

**European Bank  
for Reconstruction and Development**

**The Baltic Investment Special Fund**

**Annual Financial Report  
31 December 2007**

# **European Bank for Reconstruction and Development**

## **The Baltic Investment Special Fund**

### **Contents**

Income statement	1
Balance sheet	1
Statement of cash flows	2
Statement of changes in contributors' resources	2
Accounting policies	3 - 6
Financial risk management	7 - 12
Notes to the financial statements	13 - 14
Independent auditors' report	15 - 16

## The Baltic Investment Special Fund

Income statement		Year to	Year to
For the year ended 31 December 2007		31 December	31 December
	Note	2007	2006
		€000	€000
Interest and similar income		198	652
Net gains from share investments at fair value through profit or loss	3	-	76
Net losses from available-for-sale share investments	4	-	(847)
Foreign exchange loss		(78)	(150)
Other operating expenses	5	(6)	(7)
<b>Net profit/(loss) for the year</b>		<b>114</b>	<b>(276)</b>

Balance sheet		31 December	31 December
At 31 December 2007		2007	2006
	Note	€000	€000
<b>Assets</b>			
Placements with credit institutions		4,867	4,833
Other financial assets	6	44	31
Share investments			
Available-for-sale share investments	7	9,234	5,044
<b>Total assets</b>		<b>14,145</b>	<b>9,908</b>
<b>Liabilities</b>			
Other financial liabilities		6	7
Contributors' resources			
Contributions	8	7,050	7,050
Reserves and retained earnings		7,089	2,851
<b>Total contributors' resources</b>		<b>14,139</b>	<b>9,901</b>
<b>Total liabilities</b>		<b>14,145</b>	<b>9,908</b>

# The Baltic Investment Special Fund

## Statement of cash flows

For the year ended 31 December 2007

	Year to		Year to	
	31 December		31 December	
	2007		2006	
	€000	€000	€000	€000
<b>Cash flows from operating activities</b>				
Net profit/(loss) for the year	114		(276)	
Adjustments for:				
Interest income	(198)		(652)	
Net gains from share investments at fair value through profit or loss	-		(76)	
Net losses from available-for-sale share investments	-		847	
Foreign exchange	78		150	
	<u>(6)</u>		<u>(7)</u>	
Interest received	185		696	
Operating profit before changes in operating assets	<u>179</u>		<u>689</u>	
(Increase)/decrease in operating assets:				
Proceeds from sale of share investments	711		2,269	
Funds advanced for share investments	(777)		(832)	
Decrease in operating liabilities:				
Accrued expenses	(1)		-	
<b>Net cash from operating activities</b>		<b>112</b>		<b>2,126</b>
<b>Cash flows from financing activities</b>				
Donor contributions refunded	-		(34,450)	
<b>Net cash used in financing activities</b>		<b>-</b>		<b>(34,450)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>112</b>		<b>(32,324)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>4,833</b>		<b>37,307</b>
Effect of foreign exchange rate changes		(78)		(150)
<b>Cash and cash equivalents at 31 December</b>		<b>4,867</b>		<b>4,833</b>

## Statement of changes in contributors' resources

For the year ended 31 December 2007

	Contributions	Special reserve	General reserve	Accumulated profit/(loss)	Net reserves	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2005	41,500	173	1,295	193	1,661	43,161
Net fair value movement of available-for-sale share investments for the year	-	-	1,466	-	1,466	1,466
Loss for the year	-	-	-	(276)	(276)	(276)
Donor contributions refunded	(34,450)	-	-	-	-	(34,450)
At 31 December 2006	7,050	173	2,761	(83)	2,851	9,901
Net fair value movement of available-for-sale share investments for the year	-	-	4,124	-	4,124	4,124
Profit for the year	-	-	-	114	114	114
<b>At 31 December 2007</b>	<b>7,050</b>	<b>173</b>	<b>6,885</b>	<b>31</b>	<b>7,089</b>	<b>14,139</b>

No fees and commissions qualifying to be set aside to the special reserve were earned in the year to 31 December 2007 (2006: nil). Therefore, there is no need, in accordance with the Fund Agreement, to set aside an amount to the special reserve.

