DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

INTERIM FINANCIAL REPORT

At 30 September 2017

(UNAUDITED)

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European Bank for Reconstruction and Development: Interim Financial Report at 30 September 2017

Income statement

For the quarter ended 30 September 2017 (unaudited) and 30 September 2016 (unaudited)

	Quarter 3 2017 € million	**Quarter 2 2017 € million**	**YTD 2017 € million**	Quarter 3 2016 € million	YTD 2016 € million
Interest and similar income					
From Banking loans	**241**	**241**	**760**	253	761
From fixed-income debt securities and other interest	**47**	**42**	**128**	25	69
Interest expense and similar charges	**(107)**	**(107)**	**(308)**	(61)	(159)
Net interest (expense)/income on derivatives	**(1)**	**12**	**18**	(13)	(53)
Net interest income	**180**	**188**	**598**	204	618
Fee and commission income	**12**	**3**	**22**	8	21
Fee and commission expense	**(2)**	**(1)**	**(5)**	(1)	(1)
Net fee and commission income	**10**	**2**	**17**	7	20
Dividend income	**28**	**82**	**169**	26	87
Net (losses)/gains from share investments at fair value through profit or loss	**(47)**	**(8)**	**154**	158	(136)
Net (losses)/gains from loans at fair value through profit or loss	**(13)**	**6**	**1**	(11)	(5)
Net gains/(losses) from loans at amortised cost	**-**	**2**	**6**	(8)	8
Net gains from Treasury investments held at amortised cost	**-**	**-**	**2**	1	5
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	**10**	**12**	**41**	19	70
Fair value movement on non-qualifying and ineffective hedges	**(24)**	**(43)**	**(68)**	3	70
Impairment provisions on Banking loan investments	**(17)**	**(3)**	**(17)**	(11)	(80)
Impairment provisions on guarantees	**2**	**-**	**2**	(8)	(8)
General administrative expenses	**(96)**	**(101)**	**(287)**	(108)	(309)
Depreciation and amortisation	**(6)**	**(7)**	**(19)**	(6)	(15)
Net profit for the period	**27**	**130**	**599**	266	325
Transfers of net income approved by the Board of Governors	**-**	**(180)**	**(180)**	-	(181)
Financial accounting net profit/(loss) after transfers of net income approved by the Board of Governors	**27**	**(50)**	**419**	266	144

Statement of comprehensive income

For the quarter ended 30 September 2017 (unaudited) and 30 September 2016 (unaudited)

	Quarter 3 2017 € million	**Quarter 2 2017 € million**	**Year to date 2017 € million**	Quarter 3 2016 € million	Year to date 2016 € million
Net profit/(loss)	**27**	**(50)**	**419**	266	144
Other comprehensive income					
Share investment designated as fair value through other comprehensive income	**-**	**-**	**1**	3	5
Cash flow hedges	**3**	**(5)**	**1**	6	(17)
Total comprehensive income/(loss)	**30**	**(55)**	**421**	275	132
Attributable to:					
Equity holders	**30**	**(55)**	**421**	275	132

Balance Sheet
At 30 September 2017 (unaudited) and 31 December 2016 (audited)

		30 September 2017		31 December 2016
	€ million	€ million	€ million	€ million
Assets				
Placements with and advances to credit institutions		**13,420**		14,110
Debt securities				
At fair value through profit or loss	**1,180**		926	
At amortised cost	**9,810**		8,981	
		10,990		9,907
		24,410		24,017
Other financial assets				
Derivative financial instruments	**3,815**		4,319	
Other financial assets	**824**		214	
		4,639		4,533
Loan investments				
Banking portfolio				
Loans at amortised cost	**21,932**		22,885	
Less: Provisions for impairment	**(932)**		(1,044)	
Loans at fair value through profit or loss	**371**		313	
		21,371		22,154
Share investments				
Banking portfolio				
Historic cost	**5,746**		6,134	
Fair value adjustment	**(669)**		(869)	
Share investments at fair value through profit or loss		**5,077**		5,265
Treasury portfolio				
Share investments at fair value through other comprehensive income		**76**		**75**
		5,153		5,340
Intangible assets		**60**		63
Property, technology and office equipment		**38**		43
Total assets		**55,671**		56,150
Liabilities				
Borrowings				
Amounts owed to credit institutions	**2,398**		2,478	
Debts evidenced by certificates	**34,304**		35,531	
		36,702		38,009
Other financial liabilities				
Derivative financial instruments	**1,643**		2,170	
Other financial liabilities	**1,465**		540	
		3,108		2,710
Total liabilities		**39,810**		40,719
Members' equity				
Paid-in capital		**6,211**		6,207
Reserves and retained earnings		**9,650**		9,224
Total members' equity		**15,861**		15,431
Total liabilities and members' equity		**55,671**		56,150
Memorandum items				
Undrawn commitments		**11,063**		12,075

