value movement on non-qualifying and ineffective hedges, Treasury operations recorded a net loss for the year of €6 million (2006: net profit of €78 million).

Capital

Paid-in capital totalled €5.2 billion at 31 December 2007 and at 31 December 2006. The number of the EBRD's subscribed shares stood at almost 2 million with a value of €19.8 billion. Paid-in capital receivable has been stated at its present value on the balance sheet to reflect future receipt by instalments.

The amount of overdue cash and promissory notes to be deposited totalled €16 million at the end of 2007 (2006: €19 million). A further €5 million of encashments of deposited promissory notes was also overdue (2006: €10 million).

Reserves

The Bank's reserves increased from €7.0 billion at the end of 2006 to €8.7 billion at the end of 2007. This primarily reflected the net profit for the year, partially offset by a net unrealised loss on the Treasury available-for-sale portfolio of €184 million (2006: unrealised gain of €11 million). These losses were incurred predominantly in the second half of the year and reflect the deterioration of asset valuations due to credit concerns in the wake of the subprime mortgage problems in the United States. The deterioration, which represents price markdowns and not realised losses, equates to approximately 2.7 per cent of the average size of the portfolio for the year and is within expectations given market conditions. These price movements reflect generic credit spread movements in the market rather than specific credit events related to Treasury's portfolio.

The Bank's total reserves comprised €3.7 billion of unrealised gains from share investments, equity derivatives and Treasury assets (2006: €3.1 billion), €304 million from the loan loss reserve (2006: €293 million), and €232 million from the special reserve (2006: €215 million), leaving unrestricted general reserves of €4.5 billion (2006: €3.4 billion). The increase in unrestricted general reserves of €1.1 billion in the year mainly reflected the net profit of €1.9 billion, less net unrealised gains on associate share investments and equity derivatives of €773 million. A decision in relation to the allocation of the Bank's net income will be taken by the Governors at the Bank's annual meeting in May 2008.

Expenses

The Bank continues to focus on budgetary discipline, effective cost controls and a proactive cost-recovery programme. The EBRD's general administrative expenses, including depreciation and amortisation, were €251 million (2006: €225 million).

Outlook for 2008

The Bank's results are vulnerable to changes in the economic environment and in the financial markets, with the timing of equity exits and the volatility of local equity markets having a particular influence on the Bank's profits. It is anticipated that the financial markets will continue to show significant volatility throughout 2008. This is expected to cause variability in the Bank's income statement and reserves from movements in the fair value of the Bank's share investments and Treasury portfolio.

¹ The flow of commitments made by the Bank within the year, less cancellations or sales of such commitments within the same year.

Restated to include project finance amounts relating to part-signed or tranched projects previously excluded.

³ Gross disbursements include only first cycle disbursements for revolving loan facilities.

In the euro programmes, managers are assigned notional amounts for interest rate positioning. At 31 December 2007, the notional value of the programme was €302 million (2006: €355 million).

ADDITIONAL REPORTING AND DISCLOSURES

Corporate governance

The EBRD is committed to the highest standards of corporate governance. Responsibilities and related controls throughout the Bank are properly defined and delineated. Transparency and accountability are integral elements of its corporate governance framework. This structure is further supported by a system of reporting, with information appropriately tailored for, and disseminated to, each level of responsibility within the EBRD to enable the system of checks and balances on the Bank's activities to function effectively.

The EBRD's governing constitution is the Agreement Establishing the Bank ("the Agreement"), which states that the institution will have a Board of Governors, a Board of Directors, a President, Vice Presidents, officers and staff.

All the powers of the EBRD are vested in the Board of Governors, which represents the Bank's 63 shareholders. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors, while retaining overall authority.

Board of Directors and Board Committees

Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the EBRD's general operations and policies. It exercises the powers expressly assigned to it by the Agreement and those powers delegated to it by the Board of Governors.

The Board of Directors has established three Board Committees to assist with its work:

- the Audit Committee:
- the Budget and Administrative Affairs Committee; and
- the Financial and Operations Policies Committee.

The composition of these committees during 2007 is detailed in the Review section of the separate Annual Report.

The President

The President is elected by the Board of Governors and is the legal representative of the EBRD. Under the direction of the Board of Directors, the President conducts the current business of the Bank.

Executive Committee

The Executive Committee is chaired by the President and is composed of the Vice Presidents and other members of the EBRD's senior management.

EBRD Codes of Conduct

At the Annual Meeting in May 2006, the Governors approved new Codes of Conduct for Officials of the Board of Directors and for Bank Personnel and Experts. These Codes represent and articulate clearly the values, duties and obligations, as well as the ethical standards, that the Bank expects of its officials and staff. The Codes incorporate a robust enforcement mechanism and detailed procedures for investigating alleged transgressions of the Codes by Directors, the President and Vice Presidents. The new Codes also affirm the Bank's commitment to protect whistleblowers.

Compliance

The Bank has an independent Office of the Chief Compliance Officer (OCCO), which is headed by a Chief Compliance Officer (CCO) reporting directly to the President, and annually or as necessary to the Audit Committee. The CCO is mandated to promote good governance and ethical behaviour throughout all of the activities of the Bank in accordance with international best practice. The role of the CCO includes dealing with integrity due diligence issues, confidentiality, corporate governance, ethics, conflicts of interest, anti-money-laundering, counter-terrorist financing and the prevention of fraudulent and corrupt practices. The OCCO is responsible for investigating fraud, corruption and misconduct. It also trains and advises, as necessary, the Bank's nominee directors who are appointed to companies in which the Bank holds an equity interest. Financial and integrity due diligence is integrated into the Bank's normal approval of new business and the review of its existing transactions. The Bank publishes the CCO's anti-corruption report on its web site.

Moreover, the CCO has the specific responsibility for coordinating the Bank's Independent Recourse Mechanism that enhances the Bank's accountability by assessing and reviewing complaints about Bank-financed projects. The CCO can be dismissed by the President only in accordance with guidance given by the Board.

Reporting

The EBRD's corporate governance structure is supported by appropriate financial and management reporting. The Bank has a functioning mechanism to be able to certify in the Annual Report: Financial Statements as to the effectiveness of internal controls over external financial reporting, using the COSO internal control framework. This annual certification statement is signed by the President and Vice President, Finance and is subject to a review and an attestation by the Bank's external auditors. In addition, the Bank has a comprehensive system of reporting to the Board of Directors and its committees. This includes reporting of the activities of the Evaluation Department and Internal Audit to the Audit Committee.

External auditors

The external auditors are appointed by the Board, on the recommendation of the President, for a four-year term. No firm of auditors can serve for more than two consecutive four-year terms. The external auditors perform an annual audit to enable them to express an opinion on whether the financial statements present fairly the financial position and the profit of the Bank. They also examine whether the statements have been presented in accordance with International Financial Reporting Standards and the overall principles of the EC Council Directive on Annual Accounts and Consolidated Accounts of Banks and other Financial Institutions. In addition, the external auditors review and offer their opinion on management's assertion as to the effectiveness of internal controls over financial reporting. This opinion is given as a separate report to the audit opinion. At the conclusion of their annual audit, the external auditors prepare a management letter for the Board of Directors, which is reviewed in detail and discussed with the Audit Committee, setting out the external auditors' views and management's responses on the effectiveness and efficiency of internal controls and other matters. The performance and independence of the external auditors is subject to review on an annual basis by the Audit Committee.

There are key provisions in the Bank's policy regarding the independence of the external auditors. The external auditors are prohibited from providing non-audit related services, subject to certain exceptions if it is judged to be in the interest of the Bank and if it is approved by the Audit Committee. However, the external auditors can provide technical cooperation consultancy services relating to client projects.

Compensation policy

The EBRD has designed a market-oriented staff compensation policy, within the constraints of the Bank's status as a multilateral institution, to meet the following objectives:

- to be competitive in order to attract and retain high-calibre employees;
- to take account of differing levels of responsibility;
- to be sufficiently flexible to respond rapidly to the market; and
- I to motivate and encourage excellent performance.

To help meet these objectives, the EBRD's shareholders have agreed that the Bank should use market comparators to evaluate its staff compensation and that salary and bonus should be driven by performance.

The bonus programme allocations are structured to recognise individual and team contributions to the EBRD's overall performance. Bonus payments, although an important element of the total staff compensation package, represent a limited percentage of base salaries.

EBRD personnel remuneration

All personnel on fixed-term or regular contracts receive a salary. In addition, professional members of staff are eligible to receive bonus awards depending on individual performance.

All fixed-term and regular employees, as well as the Board of Directors, the President and Vice Presidents, are covered by medical insurance, participate in the Bank's retirement scheme and may be eligible to receive a mortgage subsidy. Professional staff who join Headquarters from outside the United Kingdom may receive allowances to assist with relocation, as well as an accommodation allowance which can be used either to defray the cost of renting or purchasing accommodation. Professional staff hired from abroad, and who are not British citizens, are eligible for an education allowance.

The salaries and emoluments of all personnel are subject to an internal tax, applied at rates that vary according to the individual's salary and personal circumstances. Their salaries and emoluments are exempt from national income tax in the United Kingdom.

President and Vice Presidents

The President is elected by the Board of Governors and typically receives a fixed-term contract of four years. His salary and benefits are approved by the Governors. The President is not eligible for bonus awards.

The Vice Presidents are appointed by the Board of Directors on the recommendation of the President and typically have fixed-term contracts of four years. Their salaries and benefits are approved by the Board of Directors. The Vice Presidents are not eligible for bonus awards.

The gross salary, from which internal tax is deducted, for each of these positions is as follows:

	2007 € 000	2006 € 000
President	428	422
First Vice President, Banking	382	374
Vice President, Finance	349	341
Vice President, Risk Management,		
Human Resources and Nuclear Safety	349	341
Vice President, Environment,		
Procurement and Administration	319	312

Board of Directors

Directors are elected by the Board of Governors and typically serve a term of three years. Directors appoint Alternate Directors. The salaries of Directors and Alternate Directors are approved by the Board of Governors. They can participate in the same benefit scheme as staff but are not eligible for bonus awards.

The most recently approved gross salaries, from which internal tax is deducted, for these positions are as follows:

	2007 € 000	2006 € 000
Director	183	179
Alternate Director	152	148

Senior management

Senior management comprises: members of the Bank's Executive Committee; Business Group Directors; Corporate Directors; the Treasurer; the Director, Risk Management; the Controller; the Director, Human Resources; the Head of Internal Audit and the CCO. This group, excluding the President and Vice Presidents (for whom information is given above), consists of 19 individuals who received gross salaries, from which internal tax is deducted, in the range of €162,000 to €253,000 (2006: €156,000 to €248,000) with an average bonus of 33 per cent in 2007 (2006: 32 per cent).

FINANCIAL STATEMENTS

These financial statements have been approved for issue by the Board of Directors on 5 March 2008.

Income statement

For the year ended 31 December 2007	Note	Year to 31 December 2007 € million	Year to 31 December 2006 € million
Interest and similar income			
From loans		594	515
From fixed-income debt securities and other interest		699	550
Interest expenses and similar charges		(717)	(603)
Net interest income	3	576	462
Net fee and commission income	4	14	15
Dividend income		87	87
Net gains from share investments at fair value through profit or loss	5	1,071	898
Net gains from available-for-sale share investments	6	266	1,195
Net (losses)/gains from available-for-sale Treasury assets	7	(1)	16
Net (losses)/gains from dealing activities at fair value through profit or loss	8	(8)	7
Foreign exchange movement		1	1
Fair value movement on non-qualifying and ineffective hedges	9	(72)	(14)
Operating income		1,934	2,667
General administrative expenses	10	(240)	(212)
Depreciation and amortisation	18, 19	(11)	(13)
Operating profit before provisions		1,683	2,442
Provisions for impairment of loan investments	11	201	(53)
Net profit for the year		1,884	2,389

The notes on pages 12 to 56 are an integral part of these financial statements.

Balance sheet

Placements with and advances to credit institutions				31 December		31 December	
Placements with and advances to credit institutions	41.04 P	N			0 :11:	2006	
Placements with and advances to credit institutions	At 31 December 2007	Note	€ million	€ million	€ million	€ million	
Solitate and placements 13 1,818 2,673 1,764	Assets						
Debt securities	Placements with and advances to credit institutions	12	4,514		3,135		
Debt securities	Collateralised placements	13	1,818		2,573		
At fair value through profit or loss			6,332		5,708		
Available-for-sale	Debt securities	14					
Section Sect	At fair value through profit or loss		1,501		1,764		
Derivative financial assets	Available-for-sale		6,873		6,831		
Derivative financial assets			8,374		8,595		
Derivative financial instruments			,	14,706	,	14,303	
Other financial assets 825 994 Loan Investments 16	Other financial assets	15		,		,	
Description September Se	Derivative financial instruments		1.961		2.130		
Loan investments							
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						30,691	
Melloralinalii irelia				00,110		30,031	
Undrawn commitments 25 7.117		25		7 117		6,769	
Ondrawn communicities 25 1,EEF	Ondrawn communicities	25		1,11		0,109	

The notes on pages 12 to 56 are an integral part of these financial statements.

Statement of changes in members' equity

For the year ended 31 December 2007	Subscribed capital € million	Callable capital € million	Special reserve € million	Loan loss reserve € million	General reserve other reserves € million	General reserve retained earnings € million	Total reserves and retained earnings € million	Total members' equity € million
At 31 December 2005	19,790	(14,593)	188	292	2,296	1,908	4,684	9,881
Internal tax for the year	_	_	_	_	4	_	4	4
Qualifying fees and commissions	_	_	27	_	_	(27)	_	_
Net fair value movement of available-for-sale								
investments for the year	_	_	_	_	(103)	_	(103)	(103)
Capital subscription	4	(3)	_	_	_	_	-	1
Reserves transfer	_	_	_	1	7	(8)	_	_
Net profit for the year	_	_	_	_	_	2,389	2,389	2,389
At 31 December 2006	19,794	(14,596)	215	293	2,204	4,262	6,974	12,172
Internal tax for the year	_	_	_	_	5	_	5	5
Qualifying fees and commissions	_	_	17	_	_	(17)	_	_
Net fair value movement of available-for-sale								
investments for the year	_	_	_	_	(187)	_	(187)	(187)
Reserves transfer	_	_	_	11	5	(16)	_	_
Net profit for the year	_	_	_	_	_	1,884	1,884	1,884
At 31 December 2007	19,794	(14,596)	232	304	2,027	6,113	8,676	13,874

Refer to note 24 "Reserves and retained earnings" on page 51 for a further explanation of the Bank's reserves.

Statement of cash flows

For the year ended 31 December 2007	€ million	Year to 31 December 2007 € million	€ million	Year to 31 December 2006 € million
	o minion	o minion	C IIIIIIOII	o minori
Cash flows from operating activities				
Operating profit for the year ¹	1,884		2,389	
Adjustments for:	(4.000)		(4.005)	
Interest income	(1,293)		(1,065)	
Interest expenses and similar charges	717		603	
Fair value movement on capital receivable and associated hedges	(5) 44		(4)	
Net deferral of fees and direct costs			4	
Internal taxation	5 (553)			
Realised gains on share investments	(553) (773)		(1,337)	
Unrealised gains on share investments at fair value through profit or loss Impairment recoveries on available-for-sale share investments				
	(11)		(1)	
Realised gains on available-for-sale debt securities	(1) 12		(6)	
Unrealised losses/(gains) on dealing securities	2		(58)	
Impairment charge/(recoveries) on available-for-sale debt securities			(10)	
Foreign exchange gains	(1) 11		(1) 13	
Depreciation and amortisation			53	
Gross provisions (release)/charge for loan losses	(197)			
	(159)		(148)	
Interest income received	1,245		1,034	
Interest expenses and similar charges paid	(697)		(596)	
(Increase)/decrease in operating assets:				
Prepaid expenses	(4)		(5)	
Fair value movement on net Treasury assets	(615)		(95)	
Proceeds from repayments of loans	2,331		2,515	
Proceeds from prepayments of loans	481		730	
Funds advanced for loans	(3,932)		(4,204)	
Proceeds from sale of share investments	925		1,892	
Funds advanced for share investments	(1,080)		(806)	
Net placements to credit institutions	(675)		(1,142)	
Increase in operating liabilities:				
Accrued expenses	55	(0.405)	11	(04.4)
Net cash used in operating activities		(2,125)		(814)
Cash flows used in investing activities				
Proceeds from sale of available-for-sale debt securities	2,761		4,009	
Purchases of available-for-sale debt securities	(3,080)		(5,334)	
Purchase of property, technology and office equipment	(44)		(34)	
Net cash used in investing activities		(363)		(1,359)
Cash flows from financing activities				
Capital received	97		140	
Issue of debts evidenced by certificates	11,338		7,619	
Redemption of debts evidenced by certificates	(9,267)		(6,525)	
Net cash from financing activities		2,168		1,234
Net decrease in cash and cash equivalents		(320)		(939)
Cash and cash equivalents at beginning of the year		3,338		4,277
Cash and cash equivalents at 31 December		3,018		3,338
		2007		2006
		€ million		€ million
Cash and cash equivalents comprise the following amounts maturing within three months				
		4,191		3,115
Placements with and advances to credit institutions		-,		0,110
Placements with and advances to credit institutions Collateralised placements		268		1.403
Placements with and advances to credit institutions Collateralised placements Amounts owed to credit institutions		268 (1,441)		1,403 (1,180)

 $^{^{1}}$ Operating profit includes dividends of €87 million received for the year to 31 December 2007 (2006: €87 million).

The notes on pages 12 to 56 are an integral part of these financial statements.

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 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, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. In addition, financial assets and liabilities subject to amortised cost measurement, where they form part of a qualifying hedge relationship, have been accounted for in accordance with hedge accounting rules – see "Derivative financial instruments and hedge accounting" on page 15.

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 Bank's policies. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements are disclosed in "Critical accounting estimates and judgements" on page 18.

Standards, amendments to published standards and interpretations effective in 2007

In the current year the Bank 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 Bank's financial instruments and management of capital.

IFRIC 9, Re-assessment of Embedded Derivatives, which is effective for accounting periods beginning on or after 1 June 2006, requires the Bank to assess whether an embedded derivative needs to be separated from the host contract and accounted for as a derivative when the Bank first becomes a party to the contract. Reassessment is not permitted unless there is a significant change to the terms of the contract. The adoption of this interpretation has not had any impact on the Bank's financial statements as it is in line with the Bank's existing policies.

IFRIC 10, Interim Financial Reporting and Impairment, which is effective for accounting periods beginning on or after 1 November 2006, prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments, and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of this interpretation has not had any impact on the Bank's financial statements as it is in line with the Bank's existing policies.

Early adoption of standards

No standards were early adopted by the Bank in 2007.

Interpretations effective in 2007 but not relevant to the Bank'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 Bank's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; and
- IFRIC 8, Scope of IFRS 2.

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

The following standards, amendments to published standards and interpretations are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods, and the Bank has not adopted them early:

IFRS 8, Operating Segments, is effective for accounting periods beginning on or after 1 January 2009. It 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 when 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 Bank has assessed IFRS 8 and concluded that it is not expected to have an impact on the operating segments of the Bank and that the main additional disclosures will be in relation to the determination and measurement of the Bank's operating segments. The Bank will apply IFRS 8 from its accounting period beginning 1 January 2009.

IAS 23 (Amendment), Borrowing Costs, is effective for accounting periods beginning on or after 1 January 2009. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Bank will apply IAS 23 (Amendment) from its accounting period beginning 1 January 2009 but it is currently not applicable to the Bank as there are no qualifying assets.

IAS 27 (Amendment), Consolidated and Separate Financial Statements, is effective for accounting periods beginning on or after 1 July 2009. It 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 Bank will apply IAS 27 from its accounting period beginning 1 January 2010 but it is currently not applicable to the Bank 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 Bank will apply IAS 32 and IAS 1 (Amendment) from its accounting period beginning 1 January 2009; the Bank's initial interpretation is that it will not have any significant impact on the Bank's financial statements.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, is effective for accounting periods beginning on or after 1 January 2008. It provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Bank will apply IFRIC 14 from its accounting period beginning 1 January 2008; the Bank's initial interpretation is that it will not have any significant impact on the Bank's financial statements.

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

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

- IFRS 2 (Amendment), Vesting Conditions and Cancellations (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3 (Amendment), Business Combinations (effective for accounting periods beginning on or after 1 July 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); and
- IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008).

B. Significant accounting policies

Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables; financial assets at fair value through profit or loss; and available-for-sale financial assets. Management determines the classification of its investments upon initial recognition.

