DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

European Bank
for Reconstruction and Development

INTERIM FINANCIAL REPORT

At 30 September 2018

(UNAUDITED)

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European Bank for Reconstruction and Development: Interim Financial Report at 30 September 2018

Income statement

For the quarter ended 30 September 2018 (unaudited) and 30 September 2017 (unaudited)

	Quarter 3 2018 € million	Quarter 2 2018 € million	YTD 2018 € million	Restated[1] Quarter 3 2017 € million	Restated[1] YTD 2017 € million
Interest and similar income					
From Banking loans	274	272	785	232	734
From fixed-income debt securities and other interest	97	78	233	47	128
Interest expense and similar charges	(221)	(208)	(577)	(107)	(308)
Net interest income on derivatives	42	52	114	(1)	18
Net interest income	192	194	555	171	572
Fee and commission income	34	31	88	24	57
Fee and commission expense	(2)	(1)	(7)	(2)	(5)
Net fee and commission income	32	30	81	22	52
Dividend income	66	81	181	28	169
Net (losses)/gains from share investments at fair value through profit or loss	(307)	123	(159)	(47)	154
Net (losses)/gains from loans at fair value through profit or loss	(6)	5	(1)	(13)	1
Net gains from loans at amortised cost	-	-	10	-	6
Net gains from Treasury investments held at amortised cost	-	-	1	-	2
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	13	7	34	10	41
Fair value movement on non-qualifying and ineffective hedges	84	(5)	147	(24)	(68)
Impairment provisions on Banking loan investments	(32)	(36)	(95)	(17)	(17)
Impairment provisions on guarantees				2	2
General administrative expenses	(95)	(94)	(276)	(96)	(287)
Depreciation and amortisation	(8)	(6)	(21)	(6)	(19)
Net (losses)/profit for the period	(61)	299	457	30	608
Transfers of net income approved by the Board of Governors	-	(130)	(130)	-	(180)
Financial accounting net (loss)/profit after transfers of net income approved by the Board of Governors	(61)	169	327	30	428

[1] As explained in Note 7 on page 14

Statement of comprehensive income

For the quarter ended 30 September 2018 (unaudited) and 30 September 2017 (unaudited)

	Quarter 3 2018 € million	Quarter 2 2018 € million	YTD 2018 € million	Restated[2] Quarter 3 2017 € million	Restated[2] YTD 2017 € million
Net (loss)/profit after transfers of net income approved by the Board of Governors	(61)	169	327	30	428
Other comprehensive income/(expense)					
1. Items that will not be reclassified subsequently to profit or loss					
Share investment designated as fair value through other comprehensive income	(8)	3	(5)	-	1
2. Items that may be reclassified subsequently to profit or loss					
Cash flow hedges	-	(3)	(2)	3	1
Fair value hedges	(56)	(62)	(142)	-	-
Total comprehensive (loss)/income	(125)	107	178	33	430
Attributable to:					
Equity holders	(125)	107	178	33	430

[2] As explained in Note 7 on page 14

Balance sheet

At 30 September 2018 (unaudited) and 31 December 2017 (audited)

	€ million	30 September 2018 € million	€ million	31 December 2017 € million
Assets				
Placements with and advances to credit institutions		16,009		14,605
Debt securities				
At fair value through profit or loss	1,403		916	
At amortised cost	10,748		9,465	
		12,151		10,381
		28,160		24,986
Other financial assets				
Derivative financial instruments	3,836		3,677	
Other financial assets	961		352	
		4,797		4,029
Loan investments				
Banking portfolio				
Loans at amortised cost	23,002		22,630	
Less: Provisions for impairment	(911)		(850)	
Loans at fair value through profit or loss	455		372	
		22,546		22,152
Share investments				
Banking portfolio				
Historic cost	5,441		5,506	
Fair value adjustment	(825)		(672)	
Share investments at fair value through profit or loss		4,616		4,834
Treasury portfolio				
Share investments at fair value through other comprehensive income		72		76
		4,688		4,910
Intangible assets		62		62
Property, technology and office equipment		53		54
Total assets		60,306		56,193
Liabilities				
Borrowings				
Amounts owed to credit institutions	2,361		2,650	
Debts evidenced by certificates	38,129		35,116	
		40,490		37,766
Other financial liabilities				
Derivative financial instruments	2,683		1,824	
Other financial liabilities	833		431	
		3,516		2,255
Total liabilities		44,006		40,021
Members' equity				
Paid-in capital		6,215		6,211
Reserves and retained earnings		10,085		9,961
Total members' equity		16,300		16,172
Total liabilities and members' equity		60,306		56,193
Memorandum items				
Undrawn commitments		12,520		12,770

