

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT



European Bank
for Reconstruction and Development

INTERIM FINANCIAL REPORT

At 31 March 2019

(UNAUDITED)

Table of contents

European Bank for Reconstruction and Development: Interim Financial Report at 31 March 2019

Income statement	2
Statement of comprehensive income	3
Balance sheet	4
Statement of changes in equity	5
Statement of cash flows	6
Explanatory notes	7

Income statement

For the quarter ended 31 March 2019 (unaudited) and 31 March 2018 (unaudited)

	Quarter 1 2019 € million	Quarter 1 2018 € million
Interest and similar income		
From Banking loans	296	239
From fixed-income debt securities and other interest	123	58
Interest expense and similar charges	(263)	(148)
Net interest income on derivatives	34	20
Net interest income	190	169
Fee and commission income	21	23
Fee and commission expense	(2)	(4)
Net fee and commission income	19	19
Dividend income	5	34
Net gains from share investments at fair value through profit or loss	247	25
Net gains from loans	7	10
Net gains from Treasury assets held at amortised cost	1	1
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	16	14
Fair value movement on non-qualifying and ineffective hedges	(35)	68
Impairment provisions on Banking loan investments	21	(27)
Impairment provisions on guarantees	(2)	-
General administrative expenses	(85)	(87)
Depreciation and amortisation	(13)	(7)
Net profit for the period	371	219
Transfers of net income approved by the Board of Governors	-	-
Net profit after transfers of net income approved by the Board of Governors	371	219
Attributable to:		
Equity holders	371	219

Statement of comprehensive income

For the quarter ended 31 March 2019 (unaudited) and 31 March 2018 (unaudited)

	Quarter 1 2019 € million	Quarter 1 2018 € million
Net profit after transfers of net income approved by the Board of Governors	371	219
Other comprehensive income/(expense)		
1. Items that will not be reclassified subsequently to profit or loss		
– Gains on share investments designated as fair value through other comprehensive income	6	1
2. Items that may be reclassified subsequently to profit or loss		
– Gains on cash flow hedges	7	1
– Losses on fair value hedges	(9)	(24)
– Gains on loans designated as fair value through other comprehensive income	15	-
Total comprehensive income	390	197
Attributable to:		
Equity holders	390	197

Balance sheet

At 31 March 2019 (unaudited) and 31 December 2018 (audited)

At 31 December 2018	€ million	31 Mar 2019 € million	€ million	31 Dec 2018 € million
Assets				
Placements with and advances to credit institutions	19,007		16,014	
Debt securities				
At fair value through profit or loss	1,919		1,604	
At amortised cost	10,823		11,343	
	12,742		12,947	
		31,749		28,961
Other financial assets				
Derivative financial instruments	4,129		3,948	
Other financial assets	940		381	
		5,069		4,329
Loan investments				
<i>Banking portfolio:</i>				
Loans at amortised cost	22,471		22,413	
Less: Provisions for impairment	(961)		(981)	
Loans at fair value through other comprehensive income	1,803		1,737	
Loans at fair value through profit or loss	459		460	
		23,772		23,629
Share investments				
<i>Banking portfolio:</i>				
At fair value through profit or loss	4,921		4,745	
<i>Treasury portfolio:</i>				
Share investments at fair value through other comprehensive income	80		75	
		5,001		4,820
Intangible assets		62		62
Property, technology and equipment		128		50
Total assets		65,781		61,851
Liabilities				
Borrowings				
Amounts owed to credit institutions and other third parties	2,238		2,107	
Debts evidenced by certificates	43,985		40,729	
		46,223		42,836
Other financial liabilities				
Derivative financial instruments	2,024		2,079	
Other financial liabilities	859		653	
		2,883		2,732
Total liabilities		49,106		45,568
Members' equity attributable to equity holders				
Paid-in capital	6,215		6,215	
Reserves and retained earnings	10,460		10,068	
Total members' equity		16,675		16,283
Total liabilities and members' equity		65,781		61,851
Memorandum items				
Undrawn commitments		12,999		13,068

Statement of changes in equity

For the quarter ended 31 March 2019 (unaudited) and 31 March 2018 (unaudited)

	Subscribed capital € million	Callable capital € million	Revaluation reserve € million	Hedging reserve € million	Actuarial remeasurement € million	Retained earnings € million	Total equity € million
At 31 December 2017	29,723	(23,512)	20	1	14	9,867	16,113
Total comprehensive income for the year	-	-	1	(23)	-	219	197
Internal tax for the year	-	-	-	-	-	2	2
Capital subscriptions	-	-	-	-	-	-	-
At 31 March 2018	29,723	(23,512)	21	(22)	14	10,088	16,312
At 31 December 2018	29,743	(23,528)	18	(44)	4	10,090	16,283
Total comprehensive income for the year	-	-	21	(2)	-	371	390
Internal tax for the year	-	-	-	-	-	2	2
Capital subscriptions	-	-	-	-	-	-	-
At 31 March 2019	29,743	(23,528)	39	(46)	4	10,463	16,675