Loans and receivables

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

- those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank designates as at fair value through profit or loss upon initial recognition;
- those that the Bank designates as available-for-sale upon initial recognition; or
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables originated by the Bank are recognised at settlement date and measured at amortised cost using the effective yield method less any provision for impairment or uncollectability, unless they form part of a qualifying hedging relationship with a derivative position. This principally occurs in cases of fixed rate loans that, through association with individual swaps, are transformed from a fixed rate basis to a floating rate basis. In such cases, the loan is re-measured to fair value in respect of interest rate risk. The change in value is then reported in the income statement as an offset to the change in value of the related swap if the hedge relationship is highly effective – see "Derivative financial instruments and hedge accounting" on page 15 for details.

Collateralised placements are carried at amortised cost. These are structures wherein the risks and rewards associated with the ownership of a reference asset are transferred to another party through the use of a swap contract and are a form of collateralised lending.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative, except those forming part of a designated and effective hedging relationship.

The Bank classifies assets acquired for the purpose of generating profits from short-term price fluctuations as held for trading. Such assets are accounted for at fair value on the basis of independent market quotations, with all changes in value recorded through the income statement as they occur.

Financial assets are designated at fair value through profit or loss upon initial recognition when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost;
- certain investments, such as share investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- financial instruments, such as debt securities held, containing one or more embedded derivatives that significantly modify the cash flows, are designated at fair value through profit and loss.

The Bank designates associate share investments and high-risk equity funds at fair value through profit or loss upon initial recognition. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur. The basis of fair value for listed associate share investments and high risk equity funds in an active market is the quoted bid market price on the balance sheet date. The basis of fair value for associate share investments and high risk equity funds that are either unlisted or listed 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 and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

All trades externally managed by fund managers have been designated at fair value through profit or loss upon initial recognition as they are managed and evaluated on a fair value basis in accordance with the documented investment strategy.

Securities purchased as part of a negative basis strategy, where credit risk on the security has been mitigated through the purchase of an associated credit default swap, have been designated at fair value through profit or loss. This significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the bond and related derivative on different bases.

Financial assets measured at fair value through profit or loss are recognised at trade date – the date on which the Bank commits to purchase or sell the asset.

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. Purchases and sales of available-for-sale assets are recognised at trade date.

With the exception of those share investments designated at fair value through profit or loss, the Bank classifies all other 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 until the financial asset is sold or impaired. At this time the cumulative gain or loss previously recognised in reserves is removed and included in the income statement. The basis of fair value for available-for-sale share investments listed in an active market is the quoted bid market price on the balance sheet date. The basis of fair value for available-for-sale share investments that are unlisted or listed 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 and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

The majority of the Treasury debt portfolio is classified as available-for-sale. Such assets are carried at fair value on the balance sheet with fair values determined by bid quotes from third party sources or, where there is no active market, by the use of discounted cash flow models populated with observable market data. Changes in fair value, excluding translation differences arising on assets denominated in foreign currencies, are recognised directly in reserves 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. Foreign currency translation differences arising on Treasury available-for-sale debt assets are recognised in the income statement.

Where an available-for-sale asset is the hedged item in a qualifying fair value hedge, the fair value gain or loss attributable to the risk being hedged is reported in the income statement rather than reserves. This is to ensure there is consistency of reporting, as the fair value changes on the derivative acting as the hedge must be reported in the income statement. Hedge accounting features in Treasury positions where asset swaps are used to transform the returns on fixed interest rate securities to a floating rate basis.

Financial liabilities

Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition. These sub-categories differ in a similar manner as those discussed under "Financial assets at fair value through profit or loss" on page 13.

Financial liabilities held for trading occurs where the Bank has sold debt securities it does not yet own, known as "short" selling, with the intention of buying those securities at a lower price in the future and thus generating a dealing profit. Such liabilities are measured at fair value with all changes in value reported in the income statement as they occur. Derivative liabilities, except those forming part of a designated and effective hedging relationship, are also categorised as held for trading.

All trades externally managed by fund managers have been designated at fair value through profit or loss upon initial recognition as they are managed and evaluated on a fair value basis in accordance with the documented investment strategy.

Other financial liabilities

With the exception of liabilities designated at fair value through profit or loss, all other financial liabilities are measured at amortised cost, unless they form part of a qualifying hedge relationship with a derivative position.

Derivative financial instruments and hedge accounting

All derivatives are measured at fair value through the income statement unless they form part of a qualifying cash flow hedging relationship. In this case, the fair value of the derivative is taken to reserves to the extent that it is a perfect hedge of the identified risk. Any hedge ineffectiveness will result in the relevant proportion of the fair value remaining in the income statement. Fair values are derived primarily from discounted cash-flow models, option-pricing models and from third party quotes. Derivatives are carried as assets when their fair value is positive, and as liabilities when their fair value is negative. All hedging activity is explicitly identified and documented by the Bank's Treasury department.

Hedge accounting

Hedge accounting is designed to bring accounting consistency to financial instruments that would not otherwise be permitted. A valid hedge relationship exists when a specific relationship can be identified between two or more financial instruments in which the change in value of one instrument (the hedge) is highly negatively correlated to the change in value of the other (the hedged item). To qualify for hedge accounting this correlation must be within 80 to 125 per cent with any ineffectiveness within these boundaries recognised within "fair value movement on non-qualifying and ineffective hedges" in the income statement.

The Bank documents the relationship between hedging instruments and hedged items upon initial recognition of the transaction. The Bank also documents its assessment, on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

The Bank's hedging activities are primarily designed to mitigate interest rate risk by using swaps to convert fixed interest rate risk, on both assets and liabilities, into floating rate risk. Such hedges are known as "fair value" hedges. Changes in the fair value of the derivatives that are designated and qualify as fair value hedges, and that prove to be highly effective in relation to hedged risk, are included in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Cash flow hedges

The Bank has engaged in cash flow hedges, principally to minimise the exchange rate risk associated with the fact that its future administrative expenses are incurred in sterling. The amount and timing of such hedges fluctuates in line with the Bank's views on opportune moments to execute the hedges. The majority of any such hedging activity is for the following financial year but hedges beyond one year can be used. Hedging is mainly through the purchase of sterling in the forward foreign exchange market, but currency options can also be used. The movement in the fair value of cash flow hedges is recognised directly in reserves until such time as the relevant expenditure is incurred. At 31 December 2007 the Bank had no cash flow hedges outstanding.

For further information on risk and related management policies see "Risk management" on page 19.

Financial guarantees

Issued financial guarantees are initially recognised at their fair value, and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the balance sheet date. The latter is recognised when it is both probable that the guarantee will require to be settled and that the settlement amount can be reliably estimated. Financial guarantees are recognised within other financial assets and other financial liabilities.

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 quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The carrying amount of the asset is reduced directly only upon write off. Resulting adjustments include the unwinding of the discount in the income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

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

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

Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis. The methodology used for assessing such impairment is based on a risk-rated approach for non-sovereign assets. A separate methodology is applied for all sovereign risk assets that takes into account the Bank's preferred creditor status afforded by its members. The Bank's methodology calculates impairment on an incurred loss basis. Impairment is deducted from the asset categories on the balance sheet.

The Bank operates a loan loss reserve to set aside an amount of retained earnings within members' equity. This amount is equal to the difference between the impairment losses expected over the full life of the loan portfolio and the cumulative amount provisioned through the Bank's income statement on an incurred loss basis.

Impairment, less any amounts reversed during the year, is charged to the income statement under the caption "Provisions for impairment of loan investments". 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. 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

Available-for-sale share investments are impaired when there is objective evidence that the future recoverability of the Bank's original investment 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 Bank also evaluates factors such as country, industry and sector performance, changes in technology and operational and financial performance. Although projects are usually reviewed for impairment every six months, or, in the case of low risk projects, at least once a year, certain events may trigger this process sooner and more frequently. In such cases, future collectability is considered and any cumulative gain or loss previously recognised in reserves is removed and included in the income statement.

Impairment losses recognised in operating income for availablefor-sale share investments are not reversed through the income statement.

Available-for-sale debt securities

The Bank assesses at each balance sheet date whether there is objective evidence of impairment. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- downgrading of the issuer below minimum eligibility levels for Treasury exposures;
- issuer failure to pay amounts contracted under the security;
- covenant breaches, default events and trigger level failures;
- deterioration of credit enhancement including diminution of collateral values; and
- legal proceedings such as bankruptcy, regulatory action or similar.

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in operating income – is removed from reserves and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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, less liabilities on demand.

Foreign currencies

In accordance with Article 35 of the Agreement, the Bank originally used the European Currency Unit (ECU) as the reporting currency for the presentation of its financial statements. Following the replacement of the ECU with the euro (€) from 1 January 1999, the reporting currency for the presentation of the financial statements became the euro.

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement, except when deferred in reserves as qualifying cash flow hedges. Translation differences on share investments classified as at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on share investments classified as available-for-sale financial assets are included in the fair value reserve in equity.

Capital subscriptions

The Bank's share capital is denominated in euro. However, in addition to settling their capital obligations in euro, members are also entitled to settle in US dollars or Japanese yen. For this purpose, a fixed exchange rate for each currency was defined in Article 6 of the Agreement and these fixed exchange rates are used to measure the value of the associated capital, as reported in "Members' equity" in the balance sheet. The corresponding figure for capital receivable on the asset side of the balance sheet is, however, measured at current exchange rates and discounted to its present value.

In order to ensure that capital receipts due in US dollars or Japanese yen retain, at a minimum, their value as determined by the Agreement's fixed rates, the Bank's policy is to fix their euro value through foreign exchange contracts. These derivatives are fair valued in accordance with IAS 39, with any gain or loss being recorded in the income statement.

Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure that enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and is added to the original cost of the software. Computer software development costs recognised as intangible assets are amortised using the straight-line method over an estimated life of three years.

Property, technology and office equipment

Property, technology and office equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over the estimated life as follows:

Freehold property 30 years

Improvements on leases of less

than 50 years unexpired Unexpired periods

Accounting for leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. The Bank has entered into such leases for most of its office accommodation, both in London and in the Bank's countries of operations. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

Interest, fees, commissions 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.

Front-end fees and commitment fees are deferred in accordance with IAS 18, together with the related direct costs of originating and maintaining the commitment. These are then recognised in interest income using the effective interest method over the period from disbursement to repayment of the related loan. If the commitment expires without the loan being drawn down, the fee is recognised as income on expiry.

Fees received in respect of services provided over a period of time are recognised as income as the services are provided. Other fees and commissions are classed as income when received. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings on an effective yield basis.

Dividends relating to share investments are recognised when received.

Staff retirement plan

The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits to its staff. Under the defined contribution scheme, the Bank and staff contribute to provide a lump sum benefit. The defined benefit scheme is funded entirely by the Bank and benefits are based on years of service and a percentage of final gross base salary as defined in the scheme.

The asset in respect of the defined benefit scheme is the fair value of plan assets minus the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains/losses and past service cost. Independent actuaries calculate the defined benefit obligation at least every three years by using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (relating to service accrued to the balance sheet date) using the yields available on high-quality corporate bonds. For intermediate years, the defined benefit obligation is estimated using approximate actuarial roll-forward techniques that allow for additional benefit accrual, actual cash flows and changes in the underlying actuarial assumptions.

The Bank keeps all contributions to the schemes, and all other assets and income held for the purposes of the schemes, separately from all of its other assets. Actual contributions made to the defined contribution scheme are charged to the income statement and transferred to the scheme's independent custodians. The charge to the income statement in respect of the defined benefit scheme is based on the current service cost and other actuarial adjustments, as determined by qualified external actuaries. Also included in this charge are actuarial gains and losses in excess of a 10 per cent corridor which are amortised over the estimated average service life remaining of the Bank's employees. The 10 per cent corridor is 10 per cent of the defined benefit obligation or the fair value of assets, whichever is higher. The actuaries also advise the Bank as to the necessary contributions to be made to the defined benefit scheme, which are then transferred to the scheme's independent custodians.

Taxation

In accordance with Article 53 of the Agreement, within the scope of its official activities the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those parts of taxes or duties that represent charges for public utility services.

Borrowings

Borrowings are recognised initially at fair value, defined as their issue proceeds, net of any transaction costs incurred. They are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method. Where borrowings have associated derivatives and qualify for hedge accounting in line with IAS 39, the amortised cost value is adjusted by the fair value of the hedged risks.

Comparatives

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

C. Critical accounting estimates and judgements

Preparing financial statements in conformity with IFRS requires the Bank 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 that reflect the economic environment and financial markets of the Bank'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 EBRD's banking portfolio, limits the Bank's ability to apply traditional sensitivity analysis methods.

The Bank's critical accounting estimates and judgements are as follows:

Fair value of share investments

The Bank's method for determining the fair value of share investments is described in the "Financial assets" accounting policy on page 13 and an analysis of the share investment portfolio is provided in note 17. A sensitivity analysis of the potential impact on the Bank's operating income and reserves from a reasonable movement in the fair value of the share investment portfolio is included under equity price risk on page 32.

Provisions for the impairment of loan investments

The Bank's method for determining the level of impairment of loan investments is described in the "Impairment of financial assets" accounting policy on page 15 and further explained under credit risk on page 19.

Portfolio provisions for the unidentified impairment of nonsovereign loan investments at 31 December 2007 were €86 million. Had all non-sovereign loan investments been downgraded by one risk rating category the portfolio provisions for non-sovereign loans would have been approximately €167 million, resulting in an additional charge to the income statement of €81 million. In addition, loan investments risk rated 7 would have become individually impaired, resulting in additional specific provisions for identified impairment of approximately €207 million. Had all non-sovereign loan investments been upgraded by one risk rating category, the portfolio provisions for non-sovereign loans would have been approximately €35 million, resulting in a credit to the income statement of €51 million. This would have included portfolio provisions of approximately €3 million on loan investments of €22 million – previously risk rated 8 – that would no longer be considered individually impaired.

Portfolio provisions for the unidentified impairment of sovereign loan investments at 31 December 2007 amounted to €5 million. Due to the Bank's preferred creditor status afforded by its members, a downgrade or upgrade by one risk rating category would not have had a significant impact on the level of sovereign portfolio provisions, and hence the income statement.

The methodology and judgements used for estimating provisions for the impairment of loan investments are reviewed regularly to reduce any differences between loss estimates and actual experience.

RISK MANAGEMENT

Financial risks

The independent identification, measurement, monitoring and mitigation of all risks incurred by the Bank in both its Banking and Treasury activities is the overall responsibility of the Vice President, Risk Management, Human Resources and Nuclear Safety ("the Vice President, Risk Management").

The Vice President, Risk Management is a member of the Bank's Executive Committee, as are the First Vice President, Banking, and the Vice President, Finance, to whom Treasury reports. The Vice President, Risk Management, has overall responsibility for formulating the Bank's risk management strategy for both Banking and Treasury functions. Risk Management seeks to ensure that any risks are correctly identified and appropriately managed and mitigated through comprehensive and rigorous processes, which reflect industry best practice.

In carrying out its mission, the Bank is exposed to financial risks through both its Banking and Treasury activities. The principal financial risks to which the Bank is exposed are credit, market and liquidity 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. The Bank also monitors concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector, obligor, and type of instrument or individual transaction.

The EBRD is exposed to credit risk in both its Banking and Treasury activities, as borrowers and Treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could become impaired.

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

	2007 € million	2006 € million
Placements with and advances to credit institutions	4,514	3,135
Collateralised placements	1,818	2,573
Debt securities at fair value through profit or loss	1,501	1,764
Available-for-sale debt securities	6,873	6,831
Derivative financial assets	1,961	2,130
Other financial assets	825	994
Loan investments	8,985	8,311
Share investments at fair value through profit or loss	3,469	2,400
Banking available-for-sale share investments	3,124	2,653
Treasury available-for-sale share investments	47	_
Paid-in capital receivable	100	192
Undrawn commitments and guarantees	7,117	6,769
At 31 December	40,334	37,752

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2007 and 31 December 2006, without taking account of any collateral held, other credit enhancements or impairment provisions.

At 31 December 2007 there were no collateralised placements, debt securities at fair value through profit or loss, derivative or other financial assets or Treasury share investments past due or impaired (2006: nil). All trades within these categories were risk rated 1 (excellent) to 3 (very good) on the Bank's internal risk rating scale.

Credit risk in the Banking portfolio: Management

For Banking exposures the Board of Directors approves a Credit Process document that defines the procedures for the approval, management and review of Banking exposures by the Operations Committee. The Audit Committee reviews the Credit Process annually and its review is submitted to the Board for approval.

Banking risks are reviewed by the Operations Committee which meets weekly. The Operations Committee is chaired by the First Vice President, Banking and its membership comprises senior managers of the Bank. The Operations Committee is responsible for reviewing all Banking projects prior to their submission for Board approval. Projects are reviewed to ensure that they meet the Bank's criteria for sound banking, transition impact and additionality. The Operations Committee operates within authority delegated by the Board, via the Executive Committee, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for overseeing Banking portfolio management, approving significant changes to existing operations and approving Risk Management's recommendations for provisions for the impairment of Banking assets.

The Bank conducts regular reviews of all exposures within the Banking portfolio, typically on a semi-annual basis. Exposures that are perceived to be more vulnerable to possible default are reviewed more frequently and those that are perceived to be less vulnerable to possible default may be reviewed annually. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating, and, for share investments, reviews the fair value. Where relevant, the level of impairment and specific provision is reviewed and reconfirmed or adjusted. At the recommendation of Risk Management, investments considered to be in jeopardy may be transferred from Banking teams to the Corporate Recovery Unit – which reports jointly to Risk Management and Banking – in order to manage the restructuring work-out and recovery process.

Disbursements are managed by the Operation Administration Unit (OAU) within the Office of the General Counsel, which is responsible for checking compliance with the loan agreements and other project agreements and ensuring that correct procedures are followed in line with approved policy. Waivers, consents and amendments of loan covenants and conditionality are prepared by the OAU and are approved by Banking, Risk Management and, where required, by the Office of the General Counsel and the Office of the Chief Economist.

For the non-sovereign loan portfolio, provisions and loan loss reserve amounts are calculated each month using the Bank's methodology, which is based on the Bank's Risk Capital Model. The model is updated annually with the most recent default and operational assumptions. This is designed to estimate 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 has resulted in a reduction in the loan portfolio provisioning levels and has contributed to the net credit of €201 million for provisions for impairment of loan investments during the year.

Risk Management prepares a report on the development of the portfolio as a whole on a quarterly basis to present to the Audit Committee. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio. It also includes commentary on individual exposures in the classified portfolio and measures of exposure against portfolio risk limits, with any breaches of limits reported and explained.

The Bank assigns project, country and overall risk ratings to each exposure on an internal scale from 1 (lowest risk) to 10 (highest risk). 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, including sponsor support or guarantee. The country rating is assessed internally, taking into consideration the ratings assessed by external rating agencies. For non-sovereign operations, the overall rating is normally the numerically higher of the project and country rating. The exception to this is where the Bank 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 sovereign risk projects, the overall rating is the same as the country rating.

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

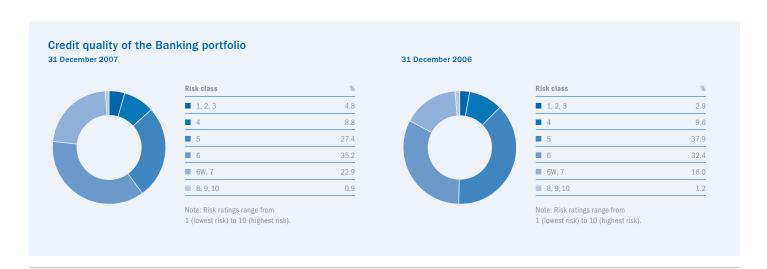
FDDD: 1 1 1: 1	5	5000	
EBRD internal rating scale	External rating equivalent – S&P	EBRD category	
1	AAA	Excellent	
2	AA+, AA, AA-	Strong	
3	A+, A, A-	Very good	
4	BBB+, BBB, BBB-	Good	
5	BB+, BB, BB-	Satisfactory	
6	B+, B	Acceptable	
6W	B-	Watch	
7	CCC	Special attention	
8	CC	Substandard	
9	С	Doubtful	
10	D	Expected loss	

Credit risk in the Banking portfolio: 2007 results

In view of the markets in which it operates and its transition mandate, the EBRD expects the majority of its project ratings under normal circumstances to be rated in risk categories 5 or 6 (approximately equivalent to S&P BB+ to B ratings) at the time of approval. At 31 December 2007, 62.6 per cent of the loan and share investment portfolio was classed under risk ratings 5 to 6 (2006: 70.3 per cent).