Statement of changes in equity for the quarter ended 30 September 2017 (unaudited) and 30 September 2016 (unaudited)

	Subscribed capital € million	Callable capital € million	Fair value through other comprehensive income reserve € million	Cash flow reserves € million	Actuarial remeasurements € million	Retained earnings € million	Total equity € million
At 31 December 2015	29,674	(23,472)	7	-	(14)	8,391	14,586
Total comprehensive income for the period	-	-	5	(17)	-	144	132
Internal tax for the period	-	-	-	-	-	5	5
Capital subscriptions	29	(24)	-	-	-	-	5
At 30 September 2016	29,703	(23,496)	12	(17)	(14)	8,540	14,728
At 31 December 2016	29,703	(23,496)	19	(2)	6	9,201	15,431
Total comprehensive income for the period	-	-	1	1	-	419	421
Internal tax for the period	-	-	-	-	-	5	5
Capital subscriptions	20	(16)	-	-	-	-	4
At 30 September 2017	**29,723**	**(23,512)**	**20**	**(1)**	**6**	**9,625**	**15,861**

Statement of cash flows for the period to 30 September 2017 (unaudited) and 30 September 2016 (unaudited)

	€ million	Year to 30 September 2017 € million	€ million	Year to 30 September 2016 € million
Cash flows from operating activities				
Net profit/(loss) for the period	**419**		144	
Adjustments for:				
Unwinding of the discount relating to impaired identified assets	**(13)**		(23)	
Interest income	**(875)**		(807)	
Interest expense and similar charges	**290**		212	
Net deferral of fees and direct costs	**63**		80	
Dividend income	**(169)**		(87)	
Internal tax	**5**		5	
Realised (gains)/losses on share investments and equity derivatives	**(73)**		61	
Unrealised (gains)/losses on share investments and equity derivatives at fair value through profit or loss	**(81)**		80	
Unrealised (gains)/losses from loans at fair value through profit or loss	**(1)**		5	
Realised (gains) on Banking loans	**(6)**		(8)	
Realised (gains) on Treasury investments	**(2)**		(5)	
Fair value movement on hedges	**68**		(70)	
Unrealised mark-to-market movement	**72**		15	
Foreign exchange losses/(gains)	**2**		(4)	
Depreciation and amortisation	**19**		15	
Gross provisions charge for Banking loan losses and guarantees	**15**		88	
Movement in net income allocations payable	**115**		105	
	(152)		(194)	
Interest income received	**824**		775	
Interest expense and similar charges paid	**(228)**		(284)	
Dividend income received	**169**		89	
Increase in operating assets:				
Prepaid expenses	**13**		42	
Proceeds from repayments of Banking loans	**5,617**		6,413	
Funds advanced for Banking loans	**(5,783)**		(6,940)	
Proceeds from sale of Banking share investments and equity derivatives	**813**		480	
Funds advanced for Banking share investments	**(352)**		(644)	
Net placements from credit institutions	**(3,825)**		(1,424)	
Net proceeds from settlement of derivatives	**488**		78	
Increase in operating liabilities:				
Accrued expenses	**98**		77	
Net cash from operating activities		**(2,318)**		(1,532)
Cash flows (used in)/from investing activities				
Proceeds from debt securities at amortised cost	**9,572**		10,724	
Purchases of debt securities at amortised cost	**(10,249)**		(8,292)	
Proceeds from sale of debt securities held at fair value through profit or loss	**2,744**		642	
Purchases of debt securities held at fair value through profit or loss	**(2,827)**		(715)	
Proceeds from sale of property, technology and office equipment	**17**		(2)	
Purchase of intangible assets, property, technology and office equipment	**(10)**		(13)	
Net cash (used in)/from investing activities		**(753)**		2,344
Cash flows from/(used in) financing activities				
Capital received	**4**		5	
Issue of debts evidenced by certificates	**16,449**		10,634	
Redemption of debts evidenced by certificates	**(15,650)**		(10,643)	
Net cash from/(used in) financing activities		**803**		(4)
Net increase in cash and cash equivalents		**(2,268)**		808
Cash and cash equivalents at beginning of the year		**8,517**		7,533
Cash and cash equivalents at 30 June[1]		**6,249**		8,341