Statement of changes in equity

For the quarter ended 30 September 2018 (unaudited) and 30 September 2017 (unaudited)

	Subscribed capital € million	Callable capital € million	Fair value through other comprehensive income reserve € million	Hedging reserves € million	Actuarial Re-measurements € million	Restated[3] Retained earnings € million	Restated[3] Total equity € million
At 31 December 2016	29,703	(23,496)	19	(2)	6	9,328	15,558
Total comprehensive income for the period	-	-	1	1	-	428	430
Internal tax for the period	-	-	-	-	-	5	5
Capital Subscriptions	20	(16)	-	-	-	-	4
At 30 September 2017	29,723	(23,512)	20	(1)	6	9,761	15,997
At 31 December 2017	29,723	(23,512)	20	1	14	9,926	16,172
Effect of change in accounting policy[4]	-	-	-	-	-	(59)	(59)
At 31 December 2017 as restated	29,723	(23,512)	20	1	14	9,867	16,113
Total comprehensive income for the period	-	-	(5)	(144)	-	327	178
Internal tax for the period	-	-	-	-	-	5	5
Capital Subscriptions	20	(16)	-	-	-	-	4
At 30 September 2018	29,743	(23,528)	15	(143)	14	10,199	16,300

[3] As explained in Note 7 on page 14
[4] As explained in Note 3 on page 8

Statement of cash flows

For the period to 30 September 2018 (unaudited) and 30 September 2017 (unaudited)

	€ million	Year to 30 September 2018 € million	€ million	Restated[5] Year to 30 September 2017 € million
Cash flows from operating activities				
Net profit for the period	327		428	
Adjustments to reconcile net profit to net cash flows:				
Non-cash items in the income statement				
Depreciation and amortisation	21		19	
Gross provisions charge for Banking loan losses and guarantees	95		15	
Fair value movement on share investments	142		(154)	
Fair value movement on loans held at fair value through profit or loss	(7)		(7)	
Fair value movement on Treasury investments	(16)		138	
Other unrealised fair value movements	21		15	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayments of Banking loans	4,907		5,617	
Funds advanced for Banking loans	(5,446)		(5,783)	
Proceeds from sale of Banking share investments	417		813	
Funds advanced for Banking share investments	(409)		(352)	
Net proceeds/(funds advanced) from Treasury derivative settlements	16		488	
Net placements to credit institutions	(2,586)		(3,825)	
Working capital adjustment:				
Movement in interest income	(86)		(38)	
Movement in interest expense	134		62	
Movement in net fee and commission income	(6)		28	
Movement in net income allocations payable	-		115	
Movement in accrued expenses	17		116	
Movement in dividend income receivable	-		-	
Net cash used in operating activities		(2,459)		(2,305)
Cash flows used in investing activities				
Proceeds from sale of debt securities at amortised cost	8,173		9,572	
Purchases of debt securities at amortised cost	(9,416)		(10,249)	
Proceeds from sale of debt securities at fair value through profit or loss	1,900		2,744	
Purchases of debt securities at fair value through profit or loss	(2,276)		(2,827)	
Proceeds from sale of PPE and office equipment	-		17	
Purchase of intangible assets, property, technology and office equipment	(19)		(10)	
Cash flows used in investing activities		(1,638)		(753)
Cash flows from financing activities				
Capital received	5		4	
Issue of debts evidenced by certificates	19,671		16,449	
Redemption of debts evidenced by certificates	(16,948)		(15,650)	
Net cash from financing activities		2,728		803
Net decrease in cash and cash equivalents		(1,369)		(2,266)
Net foreign exchange differences		(40)		(13)
Cash and cash equivalents at beginning of the year		6,271		8,517
Cash and cash equivalents at 30 September[6]		4,862		6,249

[5] As explained in Note 7 on page 14
[6] 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 2018 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 2018 the Bank's shareholders comprised 67 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 2017.