The total Banking exposure (operating assets including fair value adjustments but before provisions) increased during the year from €13.4 billion at 31 December 2006 to €15.6 billion at 31 December 2007. The total signed Banking portfolio (operating assets, excluding fair value adjustments and provisions but including undrawn commitments) increased from €17.7 billion at 31 December 2006 to €19.4 billion at 31 December 2007. The overall risk rating of the portfolio deteriorated from 5.46 to 5.56. This was due primarily to a higher proportion of new signings at 6W or worse, which increased during the year from 17.2 per cent to 21.4 per cent, rather than a deterioration in the existing portfolio, as upgrades exceeded downgrades during the year by 30 per cent. The higher risk rating of new transactions reflects the decreasing proportion of operating assets in central Europe, which declined from 21 per cent to 17 per cent during the year.

Despite the deterioration in risk, total non-sovereign classified operating assets (operating assets risk rated 7 to 10) declined, both as a proportion of the portfolio and in real terms, from €515 million (5.81 per cent of total operating assets) to €509 million (4.95 per cent of total operating assets). Impaired loan assets increased from €19 million to €37 million, largely due to the deterioration of one exposure. There was no common factor underlying the deterioration of newly impaired assets over the year. Market volatility over the latter part of the year has increased credit risk, particularly in the banking sector in Russia and Kazakhstan. This has resulted in a decline in the fair market value of some equity investments, in particular listed banking stocks. The effect has been to reduce the unrealised gain on these investments and has not resulted in the downgrading of individual exposures or impairment.



Loan investments

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

Risk rating	Neither past due nor impaired € million	Past due € million	Impaired € million	Total € million	Portfolio provisions for unidentified impairment € million	Specific provisions for identified impairment € million	Total net of impairment € million	Total %	Impairment provisions %
1: Excellent	86	_	_	86	_	_	86	1.0	0.0
2: Strong	57			57			57	0.6	0.0
3: Very good	273	_	_	273	_	_	273	3.0	0.0
4: Good	1,225	_	_	1,225	(1)	_	1,224	13.6	0.1
5: Satisfactory	3,215	9	_	3,224	(9)	_	3,215	35.9	0.3
6: Acceptable	2,771	20	_	2,791	(31)	_	2,760	31.1	1.1
6W: Watch	788	_	_	788	(23)	_	765	8.8	2.9
7: Special attention	485	19	_	504	(27)	_	477	5.6	5.4
8: Substandard	_	_	22	22	_	(18)	4	0.2	81.8
9: Doubtful	_	_	14	14	_	(14)	_	0.2	100.0
10: Expected loss	_	_	1	1	_	(1)	_	0.0	100.0
At 31 December 2007	8,900	48	37	8,985	(91)	(33)	8,861	100.0	_

Risk rating	Neither past due nor impaired € million	Past due € million	Impaired € million	Total € million	Portfolio provisions for unidentified impairment € million	Specific provisions for identified impairment € million	Total net of impairment € million	Total %	Impairment provisions %
4.5	70			70			70	0.0	0.0
1: Excellent	76			76			76	0.9	0.0
2: Strong	38		_	38			38	0.5	0.0
3: Very good	289	_	_	289	_	_	289	3.5	0.0
4: Good	1,209	_	_	1,209	(2)	_	1,207	14.5	0.8
5: Satisfactory	3,372	_	_	3,372	(22)	_	3,350	40.6	0.7
6: Acceptable	2,074	10	_	2,084	(43)	_	2,041	25.1	2.1
6W: Watch	728	10	_	738	(178)	_	560	8.9	24.1
7: Special attention	483	3	_	486	(78)	_	408	5.8	16.1
8: Substandard	_	_	15	15	_	(14)	1	0.2	93.3
9: Doubtful	_	_	3	3	_	(3)	_	0.0	100.0
10: Expected loss	_	_	1	1	_	(1)	_	0.0	100.0
At 31 December 2006	8,269	23	19	8,311	(323)	(18)	7,970	100.0	_

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

Of the past due loans, €31 million was outstanding for less than 30 days (2006: €22 million) and €17 million was outstanding for greater than 90 days (2006: €1 million).

The fair value of collateral held over impaired and past due loans at 31 December 2007 was €21 million (2006: €2 million).

Share investments at fair value through profit or loss

Set out below is an analysis of the Bank's share investments at fair value through profit or loss for each of the Bank's relevant internal risk rating categories.

Risk rating	Cost 2007 € million	Fair value 2007 € million	Cost 2006 € million	Fair value 2006 € million
5: Satisfactory	493	1,677	533	1,395
6: Acceptable	450	688	388	559
6W: Watch	305	700	134	162
7: Special attention	130	357	115	250
8: Substandard	52	26	57	32
9: Doubtful	50	21	48	2
At 31 December	1,480	3,469	1,275	2,400

Available-for-sale share investments

Set out below is an analysis of the Bank's available-for-sale share investments for each of the Bank's relevant internal risk rating categories.

Risk rating	Cost 2007 € million	Fair value 2007 € million	Cost 2006 € million	Fair value 2006 € million
4: Good	122	556	122	563
5: Satisfactory	365	1,198	516	1,532
6: Acceptable	559	809	231	278
6W: Watch	498	503	168	166
7: Special attention	27	45	32	63
8: Substandard	24	12	66	46
9: Doubtful	10	1	13	5
At 31 December	1,605	3,124	1,148	2,653

Available-for-sale share investments risk rated 8-10 are considered to be impaired because the fair value of these investments is significantly below cost.

Undrawn commitments and guarantees

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

	2007	2006
Risk rating	€ million	€ million
2: Strong	4	16
3: Very good	185	85
4: Good	357	346
5: Satisfactory	1,803	2,213
6: Acceptable	3,082	2,974
6W: Watch	1,351	817
7: Special attention	327	303
8: Substandard	8	8
9: Doubtful	_	7
At 31 December	7,117	6,769

Paid-in capital receivable

Set out below is an analysis of the Bank's paid-in capital receivable at 31 December 2007 and 31 December 2006.

	2007 € million	2006 € million
Cash and promissory note encashments not yet due	79	163
Cash and promissory notes due but not yet received	16	19
Promissory note encashments due but not yet received	5	10
Paid-in capital receivable at 31 December	100	192

Paid-in capital receivable has been stated at its present value on the balance sheet to reflect future receipt by instalments. At 31 December 2007 no paid-in capital receivable was considered impaired (2006: nil).

Credit risk in the Banking portfolio: Concentration

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

	Loans 2007 € million	Banking share investments 2007 € million	Total 2007 € million	Loans 2006 € million	Banking share investments 2006 € million	Total 2006 € million
Albania	108	22	130	116	8	124
Armenia	54	13	67	39	8	47
Azerbaijan	161	19	180	82	6	88
Belarus	57	17	74	61	16	77
Bosnia and Herzegovina	185	2	187	156	8	164
Bulgaria	343	18	361	304	13	317
Croatia	426	1,075	1,501	426	731	1,157
Czech Republic	79	46	125	110	85	195
Estonia	50	1	51	51	7	58
Former Yugoslav Republic of Macedonia	140	39	179	117	39	156
Georgia	140	29	169	98	17	115
Hungary	286	334	620	339	266	605
Kazakhstan	581	271	852	429	462	891
Kyrgyz Republic	29	2	31	35	4	39
Latvia	47	_	47	56	_	56
Lithuania	91	66	157	76	49	125
Moldova	47	9	56	45	4	49
Mongolia	3	4	7	2	_	2
Montenegro	19	_	19	20	_	20
Poland	618	424	1,042	621	490	1,111
Romania	770	900	1,670	696	750	1,446
Russian Federation	2,733	1,462	4,195	2,862	637	3,499
Serbia	406	334	740	340	242	582
Slovak Republic	106	95	201	117	121	238
Slovenia	156	54	210	180	34	214
Tajikistan	26	1	27	30	1	31
Turkmenistan	11	11	22	17	11	28
Ukraine	771	72	843	680	49	729
Uzbekistan	73	2	75	83	2	85
Regional	469	1,271	1,740	123	993	1,116
At 31 December	8,985	6,593	15,578	8,311	5,053	13,364

The following table breaks down the main Banking credit exposures in their carrying amounts by industry sector of the counterparty.

	Loans 2007 € million	Banking share investments 2007 € million	Total 2007 € million	Loans 2006 € million	Banking share investments 2006 € million	Total 2006 € million
Commerce and tourism	399	205	604	315	173	488
Community and social services	95	189	284	84	180	264
Energy/power generation	909	240	1,149	910	142	1,052
Extractive industries	176	320	496	104	310	414
Finance	3,167	4,491	7,658	2,764	3,383	6,147
Local authority services	643	132	775	603	46	649
Manufacturing	1,230	597	1,827	1,223	525	1,748
Primary industries	356	89	445	316	48	364
Telecommunications	224	179	403	340	147	487
Transport and construction	1,786	151	1,937	1,652	99	1,751
At 31 December	8,985	6,593	15,578	8,311	5,053	13,364

Credit risk in the Treasury portfolio: Management

For Treasury exposures, the Board of Directors approves a Treasury and Treasury Risk Management Authority (T&TRMA), which defines the risk parameters for funding, cash management, asset and liability management and the investment activities of the Bank. This document is updated annually by the Finance and Risk Management Vice Presidencies and approved by the Board. It covers all aspects of Treasury where financial risks arise and also Risk Management's identification, measurement, management and mitigation of the financial risks in Treasury. In addition, Treasury and Treasury Risk Management guidelines have been issued in respect of Treasury risk taking and the related Risk Management processes and procedures.

The T&TRMA is the document by which the Board of Directors delegates authority to the Vice President, Finance, to manage and the Vice President, Risk Management, to identify, measure, monitor and mitigate the Bank's Treasury exposures. The two Vice Presidents jointly interpret the T&TRMA and notify the Board of Directors of any material interpretation. The Financial and Operations Policies Committee reviews the T&TRMA annually and its review is submitted to the Board for approval.

Treasury risks are reviewed by the Treasury Exposure Committee (TEC), which meets monthly. The TEC is chaired by the Vice President, Risk Management and its membership comprises senior managers of the Bank. The TEC is responsible for reviewing and monitoring the implementation of the T&TRMA and related guidelines. It assesses Treasury and Risk Management policy proposals for approval by the Board, and monitors and reviews the asset/liability profile and risk/return trade off in aggregate Treasury exposures. It also evaluates new product proposals for Treasury. Impairment of Treasury available-for-sale assets is identified by Risk Management, assessed by the TEC and approved by the Vice Presidents of Finance and Risk Management.

Each counterparty or issuer to which the Bank is exposed through its Treasury activities is approved and granted a maximum credit limit by Risk Management. Risk Management assigns internal credit ratings based on internal analysis of approved counterparties' creditworthiness through the synthesis of externally provided credit research and market data and with reference to external rating benchmarks from approved rating agencies. The internal credit rating scale ranges from 1 (lowest risk) to 10 (highest risk), the same as that used for Banking exposures (a table showing how the Bank's internal rating scale maps to the external ratings of S&P is shown in "Credit risk in the Banking portfolio: Management" on page 21).

Treasury-related exposures are normally rated between 1 and 3 (approximately equivalent to S&P AAA to A- ratings), with the exception of counterparties approved for local currency activities. These transactions support the Bank's initiatives to provide local currency financing to Banking clients and to develop local capital markets. These internal ratings determine the maximum allowable exposures as set out per rating level and counterparty type in the Bank's guidelines for Treasury operations. The internal rating process is based on credit risk managers' judgement, external rating benchmarks and senior management oversight and approval. Risk Management assesses all available credit research to identify key counterparty credit risk considerations. That analysis is then supplemented with market-based credit indicators, such as credit default swap spreads and market-implied credit ratings, to produce an internal rating for each approved counterparty. All internal ratings assigned without reference to an external rating benchmark are approved by the Director, Risk Management.

The assigned internal ratings are relative rankings of default risk. When analysing portfolio credit risk within Treasury activities, the Bank maps internal ratings to external rating benchmarks to apply rating transition and default statistics sourced from rating agencies.

The Board-approved T&TRMA states the minimum rating and maximum tenor by type of eligible counterparty. Operational guidelines approved and issued by the Vice President, Risk Management set the maximum exposure size limits per rating class and counterparty type. The actual exposure size limit and/or tenor limit attributed to individual counterparties may be smaller or shorter, respectively, based on the likely direction of its credit quality over the medium term, its internal outlook, or on sector considerations. Individual counterparty lines for banks, corporates and insurance companies are measured, monitored and reviewed by Risk Management on a regular basis with a strong surveillance focus, including quarterly reports on the counterparties contributing the most to the credit VaR⁵ of the Treasury portfolio.

The Bank's exposure measurement methodology for Treasury credit risk uses a Monte Carlo simulation technique that produces, to a high degree of confidence, maximum exposure amounts at future points in time for each counterparty (in practice, 95 per cent eVaR).⁵ This includes all transaction types and is measured out to the maturity of the longest dated transaction with that counterparty. Exposures are calculated and controlled against approved limits daily with exceptions escalated to the Director, Risk Management for approval.

Risk mitigation techniques and risk transferring instruments reduce calculated credit exposure measures. For example, credit support annexes for over-the-counter (OTC) derivatives trading reduce potential future exposures in line with collateral posting expectations. Likewise, buying credit protection via a credit default swap usually decreases measured exposure on the reference entity.

VaR is a statistical estimate of the maximum probable loss that can be incurred, due to adverse movements in major risk drivers, over a given time horizon and estimated at a given confidence level. Expected shortfall, or eVaR, is the average loss beyond the VaR level and is a more accurate measure of large potential losses.

Credit risk in the Treasury portfolio: 2007 results

Treasury peak credit exposure increased during the year from €10.9 billion at 31 December 2006 to €12.9 billion at 31 December 2007. While exposure decreased slightly during the first half of the year, it increased markedly in the second half, as Treasury shifted some of its positions from medium term collateralised instruments (where exposure is based on a replacement cost, for example reverse repurchase agreements) to short term cash instruments (where exposure is based on the full nominal).

The credit quality of the Treasury portfolio deteriorated during 2007, with the average credit rating weighted by peak counterparty exposure – excluding Treasury's new activities in the Bank's countries of operations – standing at 1.91 at 31 December 2007 (2006: 1.78). The deterioration came mostly as a result of the downgrade of some US investment banks in the fourth quarter of 2007. Including Treasury's new activities in the Bank's countries of operations (with counterparties typically rated 4.7 to 5.3 internally), the average credit rating for the overall Treasury portfolio was 1.97.

The percentage of Treasury transactions of investment grade quality similarly decreased to 96.4 per cent at 31 December 2007 (2006: 97.9 per cent). Treasury's exposure to below investment grade obligors is limited to counterparties from the countries of operations and a few asset-backed securities (ABS) investments originally rated triple-A by leading external rating agencies and downgraded below investment grade mostly prior to 2006.

Placements with and advances to credit institutions

Set out below is an analysis of the Bank's placements with, and advances to, credit institutions for each of the Bank's relevant internal risk rating categories.

Risk rating	2007 € million	2006 € million
1-3: Excellent to very good	4.255	3,099
4: Good	206	36
5-6: Satisfactory to acceptable	53	_
At 31 December	4,514	3,135

At 31 December 2007 there were no placements with, and advances to, credit institutions past due or impaired (2006: nil).

Available-for-sale debt securities

Risk Management determines the eligibility of credit exposures based on the internal risk ratings applied and the parameters set out in the T&TRMA and other relevant policies and guidelines. In cases where the creditworthiness of security issuers deteriorates to levels below the standard of eligibility for new exposures, Risk Management and Treasury jointly recommend actions for the approval of the Vice President, Risk Management and the Vice President, Finance. Any decision to retain no longer eligible exposures is reported to the TEC and the Audit Committee.

- ⁶ Using the Bank's internal rating scale, where 1.7 is equivalent to an external rating of AA+/Aa1/AA+ with S&P/Moody's/Fitch ratings and 2.0 is equivalent to an external rating of AA/Aa2/AA.
- ⁷ BBB-/Baa3/BBB- level or above.

Credit quality of the Treasury portfolio 31 December 2007 31 December 2006 Risk class 1.0 29.3 1.0 41.4 1.7-2.5 1.7-2.5 54.3 2.7-3.3 6.7 2.7-3.3 4.7-5.3 4.7-5.3 8.0 8.0 1.9 9.0 9.0 Note: Risk ratings range from Note: Risk ratings range from 1 (lowest risk) to 10 (highest risk). 1 (lowest risk) to 10 (highest risk).

In cases where the Bank considers the exposure to be permanently reduced in value, impairment is recognised in the income statement. The following factors apply in the determination of impairment, which is reviewed by the TEC and approved by the Vice President, Risk Management and the Vice President, Finance:

- downgrading of the issuer below minimum eligibility levels for Treasury exposures;
- issuer failure to pay amounts contracted under the security;
- covenant breaches, default events and trigger level failures;
- deterioration of credit enhancement including diminution in collateral values; and
- legal proceedings such as bankruptcy, regulatory action or similar.

Set out below is an analysis of the Bank's available-for-sale debt securities for each of the Bank's relevant internal risk rating categories. No collateral is held over impaired debt securities.

Risk rating	Neither past due nor impaired € million	Impaired gross € million	Cumulative impairment losses € million	Total € million
1-3: Excellent to very good	6,776	_	_	6,776
4: Good	3	_	-	3
7-8: Special attention to substandard	_	138	(44)	94
9: Doubtful	_	17	(17)	_
At 31 December 2007	6,779	155	(61)	6,873
	Neither	Impaired	Cumulative	

Risk rating	Neither past due nor impaired € million	Impaired gross € million	Cumulative impairment losses € million	Total € million
1-3: Excellent to very good	6,699	_	_	6,699
4: Good	3	_	_	3
7-8: Special attention to substandard	_	175	(46)	129
9: Doubtful	_	20	(20)	_
At 31 December 2006	6,702	195	(66)	6,831

Available-for-sale debt securities risk rated 8-10 are considered to be impaired because the fair value of these investments is significantly below cost.

Financial liabilities at fair value through profit or loss

Changes in the Bank's credit rating do not have an impact on the carrying amount of externally managed fund liabilities designated at fair value through profit or loss.

Derivatives

The EBRD's use of exchange-traded and OTC derivatives is primarily focused on hedging interest rate and foreign exchange risks arising from both its Banking and Treasury activities. Market views expressed through derivatives are also undertaken as part of Treasury's activities, while the transactions through which the Bank funds itself in capital markets are typically swapped into floating-rate debt with derivatives. In addition, the Bank uses credit derivatives as an alternative to investments in specific securities or to hedge certain exposures.

The risks arising from derivative instruments are combined with those deriving from all other instruments dependent on the same underlying risk factors, and are subject to overall market and credit risk limits, as well as to stress tests. Additionally, special care is devoted to those risks that are specific to the use of derivatives, through, for example, the monitoring of volatility risk for options, credit spread risk for swaps and basis risk for futures.

The table below shows the fair value of the Bank's derivative financial assets and liabilities at 31 December 2007 and 31 December 2006.

	Assets 2007 € million	Liabilities 2007 € million	Total 2007 € million	Assets 2006 € million	Liabilities 2006 € million	Total 2006 € million
Derivatives held for trading	C IIIIIIOII	Cillinon	Cillinon	CHIIIIOH	C HIIIIOH	CIIIIIIOII
Derivatives neid for trading						
OTC foreign currency products						
Currency swaps	120	(19)	101	154	(11)	143
Spot and forward currency transactions	15	(53)	(38)	_	(20)	(20)
	135	(72)	63	154	(31)	123
OTC interest rate products						
Interest rate swaps	82	(54)	28	63	(43)	20
Forward rate agreements	1	(1)	_	_	_	_
Caps/floors	_	(1)	(1)	_	_	_
	83	(56)	27	63	(43)	20
OTC credit products						
Credit default swaps	36	(23)	13	3	(6)	(3)
Banking products						
Equity derivatives	136	(148)	(12)	85	_	85
Total derivatives held for trading	390	(299)	91	305	(80)	225
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	358	(159)	199	515	(156)	359
Cross currency interest rate swaps	1,213	(173)	1,040	1,310	(270)	1,040
Total derivatives held for hedging	1,571	(332)	1,239	1,825	(426)	1,399
Total derivatives at 31 December	1.961	(631)	1.330	2.130	(506)	1.624

In order to manage credit risk in OTC derivative transactions, the Bank's policy is to approve ex-ante each counterparty individually and to review its creditworthiness and eligibility regularly. Overall limits are allocated to each eligible counterparty in compliance with guidelines that set a maximum for the size and tenor of exposure, based on the counterparty's internal credit rating and outlook. For those counterparties, typically banks, that are deemed eligible for foreign exchange and OTC derivatives, a portion of the overall counterparty limit is allocated to these instruments. Utilisation of limits, whether overall counterparty limits or dedicated foreign exchange and OTC derivatives limits, is calculated using a potential future exposure methodology. This is based on a Monte Carlo simulation-based model and is measured and monitored daily for all counterparties, independently from risk takers.