# 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) 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 and financial assets held at fair value through profit or loss.

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

#### *Standards, amendments to published standards and interpretations effective in 2007*

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

#### *Standards early adopted by the Fund*

No standards were early adopted by the Fund in 2007.

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

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

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

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

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

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

## The Baltic Investment Special Fund

### Accounting policies (continued)

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

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

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

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

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

### B. Significant accounting policies

#### Financial assets

##### *Receivables*

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

##### *Financial assets at fair value through profit or loss*

This category consists of financial assets designated at fair value through profit or loss upon initial recognition.

Financial assets are designated at fair value through profit or loss upon initial recognition when certain investments, such as share investments, that are managed and evaluated on a fair value basis in accordance with a documented investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss.

# The Baltic Investment Special Fund

## Accounting policies (continued)

The Fund has designated associate share investments and high-risk equity funds at fair value through profit or loss. 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 arise. The basis of fair value for unlisted associate share investments and high risk equity funds in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The valuation technique used is net asset value.

Financial assets at fair value through profit or loss are recognised on trade date, the date on which the Fund 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. Regular way purchases and sales of available-for-sale assets are recognised on trade date, the date on which the Fund commits to purchase or sell the asset.

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

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

## **Financial liabilities**

All financial liabilities are measured at amortised cost.

## **Impairment of financial assets**

### *Available-for-sale share investments*

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

## **C. Critical accounting estimates and judgements**

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

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

# The Baltic Investment Special Fund

## Accounting policies (continued)

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

### *Fair value of share investments*

The Fund's method for determining the fair value of share investments is described in the "Financial assets" accounting policy on page 4 and an analysis of the share investment portfolio is provided in note 7 on page 13. A sensitivity analysis of the potential impact on the Fund's operating income and reserves from a reasonable movement in the fair value of the share investment portfolio is included under market risk in the "Financial risk management" section on page 11.

## **D. Foreign currencies**

The unit of measurement for the presentation of the financial statements of the Fund is euro (€). Monetary assets and liabilities denominated in foreign currencies are translated into euro at spot rates as at 31 December 2007. Non-monetary items are expressed in euro at the exchange rates ruling at the time of the transaction. Revenue and expense items are translated into euro at the exchange rate on the date on which they occurred. Exchange gains or losses arising from the translation of assets, liabilities and transactions during the year are taken to the income statement.

## **E. Dividends**

Dividends relating to share investments are recognised when received.

## **F. Contributions**

Contributions are recognised as receivable in the balance sheet on the date of signature of a contribution agreement by the European Bank for Reconstruction and Development ("the Bank") and a contributor.

## **E. 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.

## **F. Taxation**

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

## **G. Comparatives**

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

## The Baltic Investment Special Fund

### Financial risk management

The Fund was established to assist the development of small and medium-sized enterprises (SMEs) in Estonia, Latvia and Lithuania ("the Baltic States"). To achieve this, the resources of the Fund may be used to invest in equity capital, provide guarantees or loans to SMEs.

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

#### A. Credit risk

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

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

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

	2007	2006
	€000	€000
Placements with credit institutions	4,867	4,833
Other financial assets	44	31
Share investments	9,234	5,044
Undrawn commitments for share investments	2,478	3,288
<b>Maximum credit risk exposure</b>	<b>16,623</b>	<b>13,196</b>

For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

#### Credit risk: management and measurement

The table below shows the Bank's internal rating scale, which ranges from 1 (lowest risk) to 10 (highest risk), and how this maps to the external ratings of Standard & Poor's (S&P).

EBRD Rating	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	C	Doubtful
10	D	Expected loss

# The Baltic Investment Special Fund

## Financial risk management (continued)

### Share investments

Set out below is an analysis of the Fund's share investments for each of the Bank's internal rating categories shown at both cost and fair value. Share investments risk rated 8 and above are considered impaired.