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 2018.

3. Banking loan investments at amortised cost

	30 September 2018 Sovereign loans € million	30 September 2018 Non-sovereign loans € million	30 September 2018 Total loans € million	31 December 2017 Sovereign loans € million	31 December 2017 Non-sovereign loans € million	31 December 2017 Total loans € million
Book Value						
At 1 January	4,071	18,559	22,630	4,019	18,993	23,012
Movement in fair value revaluation[1]	-	(5)	(5)	-	(3)	(3)
Disbursements	776	4,556	5,332	1,477	7,027	8,504
Repayments and prepayments	(615)	(4,298)	(4,913)	(1,327)	(6,210)	(7,537)
Re-measurement of previously impaired loans	-	9	9	-	30	30
Reclassification	-	-	-	-	(32)	(32)
Foreign exchange movements	40	(28)	12	(96)	(1,123)	(1,219)
Movement in net deferral of front end fees and related direct costs	3	17	20	(2)	(8)	(10)
Written off	-	(83)	(83)	-	(115)	(115)
Total	4,275	18,727	23,002	4,071	18,559	22,630
Portfolio provisions for the unidentified impairment of loan investments	(17)	(251)	(268)	(18)	(230)	(248)
Specific provisions for the identified impairment of loan investments	-	(643)	(643)	-	(602)	(602)
Net Book Value	4,258	17,833	22,091	4,053	17,727	21,780

[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 2018 the Bank categorised 82 amortised cost loans as non-performing, with operating assets totalling €1,051 million (31 December 2017: 86 loans totalling €848 million). Specific provisions on these assets amounted to €643 million (31 December 2017: €602 million).

The Bank adopted the new IFRS 9 impairment criteria on 1 January 2018. This adoption resulted in the re-measurement of the portfolio provisions using the new Expected Credit Loss (ECL) methodology. This resulted in an increase to the portfolio provisions of €59 million which is applied retrospectively and does not impact 2018 comprehensive income.

	IAS 39 carrying value 31 December 2017 € million	Re-measurement € million	IFRS 9 carrying value 1 January 2018 € million	Retained earnings effect 1 January 2018 € million
For the period ended 30 September 2018				
Portfolio Provisions	(248)	(59)	(307)	(59)

Banking loan investments at fair value through profit or loss

Non-sovereign loans	30 September 2018 € million	31 December 2017 € million
At 1 January	372	313
Movement in fair value revaluation	(5)	21
Disbursements	114	106
Repayments and prepayments	(37)	(56)
Foreign exchange movements	11	(23)
Reclassification	-	32
Written off	-	(21)
Fair value	455	372

At 30 September 2018 the Bank categorised five fair value through profit or loss loans as non-performing, with operating assets totalling €58 million (31 December 2017: Five loans totalling €49 million). Net fair value losses on these assets amounted to €50 million (31 December 2017: €44 million).

4. Share investments

	30 September 2018 Fair value Unlisted € million	30 September 2018 Fair value Listed € million	30 September 2018 Fair value Total € million	31 December 2017 Fair value Unlisted € million	31 December 2017 Fair value Listed € million	31 December 2017 Fair value Total € million
Outstanding disbursements						
At 1 January	3,826	1,680	5,506	4,238	1,896	6,134
Transfer between unlisted and listed	-	-	-	(76)	76	-
Disbursements	220	222	442	379	140	519
Disposals	(398)	(108)	(506)	(715)	(432)	(1,147)
Total	3,648	1,794	5,442	3,826	1,680	5,506
Fair value adjustment						
At 1 January	(761)	89	(672)	(1,080)	211	(869)
Transfer between unlisted and listed	-	-	-	28	(28)	-
Movement in fair value revaluation	(11)	(143)	(154)	291	(94)	197
Total	(772)	(54)	(826)	(761)	89	(672)
Fair value	2,876	1,740	4,616	3,065	1,769	4,834
Equity derivatives	356	76	432	280	98	378