OTC derivative transactions are normally transacted only with the most creditworthy counterparties, rated at the internal equivalent of single-A and above. Furthermore, the Bank pays great attention to mitigating the credit risk of OTC derivatives through the negotiation of appropriate legal documentation with counterparties. OTC derivatives transactions are systematically documented with a Master Agreement (MA) and a Credit Support Annex (CSA). These provide for close-out netting and the posting of collateral by the counterparty once the Bank's exposure exceeds a given threshold, which is a function of the counterparty's perceived creditworthiness.

The Bank has also expanded the scope for applying risk mitigation techniques by documenting the widest possible range of instruments transacted with a given counterparty under a single MA and CSA, notably foreign exchange transactions. The Bank also systematically resorts to unwinding-upon-credit-downgrading clauses and, for long-dated transactions, unilateral break clauses. Similarly, the Bank emphasises risk mitigation for repurchase and reverse repurchase agreements and related transaction types through MA documentation.

At 31 December 2007, 78.0 per cent of the Bank's gross exposure to derivatives counterparties was with counterparties with which an MA and CSA had been completed (2006: 87.0 per cent). A further 20.7 per cent was with counterparties with which only an MA had been completed (2006: 12.9 per cent). In addition, 99.98 per cent of the Bank's exposure to foreign exchange and OTC derivatives was either with counterparties rated triple-A in their own right, or with counterparties with whom a collateral agreement had been completed, allowing for receipt of collateral in the form of cash or liquid, triple-A-rated government securities (2006: 100 per cent).

Collateral

The Bank mitigates credit risk by holding collateral against exposures to derivative counterparties.

At 31 December 2007, the total fair value of the Bank's derivative transactions amounted to €1.3 billion (2006: €1.6 billion). Counterparty exposure, for the purposes of collateralising credit risk, is only concerned with counterparties with whom the Bank has an overall net positive exposure. At 31 December 2007 this exposure stood at €1.5 billion (2006: 1.7 billion). Against this, the Bank held collateral of €1.1 billion (2006: €1.4 billion), reducing its net credit exposure to €0.4 billion (2006: €0.3 billion).

Where the Bank borrows or purchases securities subject to a commitment to resell them (a reverse repurchase agreement) but does not acquire the risk and rewards of ownership, the transactions are treated as collateralised loans. The securities are not included in the balance sheet and are held as collateral.

The table below illustrates the fair value of collateral held which is permitted to be sold or repledged in the absence of default. Sold or repledged collateral includes collateral on-lent through bond lending activities. In all cases the Bank has an obligation to return equivalent securities.

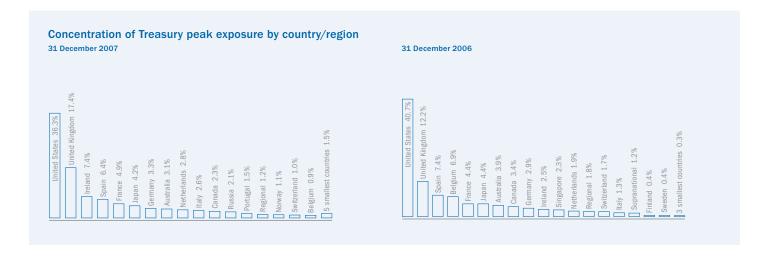
Collateral held as security	Held collateral 2007 € million	Sold or repledged 2007 € million	Held collateral 2006 € million	Sold or repledged 2006 € million
Derivative financial instruments				
Triple-A-rated government securities	906	584	1,275	589
Cash	202	202	116	116
Reverse sale and repurchase transactions	1,033	_	1,336	_
At 31 December	2,141	786	2,727	705

The term "collateralised placements" in the Bank's balance sheet is used to describe the economic substance of the transactions comprising that category. Such transactions involve the purchase of a financial asset together with entering into a total return swap whereby the risks and rewards of ownership of the asset are transferred back to the entity selling the asset. For accounting purposes, therefore, the economic substance of such transactions is a form of collateralised lending. However as the assets are legally owned by the Bank, they do not represent collateral for the purposes of the above disclosure. At 31 December 2007 the Bank held €1.8 billion (2006: €2.6 billion) of collateralised placements.

Credit risk in the Treasury portfolio: Concentration

Concentration by country and region

At 31 December 2007, Treasury credit risk exposure was allocated across 22 countries. The top six countries (by percentage of the total exposure) were the United States of America (36.3 per cent), the United Kingdom (17.4 per cent), Ireland (7.4 per cent), Spain (6.4 per cent), France (4.9 per cent) and Japan (4.2 per cent). The top six countries at 31 December 2006 were the United States of America (40.7 per cent), the United Kingdom (12.2 per cent), Spain (7.4 per cent), Belgium (6.9 per cent), France (4.4 per cent) and Japan (4.4 per cent).



Concentration by counterparty type

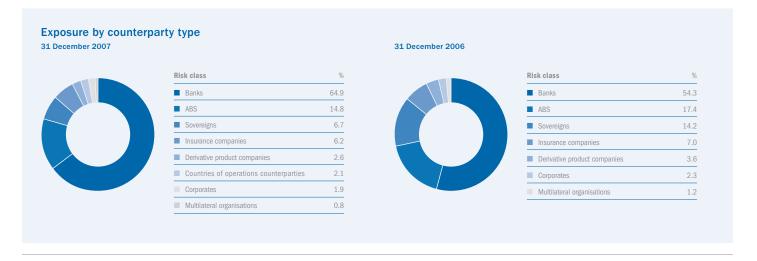
Banks represented 64.9 per cent of the overall exposure (2006: 54.3 per cent), following the build up in short term cash placements described above. Exposure to ABS, although slightly reduced in relative terms (14.8 per cent, down from 17.4 per cent at 31 December 2006) remained almost unchanged in nominal terms, and was the second largest counterparty type at 31 December 2007. Exposure to sovereigns (mostly the result of government securities placed to the Bank as part of its collateral agreements with OTC derivatives counterparties) was significantly reduced (6.7 per cent, down from 14.2 per cent at 31 December 2006).

B. Market risk

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk are: (i) interest rate risk; (ii) foreign exchange risk; (iii) equity risk; and (iv) commodity price risk. Interest rate risks are further broken down into yield curve risk, which measures the impact of changes in the position and shape of the yield curve for a given currency, and volatility risk, which deals with risks specific to interest rate option transactions. Yield curve risk can in turn be divided into changes in the overall level of interest rates (a parallel shift of an entire yield curve), and changes in the slope or the shape of the yield curve. Similarly, foreign exchange rate risks are split into risk emanating from changes in the level of foreign exchange rates, and volatility risk, which is inherent within foreign exchange options.

Market risk in the Banking portfolio

The Banking loan portfolio is match-funded by Treasury in terms of currency so that for loan facilities extended in currencies other than euro the foreign exchange risk is fully hedged via the Treasury portfolio. Likewise, interest rate risk to which the Banking loan portfolio would normally be exposed is fully managed through the Treasury portfolio. As such there is no residual foreign exchange or interest rate risk present in the Banking loan portfolio. The main exposure to market risk in the Banking portfolio arises from the exposure of share investments to foreign exchange and equity price risk, neither of which is captured in the VaR figures discussed under "Market risk in the Treasury portfolio" on page 32.



Foreign exchange risk

The table below summarises the potential impact on the Bank's net profit and available-for-sale reserves from an increase or decrease in relevant foreign exchange rates.

	5-year rolling average movement in exchange rate %	Fair value through profit or loss share investments € million	Available for-sale share investments € million	Total share investments € million	Impact on net profit € million	Impact on available- for-sale reserves € million
Croatian kuna	1.4	953	121	1,074	13	2
Euro	_	1,014	726	1,740	_	_
Russian rouble	5.7	674	429	1,103	39	24
Romanian leu	8.2	10	687	697	1	57
United States dollar	13.0	281	582	863	36	76
Other non-euro	6.7	537	579	1,116	36	38
At 31 December 2007	_	3,469	3,124	6,593	125	197
	5-year rolling average movement in exchange rate %	Fair value through profit or loss share investments € million	Available for-sale share investments € million	Total share investments € million	Impact on net profit € million	Impact on available- for-sale reserves € million
Croatian kuna	1.6	606	12	618	12	_
Euro	_	950	700	1,650	_	_
Russian rouble	9.7	125	121	246	13	12
Romanian leu	12.1	9	560	569	1	67
United States dollar	14.3	388	624	1,012	54	88
United States dollar Other non-euro		388 322	624 636	1,012 958	54 33	88 64

Net profit for the year would increase/decrease as a result of movements in the fair value of associate share investments and high risk equity funds classified as at fair value through profit or loss. Available-for-sale reserves would increase/decrease as a result of movements in the fair value of non-associate share investments classified as available-for-sale.

Equity price risk

In terms of equity price risk, the Bank expects the effect on net profit and available-for-sale reserves will bear a linear relationship to the movement in equity indices. The table below summarises the potential impact on the Bank's net profit and available-for-sale reserves from an increase or decrease in relevant benchmark indices.

		5 year rolling average movement in benchmark index %	Fair value through profit or loss share investments € million	Available for-sale share investments € million	Total share investments € million	Impact on net profit € million	Impact on available- for-sale reserves € million
Russian Federation	RTS Index	47.9	791	671	1,462	379	322
Croatia	CROBEX Index	36.9	954	121	1.075	352	45
Romania	BET Index	45.4	160	740	900	73	336
Poland	WIG Index	31.7	217	207	424	69	65
Serbia	BELEX15 Index	48.2	318	16	334	153	8
Hungary	CHTX Index	30.9	169	165	334	52	51
Kazakhstan	KASE Index	107.5	14	257	271	15	276
Slovak Republic	SAX Index	29.0		95	95		28
Regional and other	Weighted average	45.4	846	852	1,698	384	386
At 31 December 2007	Weighted average		3.469	3.124	6.593	1.477	1,517
		5 year rolling average movement in benchmark index %	Fair value through profit or loss share investments € million	Available for-sale share investments € million	Total share investments € million	Impact on net profit € million	Impact on available- for-sale reserves € million
Russian Federation	RTS Index	51.7	372	265	637	192	137
Croatia	CROBEX Index	30.4	609	122	731	185	37
Romania	BET Index	65.0	157	593	750	102	385
Poland	WIG Index	30.3	226	264	490	68	79
Serbia	BELEX15 Index	58.0	222	20	242	129	11
Hungary	CHTX Index	35.9	94	172	266	34	62
Kazakhstan	KASE Index	112.4	1	461	462	1	518
Slovak Republic	SAX Index	30.8	34	87	121	11	27
Regional and other	Weighted average	53.5	685	669	1.354	366	360
At 31 December 2006	3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3		2,400	2,653	5,053	1,088	1,616

Net profit for the year would increase/decrease as a result of movements in the fair value of associate share investments and high risk equity funds classified as at fair value through profit or loss. Available-for-sale reserves would increase/decrease as a result of movements in the fair value of non-associate share investments classified as available-for-sale.

Market risk in the Treasury portfolio

The EBRD's market risk exposure arises from the fact that the movement of interest rates and foreign exchange rates may have an impact on positions taken by the Bank in its Treasury portfolio.

The Bank monitors its exposure to market risk in its Treasury portfolio through a combination of limits, based on Monte Carlo simulation-based eVaR, also known as Expected Shortfall, and a variety of additional risk measures. The Bank's overall eVaR limit is laid down in the Board-approved T&TRMA. Foreign exchange exposures are further constrained by a dedicated eVaR sub-limit.

Additional eVaR measures are monitored, in particular for drilling down from aggregate eVaR measures to individual market factors (marginal eVaR and VaR sensitivities). For the options portfolio, dedicated options eVaR computations are performed in order to factor in the non-linear behaviour of option instruments.

For internal monitoring purposes, eVaR is defined as the average (above a certain threshold) potential loss that could be incurred due to adverse fluctuations in interest rates and foreign exchange rates over a one-day trading horizon and computed with a 95 per cent confidence level. For enhanced comparability across institutions, numbers disclosed in this financial report are also VaR-based and scaled up to a 99 per cent confidence level over a ten-trading-day horizon.

Although eVaR is a more robust measure of market risk than VaR and is used to measure Treasury portfolio risk, it also remains limited by its historical framework in so far as past market events are not necessarily a perfect predictor of future unfolding scenarios. For these reasons a number of other risk measures are employed to complement eVaR and VaR data, with numbers produced using a different set of assumptions and based on a set of risk factor sensitivities. This is also to ensure that material risks are not ignored by focusing on one particular set of risk measures. Foreign exchange risk and the various types of interest rate risks, whether for outright exposures or for options, are monitored with sensitivity-based measures independently for each currency and type of option. A series of stress tests is also produced on a daily basis. These primarily encompass:

- stress-testing the options portfolio for joint large changes in the level of the price of the underlying security and that of volatility;
- analysing, for each currency separately, the profit and loss impact of large deformations in the level and shape of the yield curve; and
- producing stress tests covering the entire Treasury portfolio based on historical scenarios.

The EBRD aims to limit and manage market risks as far as possible through active asset and liability management. Interest rate risks are managed by synthetically hedging the interest rate profiles of assets and liabilities, mainly through the use of exchange-traded and OTC derivatives for hedging purposes. Exposures to foreign exchange and interest rate risks are measured and monitored daily by Risk Management to ensure compliance with authorised limits.

Interest rate and foreign exchange 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 the extent to which it is exposed to interest rate risk.

The Bank's interest rate risk measurement is complemented by accepted market techniques including VaR, spread risk and volatility risk, on which frequent management reporting takes place.

At 31 December 2007, the aggregate VaR of the Bank's Treasury portfolio, calculated by reference to a 99 per cent confidence level and over a ten-trading-day horizon, stood at €5.1 million (2006: €1.7 million). Correlation effects in the portfolio reduce the aggregate VaR below the sum of the individual VaR exposures.

The year-end VaR values denote a modest use throughout the year of the Board-approved total VaR limit for all Treasury funds, which amounts to €18.0 million (2006: €18.0 million). The average VaR over the year was €3.0 million (2006: €2.6 million), while the lowest and highest values were €1.6 million and €5.1 million respectively (2006: €1.7 million and €3.5 million).



Market risk exposure incurred by Treasury derives from positions managed either internally by Treasury or by external asset managers (EAM), participating in the euro-denominated interest rate trading programme or the US dollar-denominated mortgage backed securities programme.

Within the overall market risk exposure, the VaR of the internally managed portfolios stood at €3.1 million at the end of 2007 (2006: €0.9 million). The range during the year was between €0.7 million and €3.1 million (2006: between €0.9 million and €1.9 million). The size of the internally managed portfolio to which these figures relate was €14.5 billion at 31 December 2007 (2006: €13.7 billion).

Market risks incurred on the externally managed portfolios exhibited a year-end VaR of €0.6 million (2006: €0.3 million) for the euro-denominated programme and €2.0 million (2006: €0.7 million) for the US dollar-denominated programme. Following a review of the rationale for these externally managed portfolios undertaken by Treasury during the second half of 2007, a decision was taken to close down the euro-denominated interest rate programme with effect from 31 January 2008.

The specific contribution from foreign exchange risk to the overall VaR stood at €0.5 million at year-end (2006: €0.5 million). As in previous years, this contribution was small throughout 2007 and never exceeded €0.5 million (2006: €1.2 million). Interest rate positioning continued to represent the majority of the Bank's market risk exposure. Interest rate option exposure remained modest throughout the year especially at the end of the year, where, as in 2006, options VaR was negligible.

Equity price risk

The Bank has direct exposure to equity risk through one Treasury share investment for which the market risk is assessed on a stand-alone basis within a VaR/eVaR framework and added to the overall Treasury risk. In general, for such direct equity exposures, the risks would be monitored and reported on a regular basis. Indirect exposure to equity risk occurs in the form of linked structures that are traded on a back-to-back basis and therefore result in no outright exposure.

Commodity price risk

At 31 December 2007 the Treasury portfolio was not exposed to any commodity risk as all such transactions had been done on a back-to-back basis.

C. Liquidity risk

Liquidity risk management process

The Bank's liquidity policy is set out in the Liquidity Policy Review. This document is updated annually and approved by the Board. The overall liquidity policy within this document sets out the framework that ensures the Bank's ability to meet all its liquidity obligations in the medium term, with further details incorporated within the liquidity management guidelines as part of the Treasury Guidelines. As part of this annual review process, there is an assessment of the Bank's projected liquidity based on projected operational and financial cash flows, together with the proposed Borrowing Programme for the following year. The Bank's liquidity position is also monitored on a monthly basis by the Vice President, Risk Management.

The Bank is committed to maintaining a strong liquidity position. To ensure this, the Bank requires a minimum target liquidity ratio, based on a multi-year context, of 45 per cent of its next three years' net cash requirements, with full coverage of all committed but undisbursed project financing plus one year's debt service. This policy is implemented by maintaining liquidity in an operating target zone of 90 per cent of the next three years' net cash requirements, and 100 per cent of committed but undisbursed project financing, plus one year's debt service – above the required minimum level.

The table opposite provides an analysis of the cash flows payable on financial liabilities placed into relevant maturity groupings, based on the remaining period from the balance sheet date to the contractual maturity date. It presents the earliest maturity dates at which the Bank's counterparties have the ability to demand repayment. The figures represent undiscounted cash flows and therefore do not agree to the balance sheet.

Net settling interest rate derivatives typically include interest rate swaps and forward rate agreements. Gross settling interest rate derivatives include cross currency interest rate swaps. While the pay legs of these derivatives must be disclosed, the inflows have also been presented in the accompanying table for information purposes. Foreign exchange derivatives include currency forwards and currency swaps. As exchange traded interest rate futures and options are cash settled daily, their undiscounted future cash flows at the balance sheet date are negligible.