	Share investments at fair value through profit or loss at cost €000	Share investments at fair value through profit or loss at fair value €000	Available-for-sale share investments at cost €000	Available-for-sale share investments at fair value €000
<b>31 December 2007</b>				
Rating 6: acceptable	-	-	4,539	7,894
Rating 8: substandard	-	-	1,557	1,340
<b>Total</b>	<b>-</b>	<b>-</b>	<b>6,096</b>	<b>9,234</b>
<b>31 December 2006</b>				
Rating 6: acceptable	-	-	4,401	4,262
Rating 8: substandard	95	-	1,629	782
<b>Total</b>	<b>95</b>	<b>-</b>	<b>6,030</b>	<b>5,044</b>

### Placements with credit institutions

The Bank's Treasury Credit Risk Management team assesses the credit worthiness of all financial institutions used by the Fund, 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 Fund's placements with credit institutions are all internally rated between 1 and 3 (AAA to A- in terms of S&P equivalent).

### Other financial assets

Other financial assets represent interest income receivable from the Fund's placements and is internally risk rated between 1 to 3 (AAA to A- in terms of S&P equivalent).

### Undrawn commitments

	Available-for-sale share investments €000
Undrawn commitments	
<b>At 31 December 2007</b>	<b>2,478</b>
At 31 December 2006	3,288

### Concentration of credit risk exposure

The Fund is exposed to credit risk on its share investments in one geographic region, the Baltic States.

## B. Market risk

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

### Market risk management and measurement

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

## The Baltic Investment Special Fund

### Financial risk management (continued)

#### *Interest rate risk*

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

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

Repricing interval	Up to and including 1 month	Non-interest- bearing funds	Total
Interest rate risk 31 December 2007	€000	€000	€000
<b>Assets</b>			
Placements with credit institutions	4,867	-	<b>4,867</b>
Other financial assets	-	44	<b>44</b>
Share investments	-	9,234	<b>9,234</b>
<b>Total assets</b>	<b>4,867</b>	<b>9,278</b>	<b>14,145</b>
<b>Liabilities</b>			
Other financial liabilities	-	(6)	<b>(6)</b>
Total contributors' resources	-	(14,139)	<b>(14,139)</b>
<b>Total liabilities</b>	<b>-</b>	<b>(14,145)</b>	<b>(14,145)</b>
<b>Interest sensitivity gap at 31 December 2007</b>	<b>4,867</b>	<b>(4,867)</b>	<b>-</b>

Repricing interval	Up to and including 1 month	Non-interest- bearing funds	Total
Interest rate risk 31 December 2006	€000	€000	€000
<b>Assets</b>			
Placements with credit institutions	4,833	-	4,833
Other financial assets	-	31	31
Share investments	-	5,044	5,044
<b>Total assets</b>	<b>4,833</b>	<b>5,075</b>	<b>9,908</b>
<b>Liabilities</b>			
Other financial liabilities	-	(7)	(7)
Total contributors' resources	-	(9,901)	(9,901)
<b>Total liabilities</b>	<b>-</b>	<b>(9,908)</b>	<b>(9,908)</b>
<b>Interest sensitivity gap at 31 December 2006</b>	<b>4,833</b>	<b>(4,833)</b>	<b>-</b>

The table below summarises the effective interest rate by major currencies for monetary financial instruments.

	United		United	
	Euro	States dollars	Euro	States dollars
	2007	2007	2006	2006
	%	%	%	%
<b>Assets</b>				
Placements with credit institutions	<b>3.80</b>	<b>4.57</b>	2.59	3.50