[1] Cash and cash equivalents are amounts with less than three months to maturity from the date of the transactions, which are available for use at short notice and are subject to insignificant risk of change in value. Within the 30 September 2017 balance is €8 million restricted for technical assistance to be provided to member countries in the SEMED region.

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 2017 the Bank's shareholders comprised 66 countries, together with the European Union 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 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). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, 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 which 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 for the year ended 31 December 2016.

In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the period have been made. The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending 31 December 2017.

3. Banking loan investments at amortised cost

	30 September 2017 Sovereign loans € million	**30 September 2017 Non-sovereign loans € million**	**30 September 2017 Total loans € million**	31 December 2016 Sovereign loans € million	31 December 2016 Non-sovereign loans € million	31 December 2016 Total loans € million
Book Value						
At 1 January	**3,998**	**18,887**	**22,885**	3,033	18,784	21,817
Movement in fair value revaluation[1]	**-**	**(6)**	**(6)**	-	21	21
Disbursements	**879**	**4,911**	**5,790**	2,185	7,561	9,746
Repayments and prepayments	**(889)**	**(4,748)**	**(5,637)**	(1,230)	(7,646)	(8,876)
Remeasurement of previously impaired loans	**-**	**25**	**25**	-	-	-
Reclassification	-	**(31)**	**(31)**	-	(7)	(7)
Foreign exchange movements	**(79)**	**(952)**	**(1,031)**	23	262	285
Movement in net deferral of front end fees and related direct costs	**(2)**	**(4)**	**(6)**	(13)	(9)	(22)
Written off	-	**(57)**	**(57)**	-	(79)	(79)
Total	**3,907**	**18,025**	**21,932**	3,998	18,887	22,885
Portfolio provisions for the unidentified impairment of loan investments	**(14)**	**(221)**	**(235)**	(29)	(250)	(279)
Specific provisions for the identified impairment of loan investments	**-**	**(697)**	**(697)**	-	(765)	(765)
Net Book Value	**3,893**	**17,107**	**21,000**	3,969	17,872	21,841

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

At 30 September 2017 the Bank categorised 94 amortised cost loans as non-performing, with operating assets totalling €1.0 billion (31 December 2016: 101 loans totalling €1.2 billion). Specific provisions on these assets amounted to €697 million (31 December 2016: €765 million).

Banking loan investments at fair value through profit or loss

Non-sovereign loans	**30 September 2017 € million**	31 December 2016 € million
At 1 January	**313**	339
Movement in fair value revaluation	**15**	13
Disbursements	**55**	108
Repayments and prepayments	**(13)**	(233)
Foreign exchange movements	**(19)**	35
Reclassification	**31**	51
Written off	**(11)**	-
Fair value	**371**	313

As at 30 September 2017 the bank categorised seven fair value through profit and loss loans as non-performing, with operating assets totalling $61 million (31 December 2016: Eight loans totalling €75 million). Net fair value losses on these assets amounted to €55 million (31 December 2016: $69 million).