Financial liabilities at 31 December 2007	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 5 years € million	Over 5 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	1,432	25	22	_		1,479
Debts evidenced by certificates	1,181	1,770	2,791	6,281	11,893	23,916
Other financial liabilities	599	13	_	_	_	612
At 31 December 2007	3,212	1,808	2,813	6,281	11,893	26,007
Trading derivative cash flows						
Net settling interest rate derivatives	1	1	3	14	29	48
Gross settling interest rate derivatives – outflow	16	2	287	1,149	70	1,524
Gross settling interest rate derivatives – inflow	(12)	(2)	(287)	(1,148)	(66)	(1,515)
Foreign exchange derivatives – outflow	705	1,528	3	_	_	2,236
Foreign exchange derivatives – inflow	(692)	(1,501)	(3)	_	_	(2,196)
Credit derivatives		(1)	(1)	(2)	2	(2)
At 31 December 2007	18	27	2	13	35	95
Hedging derivative cash flows						
Net settling interest rate derivatives	3	12	9	79	(70)	33
Gross settling interest rate derivatives – outflow	64	462	779	1,209	501	3,015
Gross settling interest rate derivatives – inflow	(66)	(438)	(836)	(1,205)	(420)	(2,965)
At 31 December 2007	1	36	(48)	83	11	83
Total financial liabilities at 31 December 2007	3,231	1,871	2,767	6,377	11,939	26,185
Financial liabilities at 31 December 2006	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 5 years € million	Over 5 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions						
	1,131	59	15	_	_	1,205
Debts evidenced by certificates	1,131 908	59 1,443	15 2,873	- 5,180	- 13,592	1,205 23,996
Debts evidenced by certificates Other financial liabilities		1,443 4	2,873 -			23,996 884
· · · · · · · · · · · · · · · · · · ·	908	1,443	2,873	5,180	13,592	23,996
Other financial liabilities At 31 December 2006 Trading derivative cash flows	908 880 2,919	1,443 4 1,506	2,873 - 2,888	5,180 - 5,180	13,592 - 13,592	23,996 884 26,085
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives	908 880 2,919	1,443 4 1,506	2,873 - 2,888	5,180 - 5,180	13,592 - 13,592 35	23,996 884 26,085
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow	908 880 2,919 4 2	1,443 4 1,506	2,873 - 2,888 4 23	5,180 - 5,180 13 474	13,592 - 13,592 35 21	23,996 884 26,085 57 521
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow	908 880 2,919 4 2 (3)	1,443 4 1,506 1 1 (1)	2,873 - 2,888 4 23 (24)	5,180 - 5,180 13 474 (464)	13,592 - 13,592 35 21 (20)	23,996 884 26,085 57 521 (512)
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow	908 880 2,919 4 2 (3) 172	1,443 4 1,506 1 1 (1) 680	2,873 - 2,888 4 23 (24) 5	5,180 - 5,180 13 474 (464) -	13,592 - 13,592 35 21 (20)	23,996 884 26,085 57 521 (512) 857
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow Foreign exchange derivatives – inflow	908 880 2,919 4 2 (3)	1,443 4 1,506 1 1 (1) 680 (664)	2,873 - 2,888 4 23 (24) 5 (4)	5,180 - 5,180 13 474 (464) - -	13,592 - 13,592 35 21 (20) -	23,996 884 26,085 57 521 (512) 857 (837)
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow Foreign exchange derivatives – inflow Credit derivatives	908 880 2,919 4 2 (3) 172 (169)	1,443 4 1,506 1 1 (1) 680 (664) 1	2,873 - 2,888 4 23 (24) 5 (4) 2	5,180 - 5,180 13 474 (464) - - 9	13,592 - 13,592 35 21 (20) - - 2	23,996 884 26,085 57 521 (512) 857 (837)
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow Foreign exchange derivatives – inflow	908 880 2,919 4 2 (3) 172	1,443 4 1,506 1 1 (1) 680 (664)	2,873 - 2,888 4 23 (24) 5 (4)	5,180 - 5,180 13 474 (464) - -	13,592 - 13,592 35 21 (20) -	23,996 884 26,085 57 521 (512) 857 (837)
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow Foreign exchange derivatives – inflow Credit derivatives	908 880 2,919 4 2 (3) 172 (169)	1,443 4 1,506 1 1 (1) 680 (664) 1	2,873 - 2,888 4 23 (24) 5 (4) 2	5,180 - 5,180 13 474 (464) - - 9	13,592 - 13,592 35 21 (20) - - 2	23,996 884 26,085 57 521 (512) 857 (837)
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow Foreign exchange derivatives – inflow Credit derivatives At 31 December 2006	908 880 2,919 4 2 (3) 172 (169)	1,443 4 1,506 1 1 (1) 680 (664) 1	2,873 - 2,888 4 23 (24) 5 (4) 2	5,180 - 5,180 13 474 (464) - - 9	13,592 - 13,592 35 21 (20) - - 2	23,996 884 26,085 57 521 (512) 857 (837)
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow Foreign exchange derivatives – inflow Credit derivatives At 31 December 2006 Hedging derivative cash flows	908 880 2,919 4 2 (3) 172 (169) - 6	1,443 4 1,506 1 1 (1) 680 (664) 1	2,873 - 2,888 4 23 (24) 5 (4) 2 6	5,180 - 5,180 13 474 (464) - - 9 32	13,592 - 13,592 35 21 (20) - - 2 38	23,996 884 26,085 57 521 (512) 857 (837) 14
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow Foreign exchange derivatives – inflow Credit derivatives At 31 December 2006 Hedging derivative cash flows Net settling interest rate derivatives	908 880 2,919 4 2 (3) 172 (169) - 6	1,443 4 1,506 1 1 (1) 680 (664) 1 18	2,873 - 2,888 4 23 (24) 5 (4) 2 6	5,180 - 5,180 13 474 (464) - - 9 32	13,592 - 13,592 35 21 (20) - - 2 38	23,996 884 26,085 57 521 (512) 857 (837) 14 100
Other financial liabilities At 31 December 2006 Trading derivative cash flows Net settling interest rate derivatives Gross settling interest rate derivatives – outflow Gross settling interest rate derivatives – inflow Foreign exchange derivatives – outflow Foreign exchange derivatives – inflow Credit derivatives At 31 December 2006 Hedging derivative cash flows Net settling interest rate derivatives – outflow Gross settling interest rate derivatives – outflow	908 880 2,919 4 2 (3) 172 (169) - 6	1,443 4 1,506 1 1 (1) 680 (664) 1 18	2,873 - 2,888 4 23 (24) 5 (4) 2 6	5,180 - 5,180 13 474 (464) - - 9 32 45 1,118	13,592 - 13,592 35 21 (20) - - 2 38 (15) 764	23,996 884 26,085 57 521 (512) 857 (837) 14 100

Operational risk[®]

The EBRD defines operational risk as all aspects of risk-related exposure other than those falling within the scope of credit, market and liquidity risk. This includes the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and reputational risk. Examples include:

- errors or failures in transaction support systems and inadequate disaster recovery planning, including errors in the mathematical formulae of pricing or hedging models, or in the computation of the fair value of transactions;
- external events;
- damage to the EBRD's name and reputation, either directly by adverse comments or indirectly;
- errors or omissions in the processing and settlement of transactions, whether in the areas of execution, booking or settlement or due to inadequate legal documentation;
- errors in the reporting of financial results or failures in controls, such as unidentified limit excesses or unauthorised trading/trading outside policies; and
- dependency on a limited number of key personnel, inadequate or insufficient staff training or skill levels.

The EBRD has a low tolerance for material losses arising from operational risk exposures. Where material operational risks are identified (that is, those that may lead to material loss if not mitigated), appropriate mitigation and control measures are put in place after a careful weighing of the risk/return trade off. Maintaining the EBRD's reputation is of paramount importance and reputational risk has therefore been included in the Bank's definition of operational risk. The EBRD will always try to take all reasonable and practical steps to safeguard its reputation.

Within the EBRD, there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the EBRD's high standards of business ethics and its established system of internal controls, checks and balances and segregation of duties. These are supplemented with:

- the EBRD's Codes of Conduct;
- disaster recovery/contingency planning;
- the Public Information Policy;
- client and project integrity due diligence procedures, including anti-money-laundering measures;
- procedures for reporting and investigating suspected staff misconduct, including fraud;
- I information management policy; and
- procurement and purchasing policies, including the detection of corrupt practices in procurement.

Responsibility for developing the operational risk framework and for monitoring its implementation resides within the Risk Management Vice Presidency. Risk Management is responsible for the overall framework and structure to support line managers who control and manage operational risk as part of their day-to-day activities. Risk Management drafts proposals for discussion and review to the Operational Risk Management Group (ORMG), which implements the operational risk management policies and techniques throughout the Bank.

The ORMG is chaired by the Vice President, Risk Management and its membership comprises senior managers across the EBRD who have been identified as potentially facing the most operational risk within their day-to-day activities. The ORMG's task is to develop and coordinate the EBRD's approach to managing operational risk, and to ensure that it is widely implemented across all areas of the EBRD.

⁸ This has been provided for information purposes only and does not form part of the financial statements. As such the information is unaudited.

The EBRD's current operational risk framework includes an agreed definition (see above), the categorisation of different loss type events to capture the EBRD's exposure to operational risk, a group of key risk indicators to measure such risks and the identification of specific operational risks through an annual self assessment exercise. Departments within the EBRD identify their operational risk exposures and evaluate the mitigating controls that help to reduce the inherent or pre-control risk. Each operational risk is assessed for its impact, according to a defined value scale and the likelihood of occurrence, based on a frequency-by-time range. Following the conclusion of the self assessment exercise, a series of challenge meetings based on product or risk type lines and across departments are held to validate the results and to increase consistency between departments.

Another element of the EBRD's operational risk management framework is loss data – both internal and external. The EBRD collects internal operational risk incident data as reported by departments primarily to improve the control environment by taking into account the cost of control strengthening and perceived potential future losses. The EBRD is a member of an external loss database where members "pool" operational risk incident information over a monetary threshold. This will provide the EBRD with access to a depth of information wider than its own experience and supplements analysis undertaken on internal incidents reported.

Risk Management Systems Programme[®]

The Bank is in the process of implementing a Risk Management Systems Programme ("the Programme"). This Programme will establish a Bank-wide credit exposure and portfolio risk measurement framework. This framework will support a scenario-consistent approach to the measurement of exposures through scenario and time, a consistent methodology for the measurement of credit portfolio risk across Banking and Treasury products, and the calculation of VaR and eVaR across both portfolios.

The Programme comprises several distinct but integrated systems projects. The core element is the implementation of a new single risk platform encompassing both the Treasury and Banking portfolio, designed to model the Bank's exposures on a consistent basis across the portfolios as well as modelling the overall portfolio credit and market risk. The ancillary projects include a replacement system for limit management and Treasury credit risk control workflows, and a new system to generate cash flows for the Banking portfolio. Operational processes surrounding the new systems, methodologies and data maintenance are being put in place. Furthermore, the Programme includes non-system elements, such as a change in the approach to the risk rating of Banking portfolio exposures to comply with Basel recommendations and to facilitate credit risk modelling. Some of the systems implemented under the Programme will supersede models currently in use.

The Programme preparation started in early 2006. Implementation is phased and the last phase is expected to be completed by the end of 2009. Phases completed during 2007 included the selection of the risk engine platform, the limit management and workflow system and the implementation of the counterparty hierarchy system. Phases ongoing at the end of 2007 included the implementation of the risk engine platform, initially for market risk on the Treasury portfolio; the limit management and workflow module; the Banking asset cash flow generation system; and the revision of credit risk rating approach for the Banking portfolio.

Capital management

The Bank's original authorised share capital was €10.0 billion. Under Resolution No. 59, adopted on 15 April 1996, the Board of Governors approved a doubling of the Bank's authorised capital stock to €20.0 billion. This increase allowed the Bank to continue to implement its operational strategy on a sustainable basis. The Bank does not have any other classes of capital.

The Bank's capital usage is guided by statutory and financial policy parameters. Article 12 of the Agreement Establishing the Bank limits the total amount of outstanding loans, equity investments and guarantees made by the Bank in its countries of operations to the total amount of the Bank's unimpaired subscribed capital, reserves and surpluses, establishing a 1:1 gearing ratio. Article 12 also limits the total amount of disbursed share investments to the total amount of the Bank's unimpaired paid-in subscribed capital, surpluses and general reserve. At 31 December 2007 the Bank's gearing ratio was 80 per cent (2006: 76 per cent). No capital utilisation limits were breached during the year (2006: nil).

In accordance with the requirements of Article 5.3 of the Agreement, the Board of Governors shall review the capital stock of the Bank at intervals of not more than five years. In 2006 the Bank concluded a review of its capital stock as part of the Third Capital Resources Review (CRR3). This included an analysis of the transition impact and operational activity of the Bank; an assessment of the economic outlook and transition challenges in the region; the formulation of the medium-term portfolio development strategy and objectives; and a detailed analysis of the Bank's projected future financial performance and capital adequacy.

The Bank's headroom measure of capital adequacy has traditionally been reviewed and supplemented with a risk-based analysis using both (i) regulatory capital guidelines of the Basel II Capital Accord and (ii) a proxy for economic capital based on the Bank's Risk Capital Model. On this basis the CRR3 analysis showed that the Bank should have sufficient capital to implement its operational strategy over the 2006-10 period within the stated risk and financial assumptions. The review underlined that the Bank relies on a strong capital base and stressed the need for prudent financial policies that support conservative provisioning, strong liquidity and long term profitability. This is intended to enable the Bank to sustain its operational activity, taking account of significant medium-term risks arising from its projects, from uncertainty in some sectors and countries of operations, and from the volatility of the financial markets.

The Bank is currently developing an improved economic capital framework based on an holistic approach to quantifying all the risks the Bank is exposed to. In addition, a review of the current interpretation of the statutory gearing ratio is also underway as part of the Bank's 2007 net income allocation decision making process.

Classification and fair value of financial assets and liabilities

The table below sets out the Bank's financial assets and liabilities in accordance with IAS 39 categories.

	Held for trading	Designated at fair value through profit or loss	Derivatives held for hedging purposes	Loans and receivables	Available- for-sale	Financial liabilities at amortised cost	Carrying amount
At 31 December 2007	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets							
Placements with and advances to credit institutions	_		_	4,514		_	4,514
Collateralised placements	_	_	_	1.818	_	_	1.818
Debt securities	477	1.024	_		6,873	_	8,374
Derivative financial instruments	390		1,571	_	_	_	1,961
Other financial assets	_	510		315	_	_	825
Loan investments	_	_	_	8.985	_	_	8.985
Provisions for impairment of loan investments	_	_	_	(124)	_	_	(124
Banking share investments	_	3.469	_	_	3.124	_	6.593
Treasury share investments	_	_	_	_	47	_	47
Paid in capital receivable	_	_	_	100	_	_	100
Total financial assets	867	5,003	1,571	15,608	10,044	_	33,093
Financial liabilities Amounts owed to credit institutions		_	_			(1,462)	(1,462)
Debts evidenced by certificates						(16,209)	(16,209)
						(16,209)	
Derivative financial instruments Other financial liabilities	(299)	(616)	(332)			(383)	(631)
	(299)	(/				(/	
Total financial liabilities	(299)	(616)	(332)			(18,054)	(19,301)
		Designated	Derivatives			Financial	
		at fair value	held for			liabilities at	
	Held for	through	hedging	Loans and	Available-	amortised	Carrying
At 31 December 2006	trading € million	profit or loss € million	purposes € million	receivables € million	for-sale € million	cost € million	amount € million
Financial assets							
Placements with and advances to credit institutions		_	_	3,135	_		3,135
Collateralised placements				2,573			2,573
Debt securities	864	900	_	_	6,831	_	8,595
Derivative financial instruments	305	_	1,825		_		2,130
Other financial assets	_	731	_	263	_	_	994
Loan investments	_	_	_	8,311	_	_	8,311
Provisions for impairment of loan investments	_	_	_	(341)	_	_	(341)
Banking share investments	_	2,400	_	_	2,653	_	5,053
Paid in capital receivable	_	_	_	192	_	_	192
Total financial assets	1,169	4,031	1,825	14,133	9,484	_	30,642
Financial liabilities							
Amounts owed to credit institutions			_			(1,194)	(1,194
Debts evidenced by certificates						(15,622)	(15,622)
Derivative financial instruments	(80)		(426)			(15,622)	(506
Other financial liabilities	(80)	(889)	(420)			(308)	(1,197
Total financial liabilities	(80)	(889)	(426)			(17,124)	(18,519)
TOTAL IIIIAIIGIAI IIAVIIILIES	(80)	(009)	(420)			(11,124)	(10,519

The Bank's balance sheet approximates to fair value in all financial asset and liability categories, with the exception of collateralised placements and Banking fixed rate loans where interest rate risk has been hedged on a portfolio basis. The fair value of collateralised placements in 2007 was €66 million above the current balance sheet value (2006: €24 million above). The Bank does not hedge account for fixed rate loans where the interest rate is hedged on a portfolio basis and therefore the underlying changes to the fair value of these assets are not recognised on the balance sheet. At 31 December 2007, the fair value of these loans was €18 million above the current balance sheet value (2006: €12 million above).

"Debts evidenced by certificates" represents the Bank's borrowing activities executed through the issuance of commercial paper and bonds. Due to the short-tenor nature of commercial paper, amortised cost approximates fair value. Bonds are measured under hedge accounting rules due to their linkage with interest rate and currency swaps. The hedged values of the bonds are not traded in an open market and are therefore valued through valuation techniques in which all observable market data that could influence the required valuations, namely benchmark interest rates (LIBOR or equivalent) and foreign currency exchange rates, has been incorporated. See Note 21 on "Debts evidenced by certificates" for information on the hedged fair value adjustment. The Bank considers that the fair value of its "debts evidenced by certificates" approximates to the reported hedged fair value as the Bank's credit rating has remained unchanged from the date of issuance of its bonds and therefore its borrowing credit spread has remained stable.

NOTES TO THE FINANCIAL STATEMENTS

1. Establishment of the Bank

i Agreement Establishing the Bank

The European Bank for Reconstruction and Development ("the Bank"), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 ("the Agreement"). At 31 December 2007, the Bank's shareholders comprised 61 countries, together with the European Community and the European Investment Bank.

ii Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected with the Bank in the United Kingdom are defined in the Headquarters Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Bank ("Headquarters Agreement"). The Headquarters Agreement was signed in London at the start of the Bank's operations on 15 April 1991.

2. Segment information

Business segments

For management purposes, the business of the Bank comprises primarily Banking and Treasury operations. Banking activities represent investments in projects which, in accordance with the Agreement, are made for the purpose of assisting the countries of operations in their transition to a market economy, while applying sound banking principles. The main investment products are loans, share investments and guarantees. Treasury activities include raising debt finance, investing surplus liquidity, managing the Bank's foreign exchange and interest rate risks and assisting clients in asset and liability management matters.

Primary reporting format - business segment

	Banking 2007 € million	Treasury 2007 € million	Aggregated 2007 € million	Banking 2006 € million	Treasury 2006 € million	Aggregated 2006 € million
Interest income	594	694	1,288	515	545	1,060
Other income	1,438	(8)	1,430	2,195	24	2,219
Fair value movement on paid-in capital receivable and associated hedges ¹	4	1	5	5	_	5
Total segment revenue	2,036	687	2,723	2,715	569	3,284
Less interest expenses and similar charges ²	(497)	(643)	(1,140)	(370)	(485)	(855)
Allocation of the return on capital 1,2	381	42	423	226	26	252
Fair value movement on non-qualifying and ineffective hedges	_	(72)	(72)	_	(14)	(14)
Less general administrative expenses	(221)	(19)	(240)	(195)	(17)	(212)
Less depreciation and amortisation	(10)	(1)	(11)	(12)	(1)	(13)
Segment result before provisions	1,689	(6)	1,683	2,364	78	2,442
Provisions for impairment of loan investments	201	_	201	(53)	_	(53)
Net profit/(loss) for the year	1,890	(6)	1,884	2,311	78	2,389
Segment assets ³	15,838	17,237	33,075	13,309	17,190	30,499
Paid-in capital receivable			100		-	192
Total assets			33,175			30,691
Segment liabilities						
Total liabilities	125	19,176	19,301	135	18,384	18,519
Capital expenditure	41	3	44	32	2	34

¹ Fair value movement on paid-in capital receivable and associated hedges together with the allocation of the return on capital totalled €428 million (2006: €257 million), which represented the Bank's return on net paid-in capital used in segmental results.

Interest expenses and similar charges together with the allocation of the return on capital totalled €717 million (2006: €603 million). This represented the Bank's "Interest expenses and similar charges" as reported in the income statement.

³ Treasury assets include €14.7 billion of assets under Treasury management and €2.5 billion of Treasury related derivative financial instruments and other financial assets.

Secondary reporting format – geographical segment

The Bank's activities are divided into four regions for internal management purposes.

	Segment revenue 2007 € million	Segment revenue 2006 € million	Segment assets 2007 € million	Segment assets 2006 € million
Advanced countries ¹	554	837	4,670	4,359
Early/Intermediate countries ²	537	1,468	6,494	5,405
Russian Federation	945	410	4,674	3,545
OECD (Treasury operations)	687	569	17,237	17,190
Total	2,723	3,284	33,075	30,499

¹ Advanced countries are Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.

3. Net interest income

	2007 € million	2006 € million
	Cililiion	CIIIIIIOII
Interest and similar income:		
Loans to customers	594	515
Debt securities	339	307
Collateralised placements	100	89
Reverse repurchase agreements	93	59
Cash and short term funds	100	67
Other	67	28
Interest and similar income	1,293	1,065
Interest expenses and similar charges:		
Debts evidenced by certificates	(687)	(602)
Other	(30)	(1)
Interest expenses and similar charges	(717)	(603)
Net interest income	576	462

Interest income accrued on impaired available-for-sale debt securities at 31 December 2007 was 0.4 million (2006: 0.4 million). Interest income accrued on impaired loan investments at 31 December 2007 was 0.4 million (2006: 0.4 million).

4. Net fee and commission income

The main components of net fee and commission income are as follows:

	2007	2006
	€ million	€ million
Appraisal fees	4	3
Trade finance fees	4	7
Repayment fees	3	3
Syndication fees	3	3
Other	2	1
Equity fund fee expenses	(2)	(2)
Net fee and commission income	14	15

Front-end and commitment fees of €51 million (2006: €43 million) received in 2007, together with related direct costs of €7 million (2006: €6 million), have been deferred on the balance sheet. They will be recognised in interest income over the period from disbursement to repayment of the related loan, in accordance with IAS 18. In 2007, €18 million (2006: €10 million) of previously deferred fees and direct costs were recognised in interest income.