## The Baltic Investment Special Fund

### Financial risk management (continued)

#### Foreign exchange risk

##### Net currency position

	Euro €000	United States dollars €000	Other currencies €000	Total €000
<b>Net currency position at 31 December 2007</b>				
<b>Assets</b>				
Placements with credit institutions	4,194	673	-	<b>4,867</b>
Other financial assets	42	2	-	<b>44</b>
Share investments	-	-	9,234	<b>9,234</b>
<b>Total assets</b>	<b>4,236</b>	<b>675</b>	<b>9,234</b>	<b>14,145</b>
<b>Liabilities</b>				
Other financial liabilities	(6)	-	-	<b>(6)</b>
Total contributors' resources	(14,139)	-	-	<b>(14,139)</b>
<b>Total liabilities</b>	<b>(14,145)</b>	<b>-</b>	<b>-</b>	<b>(14,145)</b>
<b>Net currency position at 31 December 2007</b>	<b>(9,909)</b>	<b>675</b>	<b>9,234</b>	<b>-</b>
	Euro €000	United States dollars €000	Other currencies €000	Total €000
<b>Net currency position at 31 December 2006</b>				
<b>Assets</b>				
Placements with credit institutions	4,187	646	-	4,833
Other financial assets	28	3	-	31
Share investments	-	-	5,044	5,044
<b>Total assets</b>	<b>4,215</b>	<b>649</b>	<b>5,044</b>	<b>9,908</b>
<b>Liabilities</b>				
Other financial liabilities	(7)	-	-	(7)
Total contributors' resources	(9,901)	-	-	(9,901)
<b>Total liabilities</b>	<b>(9,908)</b>	<b>-</b>	<b>-</b>	<b>(9,908)</b>
<b>Net currency position at 31 December 2006</b>	<b>(5,693)</b>	<b>649</b>	<b>5,044</b>	<b>-</b>

Amounts aggregated under "Other currencies" are derived from the currency risks undertaken through the Fund's share investments in regional operations. The exchange rate used for the conversion of assets and liabilities denominated in United States dollars into euro at 31 December 2007, where appropriate, was 1.4716 (2006: 1.3168).

#### Sensitivity analysis

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

- Proportional foreign exchange rate movement of +13 per cent (appreciation of EUR) and -13 per cent (depreciation of EUR) against the USD (2006: +14/-14 per cent), from a EUR:USD spot rate of 1.4716.
- A parallel shift of +118 basis points (bp)/-118bp (2006: +88bp/-88bp) in euro market interest rates from year end rates of 4.7 per cent and +32bp/-32bp (2006: +138bp/-138bp) of United States dollar market interest rates from year end rates of 4.7 per cent.
- Proportional other price risk movement of equity securities listed on relevant benchmark indices of 32 per cent (2006: 35 per cent).

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

# The Baltic Investment Special Fund

## Financial risk management (continued)

	Interest rate risk (IR)		Foreign exchange rate risk		Equity price risk				
	+ 118 bp of EUR IR + 32 bp of USD IR	- 118 bp of EUR IR - 32 bp of USD IR	+13 per cent	-13 per cent	+32 per cent	-32 per cent			
31 December 2007	Carrying amount	Profit/(loss)	Profit/(loss)	Profit/(loss)	Profit/(loss)	Other movements in reserves	Other movements in reserves	Profit/(loss)	Other movements in reserves
	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>Financial assets</b>									
Placements with credit institutions	4,867	52	(52)	(77)	77	-	-	-	-
Other financial assets	44	-	-	-	-	-	-	-	-
Share investments	9,234	-	-	(165)	-	165	2,955	(429)	(2,526)
<b>Impact on financial assets</b>		<b>52</b>	<b>(52)</b>	<b>(242)</b>	<b>77</b>	<b>165</b>	<b>2,955</b>	<b>(429)</b>	<b>(2,526)</b>
<b>Financial liabilities</b>									
Other financial liabilities	6	-	-	-	-	-	-	-	-
Total contributors' resources	14,139	-	-	-	-	-	-	-	-
<b>Impact on financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total increase/(decrease)</b>		<b>52</b>	<b>(52)</b>	<b>(242)</b>	<b>77</b>	<b>165</b>	<b>2,955</b>	<b>(429)</b>	<b>(2,526)</b>

