European Bank
for Reconstruction and Development

The Baltic Investment Special Fund

Annual Financial Report
31 December 2015

The Baltic Investment Special Fund

Contents

The Baltic Investment Special Fund

Statement of comprehensive income

For the year ended 31 December 2015	Note	Year to 31 December 2015 € 000	Year to 31 December 2014 € 000
Net interest		**(2)**	-
Net unrealised gains from share investments		**3,031**	91
Write-off of share investments		**(2,372)**	-
Foreign exchange movement		**29**	28
Other operating expenses	3	**(8)**	(7)
Net profit and comprehensive income for the year		**678**	112
Attributable to:			
Contributors		**678**	112

Balance sheet

At 31 December 2015	Note	31 December 2015 € 000	31 December 2015 € 000	31 December 2014 € 000	31 December 2014 € 000
Assets					
Placements with credit institutions			**3,788**		3,714
Share investments	4		**680**		75
Total assets			**4,468**		3,789
Liabilities					
Audit fees payable			**8**		7
Contributors' resources					
Contributions	5	**2,650**		2,650	
Reserves and retained earnings	6	**1,810**		1,132	
Contributors' resources			**4,460**		3,782
Total liabilities			**4,468**		3,789

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Statement of changes in contributors' resources

For the year ended 31 December 2015

	Contributions	Special reserve	Retained earnings	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2013	2,650	173	847	3,670
Total comprehensive income for the year	-	-	112	112
At 31 December 2014	2,650	173	959	3,782
Total comprehensive income for the year	-	-	678	678
At 31 December 2015	**2,650**	**173**	**1,637**	**4,460**

Statement of cash flows

For the year ended 31 December 2015

	Year to 31 December 2015		Year to 31 December 2014	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit and comprehensive income for the year	**678**		112	
Adjustments for:				
Net interest	**2**		-	
Net unrealised gains from share investments	**(3,031)**		(91)	
Write-off of impaired share investments	**2,372**		-	
Foreign exchange movement	**(29)**		(28)	
	(8)		(7)	
Net interest paid	**(2)**		-	
Decrease in operating assets:				
Proceeds from sale of share investments	**54**		482	
Increase in operating liabilities:				
Audit fees payable	**1**		1	
Net cash from operating activities		**45**		476
Net increase in cash and cash equivalents		**45**		476
Cash and cash equivalents at the beginning of the year		**3,714**		3,210
Effect of foreign exchange rate changes		**29**		28
Cash and cash equivalents at 31 December		**3,788**		3,714

The Baltic Investment Special Fund

Accounting policies

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

A. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Going concern

In July 2006 the Baltic Investment Special Fund (the "Fund") was terminated by the Board of Directors of the European Bank for Reconstruction and Development ("the Bank"), following a request from the contributors to the Fund. In accordance with the Rules and Regulations ("the Rules") of the Fund, the net assets then available were returned to the contributors with provision for future distributions to occur as and when a minimum amount of €3 million becomes available (refer to note 1). This is dependent upon the Fund realising its remaining share investments. The Fund will continue to incur fees from the managers of the investments until they have been realised. These fees are not expected to be significant and the financial statements do not include any provision for the future costs of terminating the Fund, except to the extent that such costs were committed at the end of the reporting period. There are no other costs expected to be incurred in relation to termination of the Fund. Once all share investments have been realised, the Fund's remaining cash resources will be returned to the contributions regardless of whether they exceed €3 million.

The financial statements for the Fund are therefore presented on a basis other than that of a going concern as the Fund is in the process of being wound up. In such circumstances all assets and liabilities are more appropriately reported at net realisable value rather than historical cost. No material adjustments arose from ceasing to apply the going concern basis.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. For the Fund, the exercise of judgement is required for the valuation of unlisted share investments, which is explained in "Critical accounting estimates and judgements" within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period

There are no new or amended standards for the current reporting period.