² Early/Intermediate countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

5. Net gains from share investments at fair value through profit or loss

	2007 € million	2006 € million
Net unrealised gains from associate share investments and high-risk equity funds	870	731
Net realised gains from associate share investments and high-risk equity funds	298	143
Net unrealised (losses)/gains from equity related derivatives	(97)	23
Net realised gains from equity related derivatives	_	1
Net gains from share investments at fair value through profit or loss	1,071	898

6. Net gains from available-for-sale share investments

	2007 € million	2006 € million
Net realised gains from available-for-sale share investments	255	1,194
Recoveries of previously recognised impairment losses	22	7
Impairment losses from available-for-sale share investments	(11)	(6)
Net gains from available-for-sale share investments	266	1,195

7. Net (losses)/gains from available-for-sale Treasury assets

	2007 € million	2006 € million
Realised gains from available-for-sale Treasury assets	1	6
Recoveries of previously recognised impairment losses on debt securities	1	14
Impairment losses from available-for-sale Treasury assets	(3)	(4)
Net (losses)/gains from available-for-sale Treasury assets	(1)	16

8. Net (losses)/gains from dealing activities at fair value through profit or loss

	2007 € million	2006 € million
Debt buy-backs	1	6
Internally managed dealing portfolio held for trading	12	2
Internally managed dealing portfolio designated at fair value through profit or loss	(17)	(1)
Externally managed dealing portfolio designated at fair value through profit or loss	(4)	_
Net (losses)/gains from dealing activities at fair value through profit or loss	(8)	7

Net losses on the dealing portfolio include both realised and unrealised gains or losses, together with associated interest income and expense.

9. Fair value movement on non-qualifying and ineffective hedges

The hedging practices and accounting treatment are disclosed under "Derivative financial instruments and hedge accounting" in the Accounting policies on page 15.

Fair value movement on non-qualifying and ineffective hedges

The fair value movement on non-qualifying and ineffective hedges represents an accounting adjustment in respect of hedging relationships undertaken by the Bank that either do not qualify for hedge accounting or do not fully offset when measured in accordance with IFRS. This unrealised adjustment does not reflect the economic substance as the reported losses would not be realised in cash flow terms were the hedging relationships to be terminated. The adjustment will reverse over time as the underlying deals approach their maturities. Under IFRS, the instruments within these hedging relationships are subject to different valuation methodologies. In particular, a pricing component of currency swaps (known as the cross-currency basis spread) is not applied to the related hedged bond. This component is a feature of supply and demand requirements for other currencies relative to the US dollar. Such differences can create hedge ineffectiveness or hedge failures under IFRS, the combined effect of which is reported within this line of the income statement.

In 2007 a loss of €72 million was incurred (2006: loss of €14 million). These losses were sustained mostly in quarter two, when one large hedge failure created a loss of €31 million, and in quarter four when the turbulent market conditions caused a widening of cross-currency basis spreads in a number of the funding currencies in which the Bank issues bonds. In particular, this affected the South African rand and New Zealand dollar currencies, where the spread widening caused combined negative hedge ineffectiveness of €22 million.

The gains on the hedged items in 2007 were €337 million (2006: €269 million) while the losses on the associated hedging instruments were €403 million (2006: €287 million), creating a net loss of €66 million on one-to-one hedge relationships for which the Bank applies hedge accounting. A further loss of €6 million (2006: gain of €4 million) was attributable to derivatives employed to hedge interest rate risk on the Bank's loan portfolio and for which the Bank does not apply hedge accounting.

Cash flow hedges

The Bank hedges on an annual basis to minimise the exchange rate risk associated with incurring administrative expenses in sterling. At 31 December 2007 no cash flow hedges were in place. In 2007 and 2006 there was no ineffectiveness recognised in the income statement arising from cash flow hedges.

10. General administrative expenses

	2007 € million	2006 € million
Personnel costs	156	141
Overhead expenses net of government grants	91	77
General administrative expenses	247	218
Deferral of direct costs related to loan origination and commitment maintenance	(7)	(6)
Net general administrative expenses	240	212

The average number of staff included in personnel costs during the year were: 1,035 headquarters staff (2006: 995), 278 locally hired staff in Resident Offices (2006: 247), 85 contract staff, comprising special contract staff, interns/short-term staff and locally hired general service contract staff (2006: 96), and 76 Board of Directors personnel (2006: 76). Some 61 staff members were externally funded (2006: 75).

Staff numbers at 31 December 2007 consisted of: 1,052 headquarters staff (comprising regular and analyst staff in Bank departments and Board support staff) (2006: 1,018), 295 locally hired staff in Resident Offices (2006: 261), 88 contract staff (2006: 81), comprising 12 special contract staff (2006: 16), 53 interns/short-term staff (2006: 41) and 23 locally hired general service contract staff (2006: 24), and 76 Board of Directors personnel (2006: 75). Some 58 staff members were externally funded (2006: 64). In addition, the Russia Small Business Fund engaged 45 Project Bureau staff (2006: 74) on projects in the Russian Federation.

The following fees for work performed by the Bank's external auditors were included in overhead expenses:

Audit and assurance services	2007 € 000	2006 € 000
Auth and addutance defined	0 000	0 000
Services as auditors of the Bank	253	260
Retirement plan audit	22	23
Internal controls framework assurance	131	134
Tax recovery audit	8	8
Audit and assurance services	414	425

Sterling general administrative expenses totalled £167 million (2006: £150 million).

Direct costs of €7 million (2006: €6 million) relating to loan origination and commitment maintenance in 2007, together with received front-end and commitment fees of €51 million (2006: €43 million), have been deferred on the balance sheet in accordance with IAS 18. These figures will be recognised in interest income over the period from disbursement to repayment of the related loan.

11. Provisions for impairment of loan investments

(Release)/charge for the year	2007 € million	2006 € million
Portfolio provisions for the unidentified impairment of loan investments:		
Non-sovereign loan investments	(207)	52
Sovereign loan investments	(9)	_
Specific provisions for the identified impairment of loan investments ¹	15	1
Provisions for impairment of loan investments	(201)	53

¹ During the year, new specific provisions for the identified impairment of loan investments of €21 million (2006: €13 million) were made and €6 million (2006: €12 million) were released. This resulted in a net charge to the income statement of €15 million (2006: €1 million).

At 31 December	124	341
Release against amounts written off	2	(15)
Foreign exchange adjustments	(18)	(20)
(Release)/charge for the year	(201)	53
At 1 January	341	323
Movement in provisions	2007 € million	2006 € million

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Portiollo	provisions	tor the	unidentified	impairment	or loan	investments:

Non-sovereign loan investments	86	309
Sovereign loan investments	5	14
Specific provisions for the identified impairment of loan investments	33	18
At 31 December	124	341

12. Placements with and advances to credit institutions

Analysed between	2007 € million	2006 € million
Current	4,508	3,129
Non-current	6	6
At 31 December	4,514	3,135

13. Collateralised placements

Analysed between	2007 € million	2006 € million
Current	679	1,403
Non-current	1,139	1,170
At 31 December	1,818	2,573

14. Debt securities

Debt securities at 31 December	8,374	8,595
At 31 December	6,873	6,831
less cumulative impairment losses	(61)	(66)
Available-for-sale portfolio	6,934	6,897
Available-for-sale		
At 31 December	1,501	1,764
Externally managed funds at fair value through profit or loss	537	605
Debt securities at fair value through profit or loss	487	295
Debt securities held for trading	477	864
Dealing portfolio at fair value through profit or loss	2007 € million	2006 € million

	2007	2006
Analysed between	€ million	€ million
O	4.405	4 057
Current	1,125	1,057
Non-current	7,249	7,538
Debt securities at 31 December	8,374	8,595
	2007	2006
Movement in cumulative impairment losses	€ million	€ million
At 1 January	66	90
Charge for the year	3	4
Amounts recovered during the year	(1)	(14)
Foreign exchange adjustments	(7)	(9)
Amounts written off during the year	_	(5)
At 31 December	61	66

15. Other financial assets

	2007	2006
	€ million	€ million
Fair value of derivatives held for hedging	1,571	1,825
Fair value of derivatives held for trading	390	305
Externally managed funds at fair value through profit or loss	510	731
Interest receivable	235	187
Other	80	76
At 31 December	2,786	3,124
Analysed between		
Current	1,676	1,464
Non-current	1,110	1,660
At 31 December	2,786	3,124

16. Loan investments

Operating assets	2007 Sovereign Ioans € million	2007 Non-sovereign loans € million	2007 Total Ioans € million	2006 Sovereign Ioans € million	2006 Non-sovereign Ioans € million	2006 Total Ioans € million
At 1 January	1,977	6,334	8,311	2,037	5,782	7,819
Movement in fair value revaluation ¹	_	(4)	(4)	_	(6)	(6)
Disbursements	446	3,486	3,932	434	3,770	4,204
Repayments and prepayments	(370)	(2,442)	(2,812)	(358)	(2,887)	(3,245)
Foreign exchange movements	(119)	(295)	(414)	(129)	(284)	(413)
Movement in net deferral of front end fees and related direct costs	(6)	(20)	(26)	(7)	(20)	(27)
Written off	_	(2)	(2)	_	(21)	(21)
At 31 December	1,928	7,057	8,985	1,977	6,334	8,311
Impairment at 31 December	(5)	(119)	(124)	(14)	(327)	(341)
Total operating assets net of impairment at 31 December	1,923	6,938	8,861	1,963	6,007	7,970

Analysed between		
Current	2,165	1,660
Non-current	6,696	6,310
Total operating assets net of impairment at 31 December	8,861	7,970

¹ The movement in fair value revaluation relates to those fixed rate loans that form part of a qualifying hedge relationship with a derivative position and as such are re-measured to fair value in respect of interest rate risk.

At 31 December 2007, the Bank categorised 12 loans as impaired, with operating assets totalling €37 million (2006: 9 loans totalling €19 million). Specific provisions on these assets amounted to €33 million (2006: €18 million).

17. Share investments

	Fair value through profit or loss unlisted share investments € million	Fair value through profit or loss listed share investments € million	Fair value through profit or loss total share investments € million	Available- for-sale unlisted share investments € million	Available- for-sale listed share investments € million	Available- for-sale total share investments € million	Total share investments € million
Outstanding disbursements							
At 31 December 2005	1,030	126	1,156	593	423	1,016	2,172
Transfer between classes ¹	2	_	2	(14)	12	(2)	_
Disbursements	228	123	351	327	128	455	806
Disposals	(197)	(9)	(206)	(247)	(74)	(321)	(527)
Written off	(28)	_	(28)	_	_	_	(28)
At 31 December 2006	1,035	240	1,275	659	489	1,148	2,423
Transfer between classes ¹	(8)	15	7	(69)	62	(7)	
Disbursements	391	5	396	479	158	(7) 637	1,033
Disposals	(193)		(193)	(98)	(72)	(170)	(363)
Written off	(5)		(5)	(2)	(12)	(3)	(8)
At 31 December 2007	1,220	260	1.480	969	636	1.605	3,085
At 01 Describer 2001	1,220	200	2,400	303		1,000	0,000
Fair value adjustment							
At 31 December 2005	242	152	394	704	909	1,613	2,007
Transfer between classes ¹	(8)	8	_	_	_	_	_
Movement in fair value revaluation	324	407	731	(602)	493	(109)	622
Impairment of available-for-sale share investments	_	_	_	1	_	1	1
At 31 December 2006	558	567	1,125	103	1,402	1,505	2,630
Transfer between classes ¹	(6)	_	(6)	7	(1)	6	_
Movement in fair value revaluation	438	432	870	143	(146)	(3)	867
Impairment of available-for-sale share investments	_	_	_	4	7	11	11
At 31 December 2007	990	999	1,989	257	1,262	1,519	3,508
Fair value at 31 December 2007	2,210	1,259	3,469	1,226	1,898	3,124	6,593
Fair value at 31 December 2006	1,593	807	2,400	762	1,891	2,653	5,053

¹ Transfer between classes includes the reclassification of available-for-sale share investments upon an increase in the Bank's holding to between 20 and 50 per cent. The Bank designates these associate share investments at fair value through profit or loss under the venture capital exemption within IAS 28, Investments in Associates.

At 31 December 2007, the Bank categorised 10 available-for-sale share investments as impaired, with outstanding disbursements totalling €34 million (2006: 13 available-for-sale share investments totalling €79 million).

Listed below are all share investments where the Bank owned greater than or equal to 20 per cent of the investee share capital at 31 December 2007 and where the fair value of the Bank's total investment exceeded €40 million.

	% Ownership
Lafarge Slovenia	44
MPF Lafarge: Romcim	38
Connex	35
Dalkia Lodz Cogeneration Privatisation	35
Winterthur MPF	35
Baring Vostok Private Equity Fund	32
Center – Invest Bank	27
Accession Fund	25
Komercijalna Banka	25
Privredna Banka Zagreb	21

18. Intangible assets

	Computer software development costs 2007 € million	Computer software development costs 2006 € million
Cost		
At 1 January	76	63
Additions	26	13
At 31 December	102	76
Amortisation		
At 1 January	55	47
Charge	8	8
At 31 December	63	55
Net book value at 31 December	39	21

19. Property, technology and office equipment

	Property 2007 € million	Property under construction 2007 € million	Technology and office equipment 2007 € million	Total 2007 € million	Property 2006 € million	Property under construction 2006 € million	Technology and office equipment 2006 € million	Total 2006 € million
Cost								
At 1 January	8	23	26	57	64	4	35	103
Additions	13	1	4	18	_	19	2	21
Transfers	18	(22)	4	_	_	_	_	_
Disposals	_	_	(1)	(1)	(56)	_	(11)	(67)
At 31 December	39	2	33	74	8	23	26	57
Depreciation								
At 1 January	6	_	23	29	59	_	32	91
Charge	1	_	2	3	3	_	2	5
Disposals	_	_	(1)	(1)	(56)	_	(11)	(67)
At 31 December	7	_	24	31	6	_	23	29
Net book value at 31 December	32	2	9	43	2	23	3	28

Property includes fixtures and fittings.

20. Borrowings

A CONTRACTOR OF THE CONTRACTOR	2007	2006
Amounts owed to credit institutions	€ million	€ million
Current	1,462	1,194
Debts evidenced by certificates	2007	2006
Analysed between Analysed between	€ million	€ million
Current	6,101	4,778
Non-current	10,108	10,844
Debts evidenced by certificates at 31 December	16,209	15,622
Borrowings at 31 December	17,671	16,816

There were no defaults or breaches on financial liabilities during 2007 (2006: nil).

21. Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates and related fair value hedging swaps are further summarised below:

	Principal at nominal value € million	Hedge accounting adjustment € million	Adjusted principal value € million	Currency swaps payable/ (receivable) € million	Net currency obligations 2007 € million	Net currency obligations 2006 € million
Australian dollars	572	200	772	(772)	_	_
Canadian dollars	35	8	43	(43)	_	_
Czech koruna	151	(49)	102	(102)	_	_
Euro	1,305	15	1,320	636	1,956	1,976
Hungarian forints	74	(3)	71	(70)	1	2
Icelandic krona	100	(1)	99	(99)	_	_
Japanese yen	2,028	(79)	1,949	(1,856)	93	278
Mexican peso	200	-	200	(200)	_	_
New Taiwan dollars	218	(2)	216	(216)	_	_
New Turkish lira	179	(19)	160	(160)	_	_
New Zealand dollars	1,422	(17)	1,405	(1,405)	_	_
Polish zloty	181	(2)	179	(179)	_	_
Russian roubles	644	(4)	640	64	704	484
Slovak koruna	18	7	25	(25)	_	_
South African rands	2,155	(331)	1,824	(1,824)	_	_
Sterling	2,553	331	2,884	(1,033)	1,851	2,084
United States dollars	4,224	96	4,320	7,284	11,604	10,798
At 31 December	16,059	150	16,209		16,209	15,622

Where the swap counterparty exercises a right to terminate the hedging swap prior to legal maturity, the Bank is committed to exercise the same right with its issued bond.

During the year the Bank redeemed €40 million of bonds and medium-term notes prior to maturity (2006: €89 million), generating a net gain of €1 million (2006: €6 million).

22. Other financial liabilities

	2007 € million	2006 € million
Fair value of derivatives held for hedging purposes	332	426
Fair value of derivatives held for trading	299	80
Externally managed funds at fair value through profit or loss	616	889
Interest payable	172	152
Other	211	156
At 31 December	1,630	1,703
Analysed between		
Current	1,332	1,486
Non-current	298	217
At 31 December	1,630	1,703

A change in the Bank's credit rating does not have an impact on the carrying amount of externally managed fund liabilities designated at fair value through profit or loss.

23. Subscribed capital

	2007 Number of shares	2007 Total € million	2006 Number of shares	2006 Total € million
Authorised share capital	2,000,000	20,000	2,000,000	20,000
of which				
Subscriptions by members – initial capital	992,175	9,922	992,175	9,922
Subscriptions by members – capital increase	987,175	9,872	987,175	9,872
Subscribed capital	1,979,350	19,794	1,979,350	19,794
Unsubscribed capital	20,650	206	20,650	206
At 31 December	2,000,000	20,000	2,000,000	20,000

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of €10,000. Payment for the paid-in shares subscribed to by members is made over a period of years determined in advance. Article 6.4 of the Agreement states that payment of the amount subscribed to the callable capital is subject to call by the Bank, taking account of Articles 17 and 42 of the Agreement, only as and when required by the Bank to meet its liabilities. Article 42.1 states that in the event of the termination of the Bank's operations, the liability of all members for all uncalled subscriptions to the capital stock will continue until all claims of creditors, including all contingent claims, have been discharged.

The Agreement allows for a member to withdraw from the Bank, in which case the Bank is required to repurchase the former member's shares. No member has ever withdrawn its membership, nor has any indicated to the Bank that it is intending to do so. The stability in the membership reflects the fact that the members are 61 countries and two inter-governmental organisations, and that the purpose of the Bank is to foster the transition process in politically qualifying countries from central Europe to central Asia. Moreover, there is a financial disincentive to withdrawing membership. The upper limit of the amount of the repurchase price of the former member's shares is the amount of its paid-in capital, yet a former member remains liable for its direct obligations and its contingent liabilities to the Bank for as long as any part of the loans, equity investments or guarantees contracted before it ceased to be a member are outstanding. Were a member to withdraw from the Bank, the Bank would be able to impose conditions and set dates in respect of payments for shares repurchased. If, for example, paying a former member would have adverse consequences for the Bank's financial position, the Bank could defer payment until the risk had passed, and indefinitely if appropriate. If a payment was then made to a former member, the member would be required to repay, on demand, the amount by which the repurchase price would have been reduced if the losses for which the former member remained liable had been taken into account at the time of payment.

Under the Agreement, payment for the paid-in shares of the original capital stock subscribed to by members was made in five equal annual instalments. Of each instalment, up to 50 per cent was payable in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the subscribing member and payable to the Bank at par value upon demand. Under Resolution No. 59, payment for the paid-in shares subscribed to by members under the capital increase is to be made in eight equal annual instalments. A member may pay up to 60 per cent of each instalment in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the member and payable to the Bank at par value upon demand. The Board of Directors agreed a policy of encashment in three equal annual instalments for promissory notes relating to initial capital, and five equal annual instalments for promissory notes relating to the capital increase.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the amount of unallocated shares and votes, is set out in the following table. Under Article 29 of the Agreement, the voting rights of members that have failed to pay any part of the amounts due in respect of their capital subscription are proportionately reduced until payment is made.

