

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

**INTERIM FINANCIAL REPORT**

**At 30 September 2008**

**(UNAUDITED)**

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**Income statement**

For the nine months ended 30 September 2008 (unaudited) and 30 September 2007 (unaudited)

	Quarter to 30 September 2008 €million	Year to date 30 September 2008 €million	Quarter to 30 September 2007 €million	Year to date 30 September 2007 €million
Interest and similar income				
From loans	161	473	152	438
From fixed-income debt securities and other interest	156	481	178	509
Interest expense and similar charges	(151)	(475)	(181)	(526)
<b>Net interest income</b>	<b>166</b>	<b>479</b>	<b>149</b>	<b>421</b>
Net fee and commission income	2	5	2	9
Dividend income	29	61	12	74
Net (losses)/gains from share investments at fair value through profit or loss	(46)	(156)	44	1,040
Net gains from available-for-sale share investments	83	224	174	240
Net (losses)/gains from available-for-sale Treasury assets	(91)	(94)	(1)	3
Net gains from dealing activities	9	9	6	6
Fair value movement on non-qualifying and ineffective hedges	168	144	(2)	(40)
<b>Operating income</b>	<b>320</b>	<b>672</b>	<b>384</b>	<b>1,753</b>
General administrative expenses	(52)	(164)	(61)	(175)
Depreciation and amortisation	(4)	(11)	(3)	(8)
<b>Operating profit before provisions</b>	<b>264</b>	<b>497</b>	<b>320</b>	<b>1,570</b>
Provisions for impairment of loan investments	(18)	(28)	244	223
<b>Net profit for the period</b>	<b>246</b>	<b>469</b>	<b>564</b>	<b>1,793</b>
Transfers of net income approved by the Board of Governors	-	(115)	-	-
<b>Net profit after transfers of net income approved by the Board of Governors</b>	<b>246</b>	<b>354</b>	<b>564</b>	<b>1,793</b>

**Balance sheet****At 30 September 2008 (unaudited) and 31 December 2007 (audited)**

	30 September 2008		Restated 31 December 2007	
	€million	€million	€million	€million
<b>Assets</b>				
Placements with and advances to credit institutions	4,416		4,514	
Collateralised placements	<u>1,151</u>		<u>1,818</u>	
	5,567		6,332	
Debt securities				
Trading	1,368		1,501	
		6,935		7,833
Other assets				
Derivative financial instruments	2,214		1,961	
Other	<u>956</u>		<u>825</u>	
		3,170		2,786
Share investments				
<i>Treasury portfolio</i>				
Available-for-sale share investments	50		47	
<i>Banking portfolio</i>				
Share investments at fair value through profit or loss	2,771		3,469	
Available-for-sale share investments	<u>2,711</u>		<u>3,124</u>	
	5,482		6,593	
		5,532		6,640
Loan investments				
<i>Treasury portfolio</i>				
Debt securities	7,527		6,873	
<i>Banking portfolio</i>				
Loans	10,510		8,985	
Less: Provisions for impairment	<u>(158)</u>		<u>(124)</u>	
	10,352		8,861	
		17,879		15,734
Property, technology and office equipment		41		43
Intangible assets		47		39
Paid-in capital receivable		44		100
<b>Total assets</b>		<b>33,648</b>		<b>33,175</b>
<b>Liabilities</b>				
Borrowings				
Amounts owed to credit institutions	1,683		1,462	
Debts evidenced by certificates	<u>16,458</u>		<u>16,209</u>	
		18,141		17,671
Other liabilities				
Derivative financial instruments	949		631	
Other	<u>1,455</u>		<u>999</u>	
		2,404		1,630
<b>Total liabilities</b>		<b>20,545</b>		<b>19,301</b>
<b>Members' equity</b>				
Subscribed capital	19,794		19,794	
Callable capital	<u>(14,596)</u>		<u>(14,596)</u>	
Paid-in capital		5,198		5,198
Reserves and retained earnings		<u>7,905</u>		<u>8,676</u>
<b>Total members' equity</b>		<b>13,103</b>		<b>13,874</b>
<b>Total liabilities and members' equity</b>		<b>33,648</b>		<b>33,175</b>
<b>Memorandum items</b>				
Undrawn commitments		6,415		7,117

**Statement of changes in members' equity for the period ended 30 September 2008 (unaudited) and 30 September 2007 (unaudited)**