IFRS not yet mandatorily effective but adopted early

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

IFRS not yet mandatorily effective and not adopted early

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

Pronouncement	Nature of change	Potential Impact
IFRS 9 Financial Instruments	Classification and measurement of financial liabilities (October 2010). Hedge accounting (November 2013). Impairment methodology and introduction of 'fair value through other comprehensive income' measurement category for financial assets represented by simple debt instruments (July 2014). IFRS 9 to be adopted in its entirety for annual reporting periods beginning on or after 1 January 2018.	The Fund is yet to assess the potential impact of adopting this standard.
Amendments to: IFRS 10: Consolidation Financial Statements and IAS 28: Investments in Associates and Joint Ventures	Provides guidance for the accounting for the loss of control of a subsidiary as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Effective for annual reporting periods beginning on or after a date to be determined by the IASB.	The Fund is yet to assess the potential impact of adopting this standard.
Amendments to: IFRS 11: Joint Arrangements	Provides guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. Effective for accounting periods beginning on or after 1 January 2016.	The Fund considers that this amendment has no applicability to its existing operations.
IFRS 15: Revenue from Contracts with Customers	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Effective for annual reporting periods beginning on or after 1 January 2018.	The Fund is yet to assess the potential impact of adopting this standard.
IFRS 16: Leases	Sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). Effective for annual reporting periods beginning on or after 1 January 2019.	The Fund considers that this amendment has no applicability to its existing operations.
Amendments to: IAS 1: Presentation of Financial Statements	Various amendments to improve presentation and disclosure under IAS 1. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund considers that this standard will have minimal impact on the presentation of its financial statements and the disclosures therein.
Amendments to: IAS 7: Statement of Cash Flows	An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Effective for annual reporting periods beginning on or after 1 January 2017.	This is a disclosure requirement only which the Fund will comply with in 2017.
Amendments to: IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets	Clarification of acceptable methods of depreciation and amortisation. Effective for annual reporting periods beginning on or after 1 January 2016.	The Fund considers that this amendment has no applicability to its existing operations.

B. Significant accounting policies

Financial assets and financial liabilities

As the Fund is in the process of being wound up, assets and liabilities are measured at fair value. In the case of cash placements, the principal equates to fair value given the short-term nature of such placements.
All of the share investments held by the Fund are measured at fair value through profit or loss.

The basis of fair value for share investments that are unlisted is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation technique used is net asset value.

The Fund's share investments are recognised on a trade date basis.

At initial recognition, the Fund measures these assets at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement. Such assets are carried at fair value on the balance sheet with changes in fair value included in the income statement in the period in which they occur.

Derecognition of financial assets

The Fund derecognises a financial asset, or a portion of a financial asset, where the contractual rights to that asset have expired or where the rights to further cash flows from the asset have been transferred to a third party and, with them, either:
(i) substantially all the risks and rewards of the asset; or
(ii) significant risks and rewards, along with the unconditional ability to sell or pledge the asset..

Contributors' resources

The Fund recognises contributions received from contributors as a liability on the basis that should a contributor choose to withdraw from the Fund, the Fund is obligated to return such contributions to the extent these are not needed to meet existing commitments and obligations of the Fund.

Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

Foreign currencies

The Fund's reporting currency for the presentation of its financial statements is the euro (€).

Foreign currency transactions are initially translated into euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement.

Interest

Interest is recorded on an accruals basis. All interest, positive and negative earned on placements with credit institutions, is recognised within 'net interest' in the income statement.

Taxation

In accordance with Article 53 of the Agreement Establishing the Bank ("the AEB"), within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those parts of taxes or duties that represent charges for public utility services. As described in note 1, this exemption is extended to the Fund.

C. Critical accounting estimates and judgements

Preparing financial statements in conformity with IFRS requires the Fund to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

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

Fair value of share investments
The Fund's method for determining the fair value of share investments is described under "Financial assets" within the accounting policies section of the report and an analysis of the share investment portfolio is provided in note 4. Where relevant market data is not available, extrapolation and interpolation of existing data has been used. A sensitivity analysis based on reasonably plausible alternative valuations has been included within note 4.

Risk management

The Fund's financial risks can be summarised as follows:

- Credit risk is limited to the financial institutions with whom the Fund places its cash which, at 31 December 2015, were accorded the Bank's second-highest internal credit rating risk category, approximating to a rating of AA+ to AA- in terms of S&P equivalent. The carrying amount of placements presented on the balance sheet represents the Fund's maximum exposure to credit risk at 31 December 2015 and 31 December 2014;
- As the Fund's placements are re-priced to market interest rates within one month, its exposure to interest rate risk is considered minimal;
- As the Fund's reporting currency is the euro, its exposure to foreign exchange risk is limited to cash and equity investments held in United States dollars, with a total equivalent value of €271,000 at year end (2014: €242,000). Based on the average five year absolute rolling average movement in the United States dollar to euro exchange rate, the potential impact on the Fund's net profit from a 5 per cent strengthening or weakening (2014: 5 per cent) is +/- €13,000 (2014: +/- €12,000);
- The Fund is exposed to equity price risk in respect of its share investments – i.e. that its portfolio will be impacted by general volatility in equity markets reflective of its investments. Based on the absolute five year average movement in the Stoxx EU Enlarged TMI index, the potential impact on the Fund's net profit from a 13 per cent movement (2014: 13 per cent) in equity prices is +/- €88,000 (2014: +/- €10,000).
- The Fund is not considered to be exposed to liquidity risk as it has no liabilities other than the obligation to return to contributors their pro rata share of net assets as they become available for distribution in accordance with the Rules of the Fund.