23. Subscribed capital (continued)

Members	Statement of capital subscriptions	Total shares	Resulting votes ¹	Total	Callable capital	Paid-in
Name	At 31 December 2007			capital € million		capital € million
Name	Memhers					
tymenia 1,000 900 10 7 tustria 45,000 45,000 200 120 148 5 tustria 45,000 45,000 456 336 12 testnia 4,000 4,000 400 300 1 testnia 4,000 4,000 400 300 1 testnia 4,000 4,000 400 300 1 testnia 5,000 15,000 158 316 1 testnia 6,000 15,000 158 110 4 testnia 7,292 7,292 72 34 1 Tonatia 7,292 7,292 72 34 1 Tonatia 7,292 7,292 72 34 1 Tonatia 7,292 72 2 34 1 Tonatia 2,000 1,000 150 15 15 15 15 15 15 15	Albania	2,000	1,557	20	15	5
Mustring 45,600 45,600 456 336 12 2 2 3 3 3 3 3 3 3	Armenia					3
Name	Australia	20,000	20,000	200	148	52
Selarus	Austria	45,600	45,600	456	336	120
Selguim	Azerbaijan					5
Searing and Mercegovina 1,880 13,80 138 25	Belarus					10
Bulgaria	-					120
Cambar						8 42
						18
Zeech Republic 17,068 17,068 17,0 125 44 17 125 44 17 6 Egypt 2,000 1,750 20 15 Egypt 2,000 1,750 20 15 Egypt 2,000 2,000 2,000 20 15 Egypt 2,000 2,000 2,000 600 442 15 European Community 60,000 60,000 600 442 15 European Community 60,000 60,000 600 442 15 European Community 60,000 60,000 600 442 15 Finded 15,000 25,000 250 184 40 15 Finded 16,000 60,000 40 41 10 Finded 16,000 30 17,04 1,257 44 40 <t< td=""><td></td><td></td><td></td><td></td><td></td><td>5</td></t<>						5
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Estonis	Denmark					63
Estonia 2,000 2,000 20 15 15 15 15 15 15 15	Egypt	2,000	1,750	20	15	5
European Investment Bank 60,000 60,000 600 442 115 116 1	Estonia	2,000	2,000	20	15	5
Finish	European Community	60,000	60,000	600	442	158
1,382	European Investment Bank	60,000	60,000	600	442	158
Prance 170,380	Finland	25,000	25,000	250	184	66
Seorgia	Former Yugoslav Republic of Macedonia		· · · · · · · · · · · · · · · · · · ·			4
Semany 170,350	France					447
Serece	Georgia					5
Hungary 15,800 15,800 158 116 4 Peciand 2,000 2,000 20 15 Periand 13,000 13,000 130 98 3 Statel 170,350 170,350 1,704 1,257 44 Agam 170,350 170,350 1,704 1,257 44 Agam 170,350 170,350 1,704 1,257 44 Agam 4,600 4,600 46 34 1 Forea, Republic of 2,000 2,000 200 147 5 Forea, Republic of 2,000 2,000 200 147 5 Forea, Republic of 2,000 2,000 2,000 20 15 Lichtenstein 400 400 4 3 Lichtenstein 400 3,910 40 29 1 Malta 2,000 2,000 2,000 20 15 Lichtenstein 400 3,910 40 29 1 Malta 2,000 2,000 2,000 20 15 Lichtenstein 400 3,910 40 29 1 Malta 2,000 2,000 20 2 1 Malta 2,000 2,000 20 2 1 Mexico 3,000 3,000 30 21 Mondoro 2,000 2,000 20 15 Mondoro 2,000 2,000 20 15 Mondoro 3,000 3,000 30 21 Mondoro 4,000 4,000 4 3 Morocco 1,000 1,000 10 7 Metherlands 49,600 49,600 496 366 13 Morocco 1,000 1,000 10 7 Monteneggo 25,600 25,600 256 184 6 Portugal 8,400 8,400 84 62 2 Romania 9,600 78,200 800 590 21 Serbia 9,800 78,200 800 590 21 Serbia 8,534 8,534 8,534 85 63 2 Siovenia 4,196 4,196 42 31 1 Spain 5,600 45,6						447
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Luxembourg 4,000 3,910 40 29 1 Malta 200 200 2 1 Mexico 3,000 3,000 30 21 Moldova 2,000 1,096 20 15 Mongolia 200 200 2 1 Morrecco 1,000 1,000 10 7 Netherlands 49,600 49,600 496 366 13 New Zealand 1,000 1,000 10 7 Norvay 25,000 25,000 250 184 66 Poland 25,600 25,600 256 189 6 Poland 9,600 9,600 96 71 2 Roward 8,000 8,400 84 62 2 Roward 9,600 9,600 96 71 2 2 Roward 9,600 9,600 96 71 2 2 2 2	Liechtenstein					1
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Russian Federation 80,000 78,200 800 590 21 Serbia 9,350 8,508 94 69 2 Slovak Republic 8,534 8,534 85 63 2 Slovenia 4,196 4,196 42 31 1 Spain 68,000 68,000 680 501 17 Sweden 45,600 45,600 456 336 12 Switzerland 45,600 45,600 456 336 12 Turkey 23,000 261 20 15 Turkey 23,000 23,000 230 170 6 Turkenistan 200 139 2 1 Ukraine 16,000 15,600 160 118 4 United Kingdom 170,350 1,704 1,257 44 United States of America 200,000 199,996 2,000 1,475 52 Uzbekistan 4,200 3,863 <td>Portugal</td> <td>8,400</td> <td>8,400</td> <td>84</td> <td>62</td> <td>22</td>	Portugal	8,400	8,400	84	62	22
Serbia 9,350 8,508 94 69 2 Slovak Republic 8,534 8,534 85 63 2 Slovenia 4,196 4,196 42 31 1 Spain 68,000 68,000 680 501 17 Sweden 45,600 45,600 456 336 12 Switzerland 45,600 45,600 456 336 12 Tajikistan 2,000 261 20 15 Turkey 23,000 23,000 230 170 6 Turkmenistan 200 139 2 1 Ukraine 16,000 15,600 160 118 4 United Kingdom 170,350 170,350 1,704 1,257 44 United States of America 200,000 199,996 2,000 1,475 52 Uzbekistan 4,200 3,863 42 31 1	Romania	9,600	9,600	96	71	25
Slovak Republic 8,534 8,534 8,534 85 63 2 Slovenia 4,196 4,196 42 31 1 Spain 68,000 68,000 680 501 17 Sweden 45,600 45,600 456 336 12 Switzerland 45,600 45,600 456 336 12 Tajikistan 2,000 261 20 15 Turkey 23,000 23,000 230 170 6 Turkmenistan 200 139 2 1 Uhited Kingdom 170,350 17,04 1,257 44 United States of America 200,000 199,996 2,000 1,475 52 Uzbekistan 4,200 3,863 42 31 1	Russian Federation					210
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Turkey 23,000 23,000 230 170 6 Turkmenistan 200 139 2 1 Ukraine 16,000 15,600 160 118 4 United Kingdom 170,350 170,350 1,704 1,257 44 United States of America 200,000 199,996 2,000 1,475 52 Uzbekistan 4,200 3,863 42 31 1						120 5
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Ukraine 16,000 15,600 160 118 4 United Kingdom 170,350 170,350 1,704 1,257 44 United States of America 200,000 199,996 2,000 1,475 52 Uzbekistan 4,200 3,863 42 31 1	*					1
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United States of America 200,000 199,996 2,000 1,475 52 Uzbekistan 4,200 3,863 42 31 1						447
Uzbekistan 4,200 3,863 42 31 1	United States of America					525
Capital subscribed by members 1,979,350 1,969,271 19,794 14,596 5,19	Uzbekistan					11
	Capital subscribed by members	1,979,350	1,969,271	19,794	14,596	5,198

Voting rights are restricted for non-payment of amounts due in respect of the member's obligations in relation to paid-in shares. Total votes before restrictions amount to 1,979,350 (2006: 1,979,350).

24. Reserves and retained earnings

At 1 January 293 292 292 292 292 292 293 292 293 292 293 2		2007 € million	2006 € million
At 1 January 215 188 Qualifying fees and commissions 17 27 At 31 December 232 215 Loan loss reserve 25 25 At 1 January 293 292 Transferred from retained earnings 11 11 14 304 293 General reserve – other reserve 298 292 205 202 205 202 205 202 205 202 205 202 205 202 205 202 205 202 205 202 205 202 205 202 205 202 204 203 202 203 202 203 202 202 204 203 202 202 203 202 202 202 203 202 2	Snecial reserve		
Qualifying fees and commissions 17 27 At 31 December 232 215 Loan loss reserve 4t 1 January 293 292 Transferred from retained earnings 11 1	··	215	188
Act 31 December Act 31 Dec			
Loan loss reserve Loan loss reserve 293 292			
At 1 January 293 292 292 292 292 292 293 292 293 292 293 2	A. 02 200011100	202	210
Transferred from retained earnings 11 1 At 31 December 304 293 General reserve other reserve Revaluation reserve Revaluation reserve 2,042 2,145 At 1 January 2,042 2,145 589 590 589 590 589 580	Loan loss reserve		
Act 31 December Say	At 1 January	293	292
Revaluation reserve Att 1 January 2,042 2,145 Net glosses //gains from changes in fair value 7 6 Net glains transferred to net profit due to impairment 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glains transferred to net profit on disposal 7 6 Net glain transferred to net profit on disposal 7 6 Net glain transferred to net profit on the year 7 6 Net glain transferred to net profit on the year 7 6 Net glain transferred to net profit on the year 7 6 Net glain transferred to net profit on the year 7 6 Net glain transferred to net profit for the year 7 6 Net glain transferred to net profit for the year 7 6 Net glain transferred to net profit on the year 7 6 Net glain transferred to net profit on the year 7 6 Net glain transferred to net profit on the year 7 6 Net glain transferred to net profit on the profit on the year 7 6 Net glain transferred to ne	Transferred from retained earnings	11	1
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At 1 January	General reserve – other reserve		
Net (losses)/gains from changes in fair value (73) 589 Net losses transferred to net profit due to impairment 7 6 Net gains transferred to net profit due to impairment 1,855 2,042 At 31 December 1,855 2,042 Hedging reserve – cash flow hedges — — — At 1 January — — — (Losses)/gains from changes in fair value recognised in equity (4) 1 Losses/(gains) removed from equity and included in general and administrative expenses 4 (1 At 31 December — — — Other — — — At 1 January 162 151 151 Internal tax for the year 5 4 At 31 December 172 162 At 31 December 172 162 General reserve – other reserve at 31 December 2,027 2,204 General reserve – retained earnings 4 1,204 At 1 January 4,262 1,908 Qualifying fees and commissions 1,71	Revaluation reserve		
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Net gains transferred to net profit on disposal (121) (698 At 31 December 1,855 2,042 Hedging reserve – cash flow hedges 4 4 4t 1 January - - Closses//gains from changes in fair value recognised in equity 4 (1 At 31 December - - Other - - At 1 January 162 151 Internal tax for the year 5 4 Transferred from retained earnings 5 7 At 31 December 172 162 General reserve – other reserve at 31 December 2,027 2,204 General reserve – retained earnings 4 4 5 7 General reserve – retained earnings 4 262 1,908 Qualifying fees and commissions (17) (27 Transferred to general reserve (5) (7 Transferred to general reserve (5) (7 Transferred to general reserve – retained earnings at 31 December (5) (7 Transferred to loan	Net (losses)/gains from changes in fair value	(73)	589
At 31 December 1,855 2,042 Hedging reserve – cash flow hedges At 1 January – – (Losses)/gains from changes in fair value recognised in equity (4) 1 Losses/(gains) removed from equity and included in general and administrative expenses 4 (1 At 31 December – – Other – – At 1 January 162 151 Internal tax for the year 5 4 Transferred from retained earnings 5 7 At 31 December 172 162 General reserve – other reserve at 31 December 2,027 2,204 General reserve – retained earnings 171 (27 Gualifying fees and commissions (17) (27 Transferred to general reserve (5) (7 Transferred to loan loss reserve (5) (7 Transferred to loan loss reserve 1,884 2,389 General reserve – retained earnings at 31 December 6,113 4,262	Net losses transferred to net profit due to impairment	7	6
Hedging reserve - cash flow hedges	Net gains transferred to net profit on disposal	(121)	(698)
At 1 January (Losses)/gains from changes in fair value recognised in equity (A) 1 1 1 Losses/(gains) removed from equity and included in general and administrative expenses At 31 December Other At 1 January At 31 December 5 4 Transferred from retained earnings 5 7 At 31 December General reserve – other reserve at 31 December 2,027 2,204 General reserve – retained earnings 4,262 1,908 At 1 January Qualifying fees and commissions (17) (27) Transferred to general reserve (5) (7) Transferred to general reserve (11) (1) Net profit for the year General reserve – retained earnings at 31 December 6,113 4,262 General reserve – retained earnings at 31 December 6,113 4,262	At 31 December	1,855	2,042
At 1 January (Losses)/gains from changes in fair value recognised in equity (A) 1 1 1 Losses/(gains) removed from equity and included in general and administrative expenses At 31 December Other At 1 January At 31 December At 4 January At 4 January At 4 January At 5 January At 6 January At 1 January At 3 January At 3 January At 3 January At 4 January At 4 January At 3 January At 3 January At 4 January At 3 January At 4 January At 3 January At 4 January At 3 January At 4 January At 4 January At 4 January At 4 January At 5 January At 5 January At 6 January At 6 January At 6 January At 6 January At 7 January At 7 January At 1 January At 1 January At 1 January At 2 January At 1 January At 2 January At 1 January At 2 January At 1 January At 3 January At 1 January At 2 January At 1 January At 2 January At 1 January At 1 January At 1 January At 2 January At 2 January At 2 January At 2 January At 3 January At 1 January At 1 January At 2 January At 1 January At 1 January At 2 January At 1 January At 2 January At 1 Janu	Hedging reserve - cash flow hedges		
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Internal tax for the year 5		162	151
Transferred from retained earnings 5 7 At 31 December 172 162 General reserve – other reserve at 31 December 2,027 2,204 General reserve – retained earnings 4 262 1,908 At 1 January 4,262 1,908 1,908 1,202 Qualifying fees and commissions (17) (27 (27 (27 (27 (27 (27 (27 (28 (· · · · · · · · · · · · · · · · · · ·		
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General reserve – other reserve at 31 December General reserve – retained earnings At 1 January Qualifying fees and commissions Qualifying fees and commissi	At 31 December		162
General reserve – retained earnings At 1 January 4,262 1,908 Qualifying fees and commissions (17) (27 Transferred to general reserve (5) (7 Transferred to loan loss reserve (11) (1 Net profit for the year 1,884 2,389 General reserve – retained earnings at 31 December 6,113 4,262			
At 1 January 4,262 1,908 Qualifying fees and commissions (17) (27 Transferred to general reserve (5) (7 Transferred to loan loss reserve (11) (1 Net profit for the year 1,884 2,389 General reserve – retained earnings at 31 December 6,113 4,262	General reserve – other reserve at 31 December	2,027	2,204
At 1 January 4,262 1,908 Qualifying fees and commissions (17) (27 Transferred to general reserve (5) (7 Transferred to loan loss reserve (11) (1 Net profit for the year 1,884 2,389 General reserve – retained earnings at 31 December 6,113 4,262	Conoral receive - retained earnings		
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Transferred to loan loss reserve (11) (1 Net profit for the year General reserve – retained earnings at 31 December 6,113 4,262	- , ,	\ /	
Net profit for the year General reserve – retained earnings at 31 December 4,262		()	
General reserve – retained earnings at 31 December 6,113 4,262		\ /	
Total reserves and retained earnings at 31 December 8,676 6,974	actional records of things at an accompany	0,220	7,202
	Total reserves and retained earnings at 31 December	8,676	6,974

The **general reserve** includes the retention of internal tax paid in accordance with Article 53 of the Agreement Establishing the Bank. This requires that all Directors, Alternate Directors, officers and employees of the Bank be subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank and which is retained for its benefit. The balance at the end of the year relating to internal tax was €66 million (2006: €61 million). The general reserve includes the effect of restating the Bank's paid-in capital receivable to a present value basis. Capital receivable and reserves will be accreted back to their future value by 2009 when the final capital instalment is due. The unwinding of the balance sheet reduction will be recognised in the income statement during this period and a transfer from retained earnings to general reserves processed to reflect this.

The **special reserve** is maintained, in accordance with the Agreement, for meeting certain defined losses of the Bank. The special reserve has been established, in accordance with the Bank's financial policies, by setting aside 100 per cent of qualifying fees and commissions received by the Bank associated with loans, guarantees and underwriting the sale of securities, until such time as the Board of Directors decides that the size of the special reserve is adequate. In accordance with the Agreement, €17 million (2006: €27 million) of qualifying fees and commissions recognised in the income statement was appropriated in 2007 from the profit for the year and set aside to the special reserve.

In 2005, the Bank created a **loan loss reserve** within members' equity, to set aside an amount of retained earnings equal to the difference between the impairment losses expected over the life of the loan portfolio and the amount recognised through the Bank's income statement on an incurred loss basis.

	2007	2006
Reserves and retained earnings	€ million	€ million
Special reserve	232	215
Loan loss reserve	304	293
Unrealised gains	3,686	3,092
Total restricted reserves	4,222	3,600
Unrestricted general reserves	4,454	3,374
oniestricted general reserves	-,-5-	3,374
At 31 December	8,676	6,974

The Bank's reserves are used in a number of prudential ratio calculations as well as in determining, in accordance with the Agreement Establishing the Bank, when distributions shall be made to its members. For the purposes of these calculations, the Bank uses unrestricted general reserves to reflect the conservative and prudent financial management practices of the Bank.

Article 36 of the Agreement Establishing the Bank relates to the allocation and distribution of the Bank's net income and states: "No such allocation, and no distribution, shall be made until the general reserve amounts to at least ten (10) per cent of the authorised capital stock". This threshold is currently €2.0 billion and was exceeded for the first time during 2006. A decision in relation to the allocation of the Bank's net income will be taken by the Governors at the Bank's annual meeting in May 2008.

25. Undrawn commitments and guarantees

	0007	0000
Analysis by instrument	2007 € million	2006
Analysis by instrument	€ million	€ million
Undrawn commitments		
Loans	5,193	5,287
Share investments	1,570	1,044
At 31 December	6,763	6,331
Guarantees		
Trade finance guarantees¹	238	293
Other guarantees ²	116	145
At 31 December	354	438
Undrawn commitments and guarantees at 31 December	7,117	6,769

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

26. Operating lease commitments

The Bank leases its headquarters building in London and certain of its Resident Office buildings in countries of operations. These are standard operating leases and include renewal options, periodic escalation clauses and are mostly non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant lease is that for the Bank's headquarters building. Rent payable under the terms of this lease is reviewed every five years and is based on market rates. The last review was conducted in January 2007.

Minimum future lease payments under long-term non-cancellable operating leases and payments made under such leases during the year are shown below.

Payable	2007 € million	2006 € million
Not later than one year	28	30
Later than one year and not later than five years	108	115
Later than five years	256	306
At 31 December	392	451
Expenditure	26	26

² Other guarantees include unfunded full or partial risk participations.

27. Staff retirement schemes

Defined benefit scheme

A qualified actuary performs a full actuarial valuation of the defined benefit scheme at least every three years using the projected unit method. For IAS 19 purposes this is rolled forward annually to 31 December. The most recent valuation date was 30 June 2005. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Amounts recognised in the balance sheet are as follows:

	2007 € million	2006 € million
	€ IIIIIIOII	€ 1111111011
Fair value of plan assets	154	153
Present value of the defined benefit obligation	(126)	(136)
	28	17
Unrecognised actuarial losses ¹	7	19
Prepayment at 31 December	35	36
Movement in the prepayment (included in "Other assets"):		
At 1 January	36	25
Exchange differences	(3)	1
Contributions paid	16	24
Total expense as below	(14)	(14)
At 31 December	35	36
The amounts recognised in the income statement are as follows:		
	/d = \	(4.0)
Current service cost	(17)	(16)
Interest cost	(7)	(6)
Expected return on assets ²	10	9
Amortisation of actuarial loss	_	(1)
Total included in staff costs	(14)	(14)

¹ These unrecognised actuarial losses represent the cumulative effect of the historical differences between the actuarial assumptions used in the production of these disclosures and the actual experience of the plan. The primary historical causes of the losses are an overall lower-than-expected investment return on plan assets, and a historical decline in the discount rate used to value the plan's liabilities.

Principal actuarial assumptions used:

	2007	2006
Discount rate	5.80%	5.10%
Expected return on plan assets	7.00%	6.75%
Future salary increases	4.75%	4.25%
Average remaining working life of employees	15 years	15 years

Actuarial gains and losses in excess of a corridor (10 per cent of the greater of assets or liabilities) are amortised over the remaining working life of employees.

Actual asset allocation	2007 € million	Expected return per annum	2006 € million	Expected return per annum
Equities	79	8.80%	86	8.70%
Index-linked bonds	54	4.60%	52	4.30%
Commodities	8	4.60%	7	4.30%
Derivatives	7	4.60%	7	4.30%
Cash	6	4.60%	1	5.00%
Total	154	7.00%	153	6.75%

 $^{^{2}~}$ The actual return on assets during the year was €16 million (2006: €11 million).