4. Share investments

	30 September 2017 Fair value Unlisted € million	**30 September 2017 Fair value Listed € million**	**30 September 2017 Fair value Total € million**	31 December 2016 Fair value Unlisted € million	31 December 2016 Fair value Listed € million	31 December 2016 Fair value Total € million
Outstanding disbursements						
At 1 January	**4,238**	**1,896**	**6,134**	4,162	1,966	6,128
Transfer between unlisted and listed	**(53)**	**53**	**-**	(179)	179	-
Disbursements	**271**	**81**	**352**	709	65	774
Disposals	**(398)**	**(342)**	**(740)**	(421)	(314)	(735)
Reclassification	**-**	**-**	**-**	(25)	-	(25)
Written off	**-**	**-**	**-**	(8)	-	(8)
Total	**4,058**	**1,688**	**5,746**	4,238	1,896	6,134
Fair value adjustment						
At 1 January	**(1,080)**	**211**	**(869)**	(1,068)	(27)	(1,095)
Transfer between unlisted and listed	**16**	**(16)**	**-**	63	(63)	-
Movement in fair value revaluation	**258**	**(58)**	**200**	(75)	301	226
Total	**(806)**	**137**	**(669)**	(1,080)	211	(869)
Fair value	**3,252**	**1,825**	**5,077**	3,158	2,107	5,265
Equity derivatives	**400**	**(11)**	**389**	454	63	517

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 Bank's 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

	At 30 September 2017			At 30 September 2016		
	Banking	**Treasury**	**Aggregated**	Banking	Treasury	Aggregated
	€ million	**€ million**	**€ million**	€ million	€ million	€ million
Interest income	**760**	**128**	**888**	761	69	830
Other income	**347**	**43**	**390**	(26)	75	49
Total segment revenue	**1,107**	**171**	**1,278**	735	144	879
Less interest (expense)/income and similar charges	**(211)**	**(97)**	**(308)**	(194)	35	(159)
Net interest income/(expense) on derivatives	**-**	**18**	**18**	-	(53)	(53)
Less general administrative expenses	**(270)**	**(17)**	**(287)**	(290)	(19)	(309)
Less depreciation and amortisation	**(18)**	**(1)**	**(19)**	(14)	(1)	(15)
Segment result before provisions and hedges	**608**	**74**	**682**	237	106	343
Fair value movement on non-qualifying and ineffective hedges	**-**	**(68)**	**(68)**	-	70	70
Provision for impairment of loan investments	**(15)**	**-**	**(15)**	(88)	-	(88)
Net profit for the year	**593**	**6**	**599**	149	176	325
Transfers of net income approved by the Board of Governors			**(180)**			**(181)**
Net profit after transfers approved by the Board of Governors			**419**			**144**
Segment assets	**27,127**	**28,544**	**55,671**	27,164	28,177	55,341
Segment liabilities	**562**	**39,248**	**39,810**	439	40,174	40,613

6. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial assets at 30 September 2017	Carrying amount € million	Fair value € million
Financial assets measured at fair value:		
Debt securities	1,180	1,180
Derivative financial instruments	3,815	3,815
Banking share investments	5,077	5,077
Treasury share investments	76	76
Banking loan investments	371	371
	10,519	10,519
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	13,420	13,420
Debt securities	9,810	9,848
Other financial assets	824	824
Banking loan investments	21,000	21,706
	45,054	45,798
Total financial assets	**55,573**	**56,317**

Financial liabilities at 30 September 2017	Carrying amount € million	Fair value € million
Amounts owed to credit institutions	(2,398)	(2,398)
Debts evidenced by certificates	(34,304)	(34,317)
Derivative financial instruments	(1,643)	(1,643)
Other liabilities	(1,465)	(1,465)
Total financial liabilities	**(39,810)**	**(39,823)**

Fair Value Estimation Techniques

The Bank’s balance sheet approximates to fair value in all financial asset and liability categories, with the exception of loan investments at amortised cost.

The amortised cost instruments held within placements with and advances to credit institutions, other financial assets, amounts owed to credit institutions, and other financial liabilities are all deemed to have amortised cost values approximating their fair value, being primarily simple, short-term instruments. They are classified as having Level 2 inputs as the Bank’s assessment of their fair value is based on the observable market valuation of similar assets and liabilities.