	Subscribed capital	Callable capital	Strategic reserve	Special reserve	Loan loss reserve	General reserve Other reserves	Retained earnings	Total reserves and retained earnings	Total members' equity
	€million	€million	€million	€million	€million	€million	€million	€million	€million
<b>For the period ended 30 September 2008</b>									
At 31 December 2006	19,794	(14,596)	-	215	293	2,204	4,262	6,974	12,172
Internal tax for the period	-	-	-	-	-	4	-	4	4
Qualifying fees and commissions	-	-	-	9	-	-	(9)	-	-
Net fair value movement of available-for-sale assets for the period	-	-	-	-	-	(234)	-	(234)	(234)
Reserves transfer	-	-	-	-	(13)	-	13	-	-
Net profit for the period	-	-	-	-	-	-	1,793	1,793	1,793
<b>At 30 September 2007</b>	<b>19,794</b>	<b>(14,596)</b>	<b>-</b>	<b>224</b>	<b>280</b>	<b>1,974</b>	<b>6,059</b>	<b>8,537</b>	<b>13,735</b>
At 31 December 2007	19,794	(14,596)	-	232	304	2,027	6,113	8,676	13,874
Internal tax for the period	-	-	-	-	-	3	-	3	3
Qualifying fees and commissions	-	-	-	13	-	-	(13)	-	-
Net fair value movement of available-for-sale assets for the period	-	-	-	-	-	(1,128)	-	(1,128)	(1,128)
Reserves transfer	-	-	830	-	66	2	(898)	-	-
Net profit after transfers of net income approved by the Board of Governors	-	-	-	-	-	-	354	354	354
<b>At 30 September 2008</b>	<b>19,794</b>	<b>(14,596)</b>	<b>830</b>	<b>245</b>	<b>370</b>	<b>904</b>	<b>5,556</b>	<b>7,905</b>	<b>13,103</b>

Reserves decreased from €8.7 billion at the end of 2007 to €7.9 billion at 30 September 2008, primarily as a result of the decrease in fair value of available-for-sale assets for the year. Of the Bank's total reserves at 30 September 2008, €2.7 billion represented unrealised gains from share investments, equity derivatives and the Treasury portfolio, €370 million related to the loan loss reserve, €245 million represented the special reserve, €830 million represented the strategic reserve and €135 million relating to the Nuclear Fund allocation, leaving €3.6 billion unrestricted reserves.

**Statement of cash flows for the nine months ended 30 September 2008 (unaudited)  
and 30 September 2007 (unaudited)**

For the nine months ended 30 September 2008 (unaudited)	€million	Period to 30 September 2008 €million	Period to 30 September 2007 €million
<b>Cash flows from operating activities</b>			
Net profit for the period after transfers of net income approved by the Board of Governors <sup>1</sup>	354		1,793
Adjustments for:			
Interest income	(954)		(947)
Interest expense and similar charges	475		526
Net deferral of fees and direct costs	31		16
Internal taxation	3		4
Realised gains on share investments	(404)		(489)
Unrealised losses/(gains) on share investments and equity derivatives at fair value through profit or loss	338		(780)
Impairment recoveries on available-for-sale share investments	(2)		(11)
Realised gains on available-for-sale debt securities	(1)		(1)
Impairment charge/(recoveries) on available-for-sale debt securities	95		(2)
Unrealised gains on dealing securities	(4)		(3)
Fair value movement on non-qualifying and ineffective hedges	(144)		(4)
Depreciation and amortisation	11		8
Gross provisions charge/(release) for loan losses	32		(223)
	(170)		(113)
Interest income received	942		670
Interest expense and similar charges paid	(415)		(487)
(Increase)/decrease in operating assets:			
Prepaid expenses	(23)		14
Fair value movement on net Treasury assets	(926)		(407)
Proceeds from repayments of loans	2,389		1,747
Proceeds from prepayments of loans	129		423
Funds advanced for loans	(3,849)		(2,777)
Proceeds from sale of share investments	741		815
Funds advanced for share investments	(917)		(648)
Net placements to credit institutions	(86)		(1,248)
Decrease in operating liabilities:			
Accrued expenses	(74)		(4)
<b>Net cash used in operating activities</b>	(2,259)		(2,015)
<b>Cash flows used in investing activities</b>			
Proceeds from sale of available-for-sale debt securities	1,211		2,374
Purchases of available-for-sale debt securities	(1,746)		(2,846)
Purchase of property, technology and office equipment	(18)		(31)
<b>Net cash used in investing activities</b>	(553)		(503)
<b>Cash flows from financing activities</b>			
Capital received	56		81
Issue of debts evidenced by certificates	11,790		7,305
Redemption of debts evidenced by certificates	(10,105)		(6,088)
<b>Net cash from financing activities</b>	1,741		1,298
<b>Net decrease in cash and cash equivalents</b>	(1,071)		(1,220)
<b>Cash and cash equivalents at beginning of the period</b>	3,018		3,338
<b>Cash and cash equivalents at 30 September</b>	1,947		2,118
<b>Cash and cash equivalents comprise the following amounts maturing within three months</b>			
	2008	2007	
	€million	€million	
Placements with and advances to credit institutions	3,229	3,065	
Amounts owed to credit institutions	(1,283)	(947)	
<b>Cash and cash equivalents at 30 September</b>	1,947	2,118	