The Baltic Investment Special Fund

Notes to the financial statements

1. Creation and termination of the Fund

The Fund, whose objective was to promote private sector development through support for small and medium sized entities in the Baltic States, was established in accordance with Article 18 of the AEB. The Board of Directors approved its creation in April 1992 and, at the request of its contributors, terminated the Fund in July 2006. Pending the realisation and distribution of all remaining net assets in the Fund, the Fund continues to be administered, *inter alia*, in accordance with the AEB and its Rules. The Fund is not part of the ordinary capital resources of the Bank, but any privileges and immunities available to the Bank are extended to the Fund.

Net assets available to return to the contributors exceeded €3 million as at 31 December 2015. The Fund will be returning the excess in accordance with instructions from the contributors.

The Fund's principal office is located in London at One Exchange Square, EC2A 2JN.

2. President's responsibilities

The President is responsible for preparing the financial statements in accordance with IFRS issued by the IASB.

3. Other operating expenses

Other operating expenses represent external auditor's remuneration of €7,700 (2014: €7,200). The Bank pays the remuneration on behalf of the Fund, which in turn reimburses the Bank in full. At 31 December 2015 €7,700 (2014: €7,200) is payable to the Bank in relation to the 2015 external audit. In 2014 the Bank approved an extension of the term of appointment from four years to five with a maximum of two consecutive terms. Deloitte LLP (UK) completed its first four year term in 2014 and has been reappointed for the five year period 2015 - 2019.

4. Share investments

IFRS 7 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. The fair values of the Fund's share investments have been classified as Level 3, that is, those which have fair values determined by inputs not based on observable market data.

The main valuation technique used in the valuation of these share investments is net asset value. Reasonably plausible alternative valuations have been determined based on an adjustment to the portfolio discount applied to equity funds and would lead to a favourable change in value of €47,100 (2014: €4,300) and an unfavourable change in value of €56,500 (2014: €5,200).

The table below provides information about the Fund's share investments at fair value through profit or loss.

	2015	2014
	€ 000	€ 000
Outstanding disbursements		
At 1 January	**3,059**	3,541
Disposals	**(54)**	(482)
Write-off of share investments	**(2,372)**	-
At 31 December	**633**	3,059
Fair value adjustment		
At 1 January	**(2,984)**	(3,075)
Movement in fair value revaluation	**3,031**	91
At 31 December	**47**	(2,984)
Fair value at 31 December	**680**	75

5. Contributions

Contributions received are set out below.

	2015	2014	**2015**	2014
Cumulative contributions received	**€ 000**	€ 000	**%**	%
Denmark	**571**	571	**21.6**	21.6
Finland	**551**	551	**20.8**	20.8
Iceland	**27**	27	**1.0**	1.0
Norway	**494**	494	**18.6**	18.6
Sweden	**1,007**	1,007	**38.0**	38.0
At 31 December	**2,650**	2,650	**100.0**	100.0

6. Reserves

The special reserve was established, in accordance with the Rules of the Fund, to meet certain defined losses and was built up by setting aside qualifying fees and commissions associated with loans previously made by the Fund. The Fund is not making any new loans so the balance in the reserve will not change pending final distribution of the Fund's net assets to its contributors.

7. Analysis of current and non-current assets and liabilities

All assets and liabilities on the balance sheet are classified as current for both 2015 and 2014 due to the fact that the financial statements are prepared on a basis other than that of a going concern.

8. Undrawn commitments

The Fund had no undrawn share commitments at 31 December 2015 (2014: nil).

9. Events after the reporting period

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

10. Related Parties

The Fund's related parties are the Bank and the contributors.

The Bank is entitled to charge the Fund a management fee, which from time to time shall be determined by the Board of Directors. During the year ended 31 December 2015 the Fund paid the Bank no management fee for operating the Fund (2014: nil) and there was no accrued management fee payable by the Bank as at 31 December 2015 (2014: nil).

Audit fees payable to the Bank are outlined in note 3.

Contributions received from the contributors are outlined in note 5.

INDEPENDENT AUDITOR'S REPORT TO THE GOVERNORS OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT ("THE BANK")

Report on the financial statements

We have audited the financial statements of the Baltic Investment Special Fund ("the Fund") for the year ended 31 December 2015 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in contributors' resources, the statement of cash flows, the accounting policies, the risk management statement and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards as issued by the International Accounting Standards Board.

President's responsibility for the financial statements

The President is responsible for the preparation and fair presentation of the Financial Statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as the President determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion the Financial Statements present fairly, in all material respects, the financial position of the Baltic Investment Special Fund as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Emphasis of matter - Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Basis of preparation to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Other reporting responsibilities

We also report to you if, in our opinion, the Financial Statements are not in agreement with the accounting records, if the proper accounting records have not been kept, or if we have not received all the information and explanations we require for our audit. We have nothing to report in connection with these matters.

Other matters

This report, including the opinion, has been prepared for, and only for, the Bank in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990, and for the use of the contributors and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this Report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants
London, United Kingdom
6 April 2016