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 2018			Restated[7] At 30 September 2017		
	Banking € million	Treasury € million	Aggregated € million	Banking € million	Treasury € million	Aggregated € million
Interest income	785	233	1,018	734	128	888
Other income	112	35	147	347	43	390
Total segment revenue	897	268	1,165	1,116	171	1,287
Less interest expense and similar charges	(283)	(294)	(577)	(211)	(97)	(308)
Net interest income on derivatives	-	114	114	-	18	18
Less general administrative expenses	(260)	(16)	(276)	(270)	(17)	(287)
Less depreciation and amortisation	(20)	(1)	(21)	(18)	(1)	(19)
Segment result before provisions and hedges	334	71	405	617	74	691
Fair value movement on non-qualifying and ineffective hedges	-	147	147	-	(68)	(68)
Provision for impairment of loan investments	(95)	-	(95)	(15)	-	(15)
Net profit for the year	239	218	457	602	6	608
Transfers of net income approved by the Board of Governors			(130)			(180)
Net profit after transfers approved by the Board of Governors			327			428
Segment assets	28,109	32,197	60,306	27,127	28,544	55,671
Segment liabilities	333	43,673	44,006	562	39,248	39,810

[7] As explained in Note 7 on page 14

6. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial assets at 30 September 2018	Carrying amount € million	Fair value € million
Financial assets measured at fair value:		
Debt securities	1,403	1,403
Derivative financial instruments	3,836	3,836
Banking share investments	4,616	4,616
Treasury share investments	72	72
Banking loan investments	455	455
	10,382	10,382
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	16,009	16,009
Debt securities	10,748	10,781
Other financial assets	961	961
Banking loan investments	22,091	22,491
	49,809	50,242
Total financial assets	**60,191**	**60,624**

Financial liabilities at 30 September 2018	Carrying amount € million	Fair value € million
Amounts owed to credit institutions	(2,361)	(2,361)
Debts evidenced by certificates	(38,129)	(38,175)
Derivative financial instruments	(2,683)	(2,683)
Other liabilities	(833)	(833)
Total financial liabilities	**(44,006)**	**(44,052)**

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 2018 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 2018			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	1,403	-	1,403
Derivative financial instruments	-	3,329	507	3,836
Banking loans	-	-	455	455
Share investments (Banking portfolio)	1,477	-	3,139	4,616
Share investments (Treasury portfolio)	-	72	-	72
Total financial assets at fair value	**1,477**	**4,804**	**4,101**	**10,382**
Derivative financial instruments	-	(2,608)	(75)	(2,683)
Total financial liabilities at fair value	**-**	**(2,608)**	**(75)**	**(2,683)**

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 2018.

	Level 3 financial assets and financial liabilities Period ended 30 September 2018					
	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 2017	462	372	3,286	4,120	(77)	(77)
Total gains/(losses) for the quarter ended 30 September 2018 in:						
Net profit	79	6	(29)	56	2	2
Purchases/issues	-	114	252	366	-	-
Sales/settlements	(29)	(37)	(422)	(488)	-	-
Day 1 deferral	2	-	-	2	-	-
Net transfers (out of)/in to Level 3	(7)	-	52	45	-	-
Balance as at 30 September 2018	507	455	3,139	4,101	(75)	(75)
Unrealised fair value changes on assets and liabilities held at 30 September 2018 included in net profit/(loss) above	101	5	(73)	33	(6)	(6)

Transfers out of level 3 for Derivative financial instruments relate to a change in valuation method used due to the availability of more observable market data as an input. Transfers in to level 3 for Banking share investments relate to listed investments that were not actively traded during the period.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 30 September 2018, the main valuation models/techniques[4] 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 2018		
	Main valuation models/techniques	Carrying amount € million	Favourable change € million	Unfavourable change € million
Banking loans	Discount cash flow and option pricing models	455	24	(34)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models[4]	3,571	504	(511)
At 30 September 2018		**4,026**	**528**	**(545)**

7. Restatement

In 2017, the Bank adopted a new accounting policy concerning the timing and recognition of fees charged on undrawn loan commitments. Previously fees charged on undrawn loan commitments were deferred and accounted for as integral to the effective interest rate of the resulting loan. The Bank's new policy is to recognise revenue from these fees in the period in which the loan commitment is not utilised, which is also the period that they are charged. This provides more relevant and reliable information to the users of the Bank's accounts.

The impact of this change in policy on year to date 2017 income statement was a net increase in profit of €9 million, with fee and commission income increasing by €35 million and interest income from Banking loans reducing by €26 million.

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