Amortised cost debt securities are valued using Level 2 inputs. The basis of their fair value is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are quotes from brokerage services.
The Bank’s collateralised placements are valued using discounted cash flows and are therefore based on Level 3 inputs.

Banking loan investments whereby the objective of the Bank's business model is to hold these investments to collect the contractual cash flow, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest, are recognised at amortised cost. The fair value of these loans was calculated using Level 3 inputs by discounting the cash flows at a year-end interest rate applicable to each loan and further discounting the value by an internal measure of credit risk.

Debts evidenced by certificates represents the Bank's borrowing activities executed through the issuance of commercial paper and bonds. The fair value of the Bank's issued bonds is determined using discounted cash flow models and therefore relies on Level 3 inputs. Due to the short-tenor nature of commercial paper, amortised cost approximates fair value. The fair value of the Bank's issued commercial paper is determined based on the observable market valuation of similar assets and liabilities and therefore relies on Level 2 inputs.

Fair value hierarchy

IFRS 13 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. These inputs have created the following fair value hierarchy:

- **Level 1** - Quoted prices in active markets for identical assets or liabilities. This level includes listed share investments on stock exchanges.
- **Level 2** - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes debt securities and most derivative products. The sources of inputs include prices available from screen-based services such as Reuters and Bloomberg, broker quotes and observable market data such as interest rates and foreign exchange rates which are used in deriving the valuations of derivative products.
- **Level 3** - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments and debt securities or derivative products for which not all market data is observable.

The table below provides information at 30 September 2017 about the Bank's financial assets and financial liabilities measured at fair value. Financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement.

	At 30 September 2017			
	Level 1 € million	**Level 2 € million**	**Level 3 € million**	**Total € million**
Debt securities	-	1,180	-	1,180
Derivative financial instruments	-	3,353	462	3,815
Banking loans	-	-	371	371
Share investments (Banking portfolio)	1,543	-	3,534	5,077
Share investments (Treasury portfolio)	-	76	-	76
Total financial assets at fair value	**1,543**	**4,609**	**4,367**	**10,519**
Derivative financial instruments	-	(1,579)	(64)	(1,643)
Total financial liabilities at fair value	**-**	**(1,579)**	**(64)**	**(1,643)**

There have been no transfers between level 1 and level 2 during the year.

The table below provides a reconciliation of the fair values of the Bank's level 3 financial assets and financial liabilities for the period ended 30 September 2017.

	Level 3 financial assets and financial liabilities Period ended 30 September 2017					
	Derivative financial instruments € million	**Banking loans € million**	**Banking share investments € million**	**Total level 3 assets € million**	**Derivative financial instruments € million**	**Total liabilities € million**
Balance as at 31 December 2016	577	313	3,455	4,345	(51)	(51)
Total (losses)/gains for the period ended 30 September 2017 in:						
Net (loss)/profit	(37)	39	179	181	(13)	(13)
Purchases/issues	-	54	287	341	-	-
Sales/settlements	(65)	(24)	(350)	(439)	-	-
Write offs	-	(11)	-	(11)	-	-
Transfers out of Level 3	-	-	(37)	(37)	-	-
Day 1 deferral	(13)	-	-	(13)	-	-
Balance as at 30 September 2017	462	371	3,534	4,367	(64)	(64)
Unrealised fair value changes on assets and liabilities held at 30 September 2017 included in net (loss)/profit above	(36)	(14)	192	142	(13)	(13)

The transfers into and out of level 3 for Banking share investments relates to a decline in market activity for certain listed investments which have resulted in their valuations now being based on unobservable inputs.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 30 September 2017, the main valuation models/techniques[1] used in the valuation of these financial instruments and the estimated increases or decreases in fair value based on reasonably possible alternative assumptions:

		Impact on net profit in 2017		
	Main valuation models/techniques	Carrying amount € million	Favourable change € million	Unfavourable change € million
Treasury derivative financial instruments	Discounted cash flow models	7	-	(1)
Banking loans	Discount cash flow and option pricing models	371	13	(19)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	3,925	553	(421)
At 30 September 2017		**4,303**	**566**	**(441)**

[1] NAV = net asset value; EBITDA = earnings before interest, tax, depreciation and amortisation.