	Interest rate risk (IR)		Foreign exchange rate risk		Equity price risk				
	+ 88 bp of EUR IR + 138 bp of USD IR	- 88 bp of EUR IR - 138 bp of USD IR	+14 per cent	-14 per cent	+35 per cent	-35 per cent			
31 December 2006	Carrying amount	Profit/(loss)	Profit/(loss)	Profit/(loss)	Profit/(loss)	Other movements in reserves	Other movements in reserves	Profit/(loss)	Other movements in reserves
	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>Financial assets</b>									
Placements with credit institutions	4,833	46	(46)	(79)	79	-	-	-	-
Other financial assets	31	-	-	-	-	-	-	-	-
Share investments	5,044	-	-	(96)	-	96	1,765	(274)	(1,491)
<b>Impact on financial assets</b>		<b>46</b>	<b>(46)</b>	<b>(175)</b>	<b>79</b>	<b>96</b>	<b>1,765</b>	<b>(274)</b>	<b>(1,491)</b>
<b>Financial liabilities</b>									
Other financial liabilities	7	-	-	-	-	-	-	-	-
Total contributors' resources	9,901	-	-	-	-	-	-	-	-
<b>Impact on financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total increase/(decrease)</b>		<b>46</b>	<b>(46)</b>	<b>(175)</b>	<b>79</b>	<b>96</b>	<b>1,765</b>	<b>(274)</b>	<b>(1,491)</b>

### C. Liquidity risk

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

#### *Liquidity risk management process*

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

## The Baltic Investment Special Fund

### Financial risk management (continued)

The table below provides an analysis of assets, liabilities and contributors' resources in their relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the maturity undefined category. Figures in the table represent undiscounted cashflows.

	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Maturity undefined €000	Total €000
<b>Liquidity position at 31 December 2007</b>				
<b>Assets</b>				
Placements with credit institutions	4,867	-	-	<b>4,867</b>
Other financial assets	44	-	-	<b>44</b>
Share investments	-	-	9,234	<b>9,234</b>
<b>Total assets</b>	<b>4,911</b>	<b>-</b>	<b>9,234</b>	<b>14,145</b>
<b>Liabilities</b>				
Other financial liabilities	-	(6)	-	<b>(6)</b>
Total contributors' resources	-	-	(14,139)	<b>(14,139)</b>
<b>Total liabilities</b>	<b>-</b>	<b>(6)</b>	<b>(14,139)</b>	<b>(14,145)</b>
<b>Net liquidity position at 31 December 2007</b>	<b>4,911</b>	<b>(6)</b>	<b>(4,905)</b>	<b>-</b>
<b>Cumulative net liquidity position at 31 December 2007</b>	<b>4,911</b>	<b>4,905</b>	<b>-</b>	<b>-</b>

	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Maturity undefined €000	Total €000
<b>Liquidity position at 31 December 2006</b>				
<b>Assets</b>				
Placements with credit institutions	4,833	-	-	4,833
Other financial assets	31	-	-	31
Share investments	-	-	5,044	5,044
<b>Total assets</b>	<b>4,864</b>	<b>-</b>	<b>5,044</b>	<b>9,908</b>
<b>Liabilities</b>				
Other financial liabilities	-	(7)	-	(7)
Total contributors' resources	-	-	(9,901)	(9,901)
<b>Total liabilities</b>	<b>-</b>	<b>(7)</b>	<b>(9,901)</b>	<b>(9,908)</b>
<b>Net liquidity position at 31 December 2006</b>	<b>4,864</b>	<b>(7)</b>	<b>(4,857)</b>	<b>-</b>
<b>Cumulative net liquidity position at 31 December 2006</b>	<b>4,864</b>	<b>4,857</b>	<b>-</b>	<b>-</b>

#### D. Management of contributors' resources

Contributors' resources of the Fund comprises pledged contributions and accumulated profits and reserves of the Fund. The Fund was terminated in July 2006 in mutual agreement between the Bank and the Governments of the Kingdom of Denmark, the Republic of Finland, the Republic of Iceland, the Kingdom of Norway and the Kingdom of Sweden ("the Nordic countries") with the approval of the Board of Directors. Upon termination of the Fund, the available net assets of the Fund were distributed to the donors. Further distributions will occur as appropriate under the terms of the termination and in accordance with the Rules and Regulations of the Fund.