<sup>1</sup> Net profit after transfers of net income approved by the Board of Governors includes dividends of €61 million received for the period to 30 September 2008 (2007: €74 million).

## **Explanatory notes**

### **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 30 September 2008 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 therewith in the United Kingdom are defined in the Agreement and 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 upon the commencement of the Bank's operations on 15 April 1991.

### **2. A summary of significant accounting policies**

#### **i Accounting convention**

These financial statements have been prepared in accordance with International Financial Reporting Standards 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 AFS 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.

#### **ii Financial statements presentation**

The financial statements are presented in a manner consistent with the Bank's audited financial statements as of and for the year ended 31 December 2007 except for Treasury's available-for-sale debt securities. Following an amendment to IAS 39 issued in October 2008, permitting reclassification of financial assets in certain restricted circumstances, the Bank has decided to re-classify the Treasury available-for-sale debt securities portfolio to loans and receivables. This amendment has been applied retrospectively to commence on 1 July 2008. The reclassification results in the cessation of fair value accounting for those assets previously designated as available-for-sale. The fair values of the assets at the date of reclassification becomes their new amortised cost and those assets will subsequently be accounted for on that measurement basis. Any previous gains or losses on those assets that had been recognised directly in reserves shall be amortised to profit or loss over the remaining life. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the interim periods have been made. For further information please refer to the Bank's audited financial statements as at 31 December 2007. The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending 31 December 2008.

### 3. Loan investments

	2008	2008	2008	2007	2007	2007
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
	loans	loans	loans	loans	loans	loans
	€million	€million	€million	€million	€million	€million
<b>Operating assets</b>						
At 1 January	1,928	7,057	8,985	1,977	6,334	8,311
Movement in fair value revaluation	-	3	3	-	-	-
Disbursements	286	3,563	3,849	267	2,510	2,777
Repayments and prepayments	(264)	(2,254)	(2,518)	(248)	(1,922)	(2,170)
Foreign exchange movements	47	161	208	(83)	(207)	(290)
Movement in net deferral of front end fees and related direct costs	(3)	(12)	(15)	(4)	(12)	(16)
Written off	-	(2)	(2)	-	(2)	(2)
<b>At 30 September</b>	<b>1,994</b>	<b>8,516</b>	<b>10,510</b>	<b>1,909</b>	<b>6,701</b>	<b>8,610</b>
Portfolio provisions for the unidentified impairment of loan investments	(5)	(120)	(125)	(5)	(77)	(82)
Specific provisions for the identified impairment of loan investments	-	(33)	(33)	-	(19)	(19)
<b>Total operating assets net of provisions for impairment at 30 September</b>	<b>1,989</b>	<b>8,363</b>	<b>10,352</b>	<b>1,904</b>	<b>6,605</b>	<b>8,509</b>

At 30 September 2008 the Bank categorised 9 loans as impaired, totalling €37 million (31 December 2007: 12 loans totalling €37 million; 30 September 2007: 10 loans totalling €23 million). Specific provisions on these assets amounted to €33 million (31 December 2007: €33 million; 30 September 2007: €19 million).

