European Bank
for Reconstruction and Development

The Baltic Investment Special Fund

Annual Financial Report
31 December 2013

The Baltic Investment Special Fund

Contents

The Baltic Investment Special Fund

Statement of comprehensive income

For the year ended 31 December 2013

	Note	Year to 31 December 2013 € 000	Year to 31 December 2012 € 000
Interest income		-	1
Net unrealised gains/(losses) from share investments		118	(403)
Foreign exchange movement		(9)	(4)
Other operating expenses	3	(7)	(8)
Net profit/(loss) and comprehensive income/(expense) for the year		102	(414)
Attributable to:			
Contributors		102	(414)

Balance sheet

At 31 December 2013

	Note	31 December 2013 € 000	31 December 2013 € 000	31 December 2012 € 000	31 December 2012 € 000
Assets					
Placements with credit institutions			3,210		2,344
Share investments	4		466		1,230
Total assets			3,676		3,574
Liabilities					
Audit fees payable			6		6
Contributors' resources					
Contributions	5	2,650		2,650	
Reserves and retained earnings	6	1,020		918	
Total contributors' resources			3,670		3,568
Total liabilities			3,676		3,574

The Baltic Investment Special Fund

Statement of changes in contributors' resources

For the year ended 31 December 2013

	Contributions	Special reserve	Retained earnings/ (Accumulated loss)	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2011	2,650	173	1,159	3,982
Total comprehensive expense for the year	-	-	(414)	(414)
At 31 December 2012	2,650	173	745	3,568
Total comprehensive income for the year	-	-	102	102
At 31 December 2013	**2,650**	**173**	**847**	**3,670**

Statement of cash flows

For the year ended 31 December 2013

	Year to 31 December 2013		Year to 31 December 2012	
	€ 000	€ 000	€ 000	€ 000
Cash flows from operating activities				
Net profit/(loss) and comprehensive income/(expense) for the year	102		(414)	
Adjustments for:				
Interest income	-		(1)	
Net unrealised (gains)/losses on share investments	(118)		403	
Foreign exchange movement	9		4	
	(7)		(8)	
Interest income received	-		3	
Decrease/(increase) in operating assets:				
Proceeds from sale of share investments	914		791	
Funds advanced for share investments	(32)		(45)	
Increase in operating liabilities:				
Audit fees payable	-		1	
Net cash from operating activities		875		742
Net increase in cash and cash equivalents		875		742
Cash and cash equivalents at beginning of year		2,344		1,606
Effect of foreign exchange rate changes		(9)		(4)
Cash and cash equivalents at 31 December		3,210		2,344

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).

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. 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 not presented on a going concern basis as it is in the process of being wound up. In such circumstances all assets and liabilities are more appropriately reported at fair value rather than historical cost. As share investments are already measured at fair value and the carrying value of cash placements equates to fair value, management considers the basis of preparation of the Fund's financial statements to be appropriate. As a result no material adjustments arose as a result of 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 within the section for accounting policies.

New and amended IFRS mandatorily effective for the current reporting period

The following new and amended standards are effective for the current reporting period:

Pronouncement	Nature of change	Impact
IFRS 7 (Amendment) Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities	Requires disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.	No change of presentation required
IFRS 10: Consolidated Financial Statements	Establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.	No change to the Fund's accounting for its equity investments
IFRS 11: Joint Arrangements	Establishes the principles for financial reporting by parties to a joint arrangement.	No changes of presentation required
IFRS 12: Disclosure of Interests in Other Entities	Consolidates the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.	No changes of presentation required

IFRS 13: Fair Value Measurement	Defines fair value, establishes a single framework for measuring fair value and requires disclosures about fair value measurements.	No change to the Fund's fair value procedures
IAS 1 (Amendment): Presentation of Financial Statements	Requires entities to group items presented in other comprehensive income ("OCI") on the basis of whether they are potentially re-classifiable to profit or loss.	No change of presentation required
IAS 19 (Amendment): Employee Benefits	Various amendments to the standard including: • elimination of the option to defer the recognition of gains and losses through the use of the corridor method; • streamlining the presentation of changes in assets and liabilities arising from defined benefit plans; • enhancing disclosure requirements for defined benefit plans	Not applicable
IAS 27 (Reissued): Separate Financial Statements	Requires an entity preparing separate financial statements to account for investments in subsidiaries, joint ventures and associates at cost or in accordance with IFRS 9: Financial Instruments.	Not applicable
IAS 28 (Reissued): Investments in Associates and Joint Ventures	Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	No change as Fund accounts for such investments on a fair value basis