# The Baltic Investment Special Fund

## Notes to the financial statements

### 1 Creation of the Special Fund

The Baltic Investment Special Fund ("the Fund") was created by and is administered under the terms of an Agreement dated 14 April 1992 ("the Fund Agreement") between the Bank and the Nordic countries.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to promote private sector development through support for small and medium-sized enterprises in the Baltic States.

### 2 President's responsibilities

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

### 3 Net gains from share investments at fair value through profit or loss

	2007 €000	2006 €000
Associate share investments written off	(95)	-
Net unrealised gains from associate share investments	95	76
<b>Net gains from assets at fair value through profit or loss</b>	<b>-</b>	<b>76</b>

### 4 Net losses from available-for-sale share investments

	2007 €000	2006 €000
Impairment losses from available-for-sale share investments	-	847
<b>Net losses from available-for-sale share investments</b>	<b>-</b>	<b>847</b>

### 5 Other operating expenses

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

### 6 Other financial assets

	2007 €000	2006 €000
Interest receivable on placements	44	31
<b>At 31 December</b>	<b>44</b>	<b>31</b>

### 7 Share investments

	Share investments at fair value through profit or loss €000	Available-for-sale share investments €000	Total share investments €000
<b>Outstanding disbursements</b>			
At 31 December 2005	542	7,020	7,562
Disbursements	-	832	832
Disposals	(447)	(1,822)	(2,269)
At 31 December 2006	95	6,030	6,125
Disbursements	-	777	777
Disposals	-	(711)	(711)
Written off	(95)	-	(95)
<b>At 31 December 2007</b>	<b>-</b>	<b>6,096</b>	<b>6,096</b>

# The Baltic Investment Special Fund

## Notes to the financial statements (continued)

### 7 Share investments (continued)

	Share investments at fair value through profit or loss €000	Available-for-sale share investments €000	Total share investments €000
<b>Fair value adjustment</b>			
At 31 December 2005	(171)	(1,605)	(1,776)
Movement in fair value revaluation	76	1,466	1,542
Impairment of available-for-sale share investments	-	(847)	(847)
At 31 December 2006	(95)	(986)	(1,081)
Movement in fair value revaluation	95	2,566	2,661
Impairment of available-for-sale share investments	-	1,558	1,558
<b>At 31 December 2007</b>	<b>-</b>	<b>3,138</b>	<b>3,138</b>
<b>Fair value at 31 December 2007</b>	<b>-</b>	<b>9,234</b>	<b>9,234</b>
Fair value at 31 December 2006	-	5,044	5,044

### 8 Contributions

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

	2007 €000	2006 €000	2007 %	2006 %
Denmark	1,519	1,519	21.6	21.6
Finland	1,466	1,466	20.8	20.8
Iceland	72	72	1.0	1.0
Norway	1,314	1,314	18.6	18.6
Sweden	2,679	2,679	38.0	38.0
<b>At 31 December</b>	<b>7,050</b>	<b>7,050</b>	<b>100.0</b>	<b>100.0</b>

### 9 Fair value of financial assets and liabilities

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

### 10 Segment information

In accordance with IAS 14, the primary segment of the Fund is business operation and the secondary segment is geographical. At 31 December 2007 the activities of the Fund comprised a single primary segment (Banking operations) and one geographic region (the Baltic States). Consequently, no additional disclosure is required.

### 11 Related parties

The Fund has no related parties other than the Bank. During the year ended 31 December 2007 the Fund paid the Bank no management fees for operating the Fund (2006: nil). There are no accrued management fees payable by the Fund to the Bank as at 31 December 2007 (2006: nil).

### 12 Post balance sheet events

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

## **Independent auditor's report to the European Bank for Reconstruction and Development (the 'Bank')**

### **Report on the Financial Statements**

We have audited the financial statements of the Baltic Investment Special Fund for the year ended 31 December 2007 which comprise the income statement, the balance sheet, the statement of changes in contributors' resources, the statement of cash flows, the accounting policies, financial risk management and the notes to the financial statements ("financial statements").

### **President's responsibility for the financial statements**

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

### **Auditor's responsibility**

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

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

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

### **Opinion**

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

## **Other matters**

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

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

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

### **PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London

5 March 2008

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