#### 4. 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
<b>Outstanding disbursements</b>							
At 31 December 2006	1,035	240	1,275	659	489	1,148	2,423
Transfer between classes	(14)	19	5	(68)	63	(5)	-
Disbursements	297	-	297	334	17	351	648
Disposals	(162)	-	(162)	(94)	(65)	(159)	(321)
Written off	(2)	-	(2)	(2)	(1)	(3)	(5)
<b>At 30 September 2007</b>	<b>1,154</b>	<b>259</b>	<b>1,413</b>	<b>829</b>	<b>503</b>	<b>1,332</b>	<b>2,745</b>
At 31 December 2007	1,220	260	1,480	969	636	1,605	3,085
Disbursements	195	8	203	416	298	714	917
Disposals	(141)	-	(141)	(150)	(37)	(187)	(328)
Written off	(8)	-	(8)	(1)	-	(1)	(9)
<b>At 30 September 2008</b>	<b>1,266</b>	<b>268</b>	<b>1,534</b>	<b>1,234</b>	<b>897</b>	<b>2,131</b>	<b>3,665</b>
<b>Fair value adjustment</b>							
At 31 December 2006	558	567	1,125	103	1,402	1,505	2,630
Transfer between classes	(46)	36	(10)	47	(37)	10	-
Movement in fair value revaluation	193	571	764	(76)	(65)	(141)	623
Impairment of available-for-sale share investments	-	-	-	3	8	11	11
<b>At 30 September 2007</b>	<b>705</b>	<b>1,174</b>	<b>1,879</b>	<b>77</b>	<b>1,308</b>	<b>1,385</b>	<b>3,264</b>
At 31 December 2007	990	999	1,989	257	1,262	1,519	3,508
Movement in fair value revaluation	(43)	(709)	(752)	103	(1,040)	(937)	(1,689)
Impairment of available-for-sale share investments	-	-	-	(2)	-	(2)	(2)
<b>At 30 September 2008</b>	<b>947</b>	<b>290</b>	<b>1,237</b>	<b>358</b>	<b>222</b>	<b>580</b>	<b>1,817</b>
<b>Fair value at 30 September 2008</b>	<b>2,213</b>	<b>558</b>	<b>2,771</b>	<b>1,592</b>	<b>1,119</b>	<b>2,711</b>	<b>5,482</b>
Fair value at 30 September 2007	1,859	1,433	3,292	906	1,811	2,717	6,009

## 5. Primary segment analysis

### Business segments

For management purposes the business of the Bank is comprised primarily of Banking and Treasury operations. Banking activities represent investment 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

	30 September 2008			30 September 2007		
	Banking €million	Treasury €million	Aggregated €million	Banking €million	Treasury €million	Aggregated €million
Interest income	473	479	952	438	505	943
Other income	134	(85)	49	1,363	9	1,372
Fair value movement on paid-in capital receivable and associated hedges	2	-	2	4	-	4
<b>Total segment revenue</b>	<b>609</b>	<b>394</b>	<b>1,003</b>	1,805	514	2,319
Less interest expense and similar charges	(422)	(434)	(856)	(357)	(467)	(824)
Allocation of the return on capital	344	37	381	268	30	298
Fair value movement on non-qualifying hedges	-	144	144	-	(40)	(40)
Less general administrative expenses	(151)	(13)	(164)	(160)	(15)	(175)
Less depreciation and amortisation	(10)	(1)	(11)	(8)	-	(8)
<b>Segment result before provisions</b>	<b>370</b>	<b>127</b>	<b>497</b>	1,548	22	1,570
Provision for impairment of loan investments	(28)	-	(28)	223	-	223
<b>Net profit for the period</b>	<b>342</b>	<b>127</b>	<b>469</b>	1,771	22	1,793
Transfers of net income approved by the Board of Governors			(115)			-
<b>Net profit after transfers of net income approved by the Board of Governors</b>			<b>354</b>			1,793
<b>Segment assets</b>	<b>16,568</b>	<b>17,036</b>	<b>33,604</b>	14,870	17,930	32,800
Paid-in capital receivable			44			115
<b>Total assets</b>			<b>33,648</b>			32,915
<b>Segment liabilities</b>						
<b>Total liabilities</b>	<b>136</b>	<b>20,409</b>	<b>20,545</b>	130	19,050	19,180
Capital expenditure	17	1	18	29	2	31

For the first nine months of 2008, the fair value movement on paid-in capital receivable and associated hedges amounted to €2 million (2007: €4 million) and the allocation of the return on capital amounted to €381 million (2007: €298 million). Together, these total €383 million (2007: €302 million), which is included in the Bank's return on net paid-in capital used in segmental results.

Interest expenses and similar charges and the allocation of the return on capital total €475 million (2007: €526 million). This is the Bank's "interest expenses and similar charges" as reported in the income statement.