IFRS not yet effective but adopted early

IFRS 9: Financial Instruments is the IASB's replacement project for IAS 39 which is being completed in a number of distinct stages. At this time there is no mandatory application date for the standard although entities are allowed to adopt early all completed phases. The Fund adopted the first stage '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 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) There is currently no mandatory effective date for application of this standard	The Fund is yet to assess the potential impact of adopting this standard
IAS 32 (Amendment) Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities	Updates the application guidance and basis of conclusions in relation to the offsetting of financial assets and financial liabilities. Effective for accounting periods beginning on or after 1 January 2014.	Not applicable
Investment entities – amendments to IFRS 10, IFRS 12 and IAS 27	Introduces an exception to consolidating particular subsidiaries for "investment entities", requiring instead such subsidiaries to be measured at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. New disclosure requirements are also introduced. Effective for accounting periods beginning on or after 1 January 2014.	Not applicable

IAS 19 Amendment: Employee contributions to defined benefit plans	Simplifies the accounting for contributions to defined benefit plans from employees and other third parties. Effective for accounting periods beginning on or after 1 July 2014.	Not applicable

A number of existing standards were reviewed by the IASB in December 2013 as part of the IFRS annual improvements cycle. It is the Fund's opinion that none of these amendments, effective for accounting periods beginning on or after 1 July 2014, will have a material impact on the Fund's financial statements.

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 plus accrued interest equates to fair value given the short-term nature of such placements. Share investments are measured at fair value which, as such investments are unlisted, requires management to exercise judgement in estimating their fair value. Measurement is based on the net asset value of investee companies to which a multiple is applied drawn from a range of comparable listed companies. Management exercises judgement in determining the appropriate multiple to apply in each case.

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 using the effective interest method. All interest income is recognised within 'interest income' 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. 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.

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. Where unobservable market data has been used, a sensitivity analysis has been included within the risk management section of the report.

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 2013, were accorded the Bank's second-highest internal credit rating, approximating to a rating of AA+ to AA- in terms of S&P equivalent;
- As the Fund's placements are re-priced to market interest rates within one month, therefore 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 €221,000 at year end. Based on the five year rolling average of absolute movements in the United States dollar to euro exchange rate, the potential impact on the Fund's net profit from a 6 per cent strengthening or weakening (2012: 7 per cent) is +/- €13,000 (2012: +/- €18,000);
- 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 five year rolling average movement in the Stoxx EU Enlarged TMI index, the potential impact on the Fund's net profit from a 20 per cent movement (2012: 31 per cent) in equity prices is +/- €93,000 (2012: +/- €381,000).
- 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 Agreement Establishing the Bank. 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 Agreement Establishing the Bank 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.

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 include external auditor's remuneration of €6,500 (2012: €7,700). At 31 December 2013 €6,500 (2012: €6,500) is payable to the Bank in relation to the 2013 external audit. The external auditor is appointed for a four-year term with Deloitte LLP (UK) serving as auditor for the period 2011-14. The external auditor may only serve a maximum of two consecutive terms.

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 (NAV). 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 €8,000 and an unfavourable change in value of €14,000.

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

	2013 € 000	2012 € 000
Outstanding disbursements		
At 1 January	**4,423**	5,169
Disbursements	**32**	45
Disposals	**(914)**	(791)
At 31 December	**3,541**	4,423
Fair value adjustment		
At 1 January	**(3,193)**	(2,790)
Movement in fair value revaluation	**118**	(403)
At 31 December	**(3,075)**	(3,193)
Fair value at 31 December	**466**	1,230

5. Contributions

Contributions received are set out below.

Cumulative contributions received	2013 € 000	2012 € 000	2013 %	2012 %
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 2012 and 2013.

8. Undrawn commitments

The Fund had no undrawn share commitments at 31 December 2013 (2012: nil).

9. Events after the reporting period

There have been no material post-reporting date events 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 2013 the Fund paid the Bank no management fee for operating the Fund (2012: nil) and there was no accrued management fee payable by the bank as at 31 December 2013 (2012: 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 BOARD OF 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 2013 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in contributors' resources, the statement of cash flows for the year then ended together with the accounting policies, the risk management section and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is 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 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 2013 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.

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 this duty.

Other Matters

The financial statements have 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
9 April 2014