Changes in the present value of the defined benefit obligation				2007 € million	2006 € million
changes in the present value of the defined benefit obligation				e illillion	& IIIIIIOII
Present value of defined benefit obligation at 1 January				136	122
Service cost				17	16
Interest cost				7	6
Effect of exchange rate movement				(13)	3
Actuarial loss arising due to changes in assumptions and experience				(4)	3
Benefits/disbursements paid				(17)	(14)
Present value of defined benefit obligation at 31 December				126	136
				2007	2006
Changes in the fair value of plan assets are as follows:				€ million	€ million
Oneming fair value of plan coasts				153	128
Opening fair value of plan assets Expected return				10	9
_ '				6	3
Asset gain arising during the year				(14)	3
Effect of exchange rate movement Contributions paid				16	24
· · · · · · · · · · · · · · · · · · ·					
Benefits/disbursements paid				(17) 154	(14)
Total				154	153
	2007	2006	2005	2004	2003
History of experience gains and losses	€ million	€ million	€ million	€ million	€ million
Defined benefit obligation	126	136	122	90	75
Plan assets	154	153	128	101	84
Surplus	28	17	6	11	9
Experience (losses)/gains on plan liabilities:					
Amount	(4)	3	7	3	1
Percentage of the present value of the plan liabilities	(3.6%)	1.4%	6.9%	3.2%	1.0%
Actual return less expected return on plan assets:	(01070)		2.070		
Amount	6	3	14	4	11
Percentage of the present value of the plan assets	3.9%	1.3%	11.0%	3.6%	12.4%
. o.comago of the process value of the plan access	3.070	1.070	11.070	0.070	12.170

Defined contribution scheme

The charge recognised under the defined contribution scheme was €9 million (2006: €9 million) and is included in "General administrative expenses".

28. Related parties

The Bank has the following related parties:

Key management personnel

In sterling terms, salaries and other short-term benefits paid to key management personnel in 2007 amounted to £6 million (2006: £6 million). Key management personnel do not receive post-employment benefits, other long-term benefits, termination benefits or share-based payments.

Key management personnel comprise: the President and Vice Presidents; members of the Bank's Executive Committee; Business Group Directors; Corporate Directors; the Treasurer; the Director, Risk Management; the Controller; the Director of Human Resources; the Head of Internal Audit and the CCO.

Venture capital associates

The Bank has a number of venture capital associates that it accounts for at fair value through profit or loss. At 31 December 2007, according to unaudited management information or the most recently audited financial statements from the investee companies, these venture capital associates had total assets of approximately €22.6 billion (2006: €29.1 billion) and total liabilities of approximately €10.1 billion (2006: €17.9 billion). For the year ended 31 December 2007, these associates had revenue of €3.2 billion (2006: €7.3 billion) and made a net profit of approximately €624 million (2006: €563 million).

In addition, the EBRD has provided €114 million (2006: €48 million) of financing to these companies on which it received €1 million (2006: €3 million) of interest income in the year.

Special funds

Special funds are established in accordance with Article 18 of the Agreement establishing the Bank and are administered under the terms of rules and regulations approved by the Bank's Board of Directors. At 31 December 2007 the Bank administered 14 Special Funds: 11 Investment Special Funds and three Technical Cooperation Special Funds. Extracts from the audited financial statements of the Special Funds, together with a summary of contributions pledged by donor country, are included under the "Summary of Special Funds" on page 57.

29. Other fund agreements

In addition to the Bank's ordinary operations and the Special Funds programme, the Bank administers numerous bilateral and multilateral grant agreements to provide technical assistance and investment support in its countries of operations. These agreements focus primarily on project preparation, project implementation (including goods and works), advisory services and training. The resources provided by these fund agreements are held separately from the ordinary capital resources of the Bank and are subject to external audit.

At 31 December 2007, the Bank administered 149 technical cooperation fund agreements (2006: 133) amounting to an aggregate of €961 million (2006: €919 million). Of this pledged amount, funds received at 31 December 2007 totalled €911 million. The total uncommitted balance of the funds at 31 December 2007 was €82 million. In addition, the Bank administered 87 project-specific technical cooperation agreements totalling €55 million.

For the specific purpose of co-financing EBRD projects, the Bank also administered 21 investment cooperation fund agreements totalling €119 million, and two EU Pre-accession Preparation Funds totalling €35 million.

Following a proposal by the G-7 countries for a multilateral programme of action to improve safety in nuclear power plants in the countries of operations, the Nuclear Safety Account (NSA) was established by the Bank in March 1993. The NSA funds are in the form of grants and are used for funding immediate safety improvement measures. At 31 December 2007, 16 contributors had made pledges totalling €274 million, using the fixed exchange rates defined in the rules of the NSA.

At their Denver Summit in June 1997, the G-7 countries and the EU endorsed the setting up of the Chernobyl Shelter Fund (CSF). The CSF was established on 7 November 1997, when the rules of the CSF were approved by the Board. It became operational on 8 December 1997, when the required eight contributors had entered into contribution agreements with the Bank. The objective of the CSF is to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system. At 31 December 2007, 24 contributors had made pledges totalling €713 million using the fixed exchange rates defined in the rules of the CSF.

In 1999, in pursuit of their policy to accede to the EU, Lithuania, Bulgaria and the Slovak Republic gave firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 reactors by certain dates. In response to this, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants over a period of eight to ten years, and invited the Bank to administer three International Decommissioning Support Funds (IDSFs). On 12 June 2000, the Bank's Board of Directors approved the rules of the Ignalina, Kozloduy and Bohunice IDSFs and the role of the Bank as their administrator. The funds will finance selective projects to help carry out the first phase of decommissioning the designated reactors. They will also finance measures to facilitate the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency that are a consequence of the closure decisions. At 31 December 2007, 16 contributors had made pledges to the Ignalina IDSF totalling €589 million; 11 contributors had made pledges to the Kozloduy IDSF totalling €429 million; and nine contributors had made pledges to the Bohunice IDSF totalling, using the fixed exchange rates defined in the rules of the funds.

In 2001, the Nordic Investment Bank hosted a meeting with participants from Belgium, Finland, Sweden, the European Commission and international financial institutions with activities in the Northern Dimension Area (NDA). At this meeting, participants agreed to establish the Northern Dimension Environmental Partnership (NDEP) to strengthen and coordinate financing of important environmental projects with cross-border effects in the NDA. On 11 December 2001, the Bank's Board of Directors approved the rules of the NDEP Support Fund and the role of the Bank as fund manager. At 31 December 2007, 11 contributors had made pledges totalling €243 million.

Audit fees payable to the Bank's auditors for the 2007 audits of the technical cooperation and nuclear safety funds totalled €335,000 (2006: €320,000). In addition, during 2007 the Bank's auditors, on a global basis, earned €0.4 million (2006: €0.2 million) in respect of due diligence and general business consultancy services funded by the technical cooperation funds. This represented 0.1 per cent of the total spend in 2007 (2006: 0.3 per cent) by the technical cooperation funds on services from consultancy providers in support of the Bank's investments in the countries of operations. These consultancy contracts are awarded in accordance with the Bank's standard procurement rules. Payments to the auditors for consulting and advisory services during the period of audit appointment are recorded on a cash basis and reflect payments to the firm of PricewaterhouseCoopers.

30. Post-balance sheet events

Significant turbulence in the financial markets in 2008 has resulted in a decline in the fair value of the Bank's listed share investments. At 29 February 2008 the fair value of the listed share investment portfolio, net of associated derivatives, was €366 million lower than at 31 December 2007, of which €36 million has been recognised in the income statement and €330 million has been recognised in available-for-sale reserves. On 5 March 2008, the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be submitted for approval to the Annual Meeting of Governors to be held on 18 May 2008.

SUMMARY OF SPECIAL FUNDS

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered under the terms of rules and regulations approved by the Bank's Board of Directors. At 31 December 2007, the Bank administered 14 Special Funds: 11 Investment Special Funds and three Technical Cooperation Special Funds. Extracts from the audited financial statements of the Special Funds are summarised in the following tables, together with a summary of contributions pledged by donor country.

Audit fees payable to the Bank's auditors for the 2007 audit of 14 of the Special Funds totalled €89,000 (2006: €78,000).

The objectives of the Special Funds are as follows:

The Baltic Investment Special Fund and The Baltic Technical Assistance Special Fund

To promote private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania.

The Russia Small Business Investment Special Fund and The Russia Small Business Technical Cooperation Special Fund

To assist the development of small businesses in the private sector in the Russian Federation.

The Financial Intermediary Investment Special Fund

To support financial intermediaries in the countries of operations of the Bank.

The Italian Investment Special Fund

To assist the modernisation, restructuring, expansion and development of small and medium-sized enterprises in certain countries of operations of the Bank.

The SME Finance Facility Special Fund

To alleviate the financing problems of small and medium-sized enterprises in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

The Balkan Region Special Fund

To assist the reconstruction of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Romania and Serbia.

The EBRD Technical Cooperation Special Fund

To serve as a facility for financing technical cooperation projects in countries of operations of the Bank.

The EBRD SME Special Fund

To assist the development of small and medium-sized enterprises in Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

The Central Asia Risk Sharing Special Fund

To provide a risk-sharing facility for SME credit lines, micro finance programmes, the Direct Investment Facility and the Trade Facilitation Programme in the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

The Municipal Finance Facility Special Fund

To alleviate the financing problems of municipalities and their utility companies for small infrastructure investments in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

The Regional Development Initiative Special Fund

To provide a long-term contribution to sustainable socioeconomic development across Azerbaijan and Georgia.

The Romania Micro Credit Facility Special Fund

To improve access to finance for micro and small enterprises in Romania.

Accounting convention - Investment Special Funds

The financial statements for the Investment Special Funds have been prepared in accordance with the 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 for the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss.

Accounting convention - Technical Cooperation Special Funds

The financial statements for the Technical Cooperation Special Funds have been prepared under the historical cost convention. Contributions and disbursements are accounted for on a cash basis. Interest income and operating expenses are accounted for on an accruals basis.

Investment Special Funds

Extract from the income statement for the year or period ended 31 December 2007	Baltic Investment Special Fund € 000	Russia Small Business Investment Special Fund € 000	Financial Intermediary Investment Special Fund € 000	Italian Investment Special Fund € 000	
Operating profit/(loss) before provisions	114	3,191	64	(920)	
Release/(charge) for provisions for impairment of loans and guarantees		1,489	643	(64)	
Profit/(loss) for the year	114	4,680	707	(984)	
Extract from the balance sheet at 31 December 2007					
Loans	_	43.008	7.797	3.476	
Provisions for impairment	_	(1,703)	(358)	(116)	
	_	41,305	7,439	3,360	
Share investments at fair value through profit or loss			_	268	
Available-for-sale share investments	9,234	2,925	214	1,370	
	9,234	2,925	214	1,638	
Placements and other financial assets	4,911	11,169	23,550	18,698	
Contributions receivable	_	_	_	_	
Total assets	14,145	55,399	31,203	23,696	
Other financial liabilities and provisions for impairment					
and payments under guarantees	6	3,736	138	2,742	
Contributions	7,050	59,351	31,318	21,515	
Reserves and retained earnings	7,089	(7,688)	(253)	(561)	
Total liabilities and contributors' resources	14,145	55,399	31,203	23,696	
Undrawn commitments and guarantees	2,478	51,663	14,953	4,349	

Technical Cooperation Special Funds

Extract from the statement of movement in fund balance and balance sheet for the year ended 31 December 2007	Baltic Technical Assistance Special Fund € 000	Russia Small Business Technical Cooperation Special Fund € 000
Balance of fund brought forward	506	5,116
Interest and other income	19	187
Disbursements	(32)	(1,661)
Other operating expenses	(6)	(575)
Balance of fund available	487	3,067
Cumulative commitments approved	23,385	73,242
Cumulative disbursements	(23,042)	(71,208)
Allocated fund balance	343	2,034
Unallocated fund balance	144	1,033
Balance of fund available	487	3.067

Special Fund contributions pledged by donor

	Baltic Investment Special Fund € 000	Russia Small Business Investment Special Fund € 000	Financial Intermediary Investment Special Fund € 000	Italian Investment Special Fund € 000	SME Finance Facility Special Fund € 000	Balkan Region Special Fund € 000	EBRD SME Special Fund € 000
						070	
Austria						276	_
British Petroleum (BP)		_	_	_	_	_	
Canada		2,707	_			1,472	_
Denmark	1,519	_	_	_	_	750	_
European Community (EC)	_	_	_	_	197,000	_	_
Finland	1,466	_	_	_	_	_	_
France	_	7,686	_	_	_	_	_
Germany	_	9,843	_	_	_	_	_
Iceland	72	_	_	_	_	_	_
Italy	_	8,401	_	21,515	_	_	_
Japan	_	21,162	_	_	_	_	_
Netherlands	_	_	9,500	_	_	_	_
Norway	1,314	_	_	_	_	1,568	_
Romania/EC	_	_	_	_	_	_	_
Sweden	2,679	_	_	_	_	_	_
Switzerland	_	2,360	_	_	_	4,218	_
Taipei China	_	_	20,971	_	_	1,495	_
United Kingdom	_	_	_	_	_	_	_
United States of America	_	7,192	847	_	_	_	37,280
Total at 31 December 2007	7,050	59,351	31,318	21,515	197,000	9,779	37,280

SME Finance Facility Special Fund € 000	Balkan Region Special Fund € 000	EBRD SME Special Fund € 000	Central Asia Risk Sharing Special Fund € 000	Municipal Finance Facility Special Fund € 000	Regional Development Initiative Special Fund € 000	Romania Micro Credit Facility Special Fund € 000	Aggregated Investment Special Funds € 000
(4.4.504)	447	(0.0.4)	004	(4.00)	0.4	(40)	(4.0.00.4)
(14,521)	117	(884)	294	(188)	81	(42)	(12,694)
		405			(89)	(25)	2,359
(14,521)	117	(479)	294	(188)	(8)	(67)	(10,335)
	_	3,491	_	_	1,506	1,090	60,368
		(52)			(89)	(25)	(2,343)
		3,439	_	_	1,417	1,065	58,025
1,755	_	_	_	_	_	_	2,023
1,097	_	_	_	_	_	_	14,840
2,852	_	_	_	_	_	_	16,863
32,510	7,379	6,068	9,816	14,900	1,873	10,369	141,243
59,327	_	288	_	18,000	272	6,561	84,448
94,689	7,379	9,795	9,816	32,900	3,562	17,995	300,579
4,577	58	569	63	512	6	42	12,449
197,000	9,779	37,280	9,443	33,000	3,866	18,020	427,622
(106,888)	(2,458)	(28,054)	310	(612)	(310)	(67)	(139,492)
94,689	7,379	9,795	9,816	32,900	3,562	17,995	300,579
52,912	5,535	2,120	5,553	8,649	833	5,119	154,164
	,	· · · · · · · · · · · · · · · · · · ·	,			,	

	Aggregated Techr Cooperation Special Fu €	EBRD Technical Cooperation Special Fund € 000
643	5,6	21
207	2	1
693)	(1,6	_
582)	(5	(1)
575	3,!	21
699	97,6	1,072
316)	(95,3	(1,066)
383	2,3	6
192	1,1	15
575	3,5	21

Central Asia Risk Sharing Special Fund © 000	Municipal Finance Facility Special Fund € 000	Regional Development Initiative Special Fund € 000	Romania Micro Credit Facility Special Fund € 000	Baltic Technical Assistance Special Fund € 000	Russia Small Business Technical Cooperation Special Fund € 000	EBRD Technical Cooperation Special Fund € 000	Aggregated Special Funds € 000
_	_	_	_	_	_	_	276
_	_	3,866	_	_	_	_	3,866
_	_	_	_	_	4,309	_	8,488
_	_	_	_	1,271	_	_	3,540
_	33,000	_	_	_	_	-	230,000
_	_	_	_	1,238	_	_	2,704
_	_	_	_	_	4,980	_	12,666
2,389	_	_	_	_	3,025	_	15,257
_	_	_	_	61	_	_	133
_	_	_	_	_	1,360	_	31,276
_	_	_	_	_	3,295	_	24,457
_	-	_	_	_	_	-	9,500
_	_	_	_	1,101	_	_	3,983
_	_	_	18,020	_	_	_	18,020
_	_	_	_	2,249	_	_	4,928
7,054	_	_	_	_	1,244	_	14,876
_	_	_	_	_	_	_	22,466
_	_	_	_	_	12,824	247	13,071
_	_	_	_	_	29,695	_	75,014
9,443	33,000	3,866	18,020	5,920	60,732	247	494,521

RESPONSIBILITY FOR **EXTERNAL FINANCIAL REPORTING**

Management's responsibility

Management's report regarding the effectiveness of internal controls over external financial reporting

The management of the European Bank for Reconstruction and Development ("the Bank") is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in this report. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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.

The financial statements have been audited by an independent accounting firm, which has been given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. Management believes that all representations made to the external auditors during their audit were valid and appropriate. The external auditors' report accompanies the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with IFRS. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting, which are subject to scrutiny and testing by management and internal audit, and are revised as considered necessary, support the integrity and reliability of the financial statements.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statements. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Bank's Board of Directors has appointed an Audit Committee, which assists the Board in its responsibility to ensure the soundness of the Bank's accounting practices and the effective implementation of the internal controls that management has established relating to finance and accounting matters. The Audit Committee is comprised entirely of members of the Board of Directors. The Audit Committee meets periodically with management in order to review and monitor the financial, accounting and auditing procedures of the Bank and related financial reports. The external auditors and the internal auditors regularly meet with the Audit Committee, with and without other members of management being present, to discuss the adequacy of internal controls over financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.

The Bank has assessed its internal controls over external financial reporting for 2007. Management's assessment includes the Special Funds and other fund agreements referred to in pages 57-59 of the Financial Statements, and the retirement plans. However, the nature of the assessment is restricted to the controls over the reporting and disclosure of these funds, rather than the operational, accounting and administration controls in place for each fund.

The Bank's assessment was based on the criteria for effective internal control over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Based upon this assessment, management asserts that, at 31 December 2007, the Bank maintained effective internal controls over its financial reporting as contained in the Financial Statements for 2007.

The Bank's external auditors have provided an audit opinion on the fairness of the financial statements presented within this report. In addition, they have issued an attestation report on management's assessment of the Bank's internal control over financial reporting, as set out on page 61.

Jean Lemierre President

Manfred Schepers Vice President, Finance

European Bank for Reconstruction and Development

London

5 March 2008

Report of the independent auditors

To the Governors of the European Bank for Reconstruction and Development

We have audited management's assessment that the European Bank for Reconstruction and Development ("the Bank") maintained effective internal controls over financial reporting as contained in the Bank's Financial Statements, based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission. Management is responsible for maintaining effective internal controls over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assertion over the effectiveness of the Bank's internal control over financial reporting, based on our review.

We conducted our review in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised). Our review included obtaining an understanding of internal control over financial reporting, evaluating the management's assessment and performing such other procedures as we considered necessary in the circumstances. We believe that our work provides a reasonable basis for our opinion.

A bank's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal controls over financial reporting include those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with the authorisation of the bank's management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, management's assertion that the Bank maintained effective internal control over financial reporting, as contained in the Bank's Financial Statements, is fairly stated, in all material respects, based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission.

We have also audited, in accordance with International Standards on Auditing, the financial statements of the Bank and, in our report dated 5 March 2008, we have expressed an unqualified opinion.

PricewaterhouseCoopers LLP

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Chartered Accountants

London

5 March 2008

INDEPENDENT AUDITORS' REPORT

To the Governors of the European Bank for Reconstruction and Development

Report on the financial statements

We have audited the financial statements of the European Bank for Reconstruction and Development ("the Bank") for the year ended 31 December 2007 which comprise the income statement, the balance sheet, the statement of changes in members' equity, the statement of cash flows, the accounting policies, risk management (excluding the Operational risk and Risk Management Systems Programme sections on pages 36 and 37) 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.

Auditors' 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 auditors' 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 auditors consider 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 Bank 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 financial results section of the Annual Report: Financial Statements 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.

We read the other information contained in the Annual Report: Financial Statements and consider whether it is consistent with the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the highlights, financial results, additional reporting and disclosures and Summary of Special Funds. Our responsibilities do not extend to any other information.

This report, including the opinion, has been prepared for, and only for, the Board of Governors as a body in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990, 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

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Chartered Accountants

London

5 March 2008





Published by the European Bank for Reconstruction and Development

Edited by the Publishing Unit, Communications Department.

French, German and Russian language versions translated by the Translation Unit.

Designed and produced by the Design Unit.

Printed in England by Orchid Print, using environmental waste and paper recycling programmes.

Cover printed on Consort Royal and interior pages on PhoeniXmotion Xenon that is acid free and Totally Chlorine Free (TCF). These papers are environmentally responsible and have low emissions during production.



Cover photograph: Jack Hill. Central Kiev, Ukraine, host city of the EBRD's 2008 Annual Meeting.

ref: **7191**

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