Statement of cash flows

For the period to 31 March 2019 (unaudited) and 31 March 2018 (unaudited)

	€ million	Year to 31 Mar 2019 € million	€ million	Year to 31 Mar 2018 € million
Cash flows from operating activities				
Net profit for the year	371		219	
Adjustments to reconcile net profit to net cash flows:				
<i>Non-cash items in the income statement</i>				
Depreciation and amortisation	13		7	
Gross provisions charge for Banking loan losses and guarantees	(19)		28	
Fair value movement on share investments	(247)		49	
Fair value movement on loans held at fair value through profit or loss	(7)		81	
Fair value movement on Treasury investments	18		(76)	
<i>Cash flows from the sale and purchase of operating assets</i>				
Proceeds from repayments of Banking loans	1,515		2,209	
Funds advanced for Banking loans	(1,399)		(1,908)	
Proceeds from sale of Banking share investments	201		93	
Funds advanced for Banking share investments	(68)		(155)	
Net cash flows from Treasury derivative settlements	195		77	
Net placements to credit institutions	(1,433)		(3,285)	
<i>Working capital adjustment:</i>				
Movement in interest income	(77)		(19)	
Movement in interest expense	99		55	
Movement in net fee and commission income	(1)		(5)	
Movement in net income allocations payable	-		-	
Movement in accrued expenses	(20)		(29)	
Movement in dividend income receivable	-		-	
Net cash used in operating activities		(859)		(2,659)
Cash flows from investing activities				
Proceeds from sale of debt securities at amortised cost	2,866		2,409	
Purchases of debt securities at amortised cost	(2,090)		(4,144)	
Proceeds from sale of debt securities at fair value through profit or loss	636		248	
Purchases of debt securities at fair value through profit or loss	(887)		(1,070)	
Purchase of intangible assets, property, technology and equipment	(6)		(8)	
Cash flows from/(used in) investing activities		519		(2,565)
Cash flows from financing activities				
Capital received	2		-	
Issue of debts evidenced by certificates	6,365		7,905	
Redemption of debts evidenced by certificates	(4,673)		(3,780)	
Net cash from financing activities		1,694		4,125
Net increase/(decrease) in cash and cash equivalents		1,354		(1,099)
Cash and cash equivalents at beginning of the year		5,544		6,271
Cash and cash equivalents at 31 March²		6,898		5,172

² 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 31 March 2019 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 31 March 2019 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 2018.

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 2019.

3. Banking loan investments at amortised cost

	31 Mar 2019 Sovereign loans € million	31 Mar 2019 Non- sovereign loans € million	31 Mar 2019 Total loans € million	31 Dec 2018 Sovereign loans € million	31 Dec 2018 Non- sovereign loans € million	31 Dec 2018 Total loans € million
At 1 January	4,376	18,037	22,413	4,071	17,380	21,451
Disbursements	129	1,199	1,328	1,092	5,826	6,918
Repayments and prepayments	(98)	(1,377)	(1,475)	(795)	(5,236)	(6,031)
Remeasurement of previously impaired loans	-	-	-	-	9	9
Foreign exchange movements	24	163	187	53	76	129
Movement in effective interest rate adjustment	5	13	18	(45)	55	10
Reclassification	-	-	-	-	18	18
Written off	-	-	-	-	(91)	(91)
At 31 March	4,436	18,035	22,471	4,376	18,037	22,413
Impairment 31 March	(18)	(943)	(961)	(18)	(963)	(981)
Total net of impairment at 31 March	4,418	17,092	21,510	4,358	17,074	21,432

At 31 March 2019 the Bank categorised 82 amortised cost loans as non-performing, with operating assets totalling €1,204 million (31 December 2018: 82 loans totalling €1,135 million). Specific provisions on these assets amounted to €687 million (31 December 2018: €675 million).

4. Banking loan investments at fair value through profit or loss

	31 Mar 2019 € million	31 Dec 2018 € million
Non-sovereign loans		
At 1 January	460	372
Movement in fair value revaluation	3	19
Disbursements	-	132
Repayments and prepayments	(10)	(62)
Foreign exchange movements	6	15
Written off	-	(16)
At 31 March	459	460

At 31 March 2019 the Bank categorised four fair value through profit or loss loans as non-performing, with operating assets totalling €42 million (31 December 2018: Four loans totalling €41 million). Net fair value losses on these assets amounted to €36 million (31 December 2018: €35 million).

5. Banking loan investments at fair value through other comprehensive income

	31 Mar 2019 € million	31 Dec 2018 € million
Non-sovereign loans		
At 1 January	1,737	1,190
Movement in fair value revaluation	20	(17)
Movement in expected credit loss	(1)	(4)
Disbursements	78	792
Repayments and prepayments	(36)	(190)
Foreign exchange movements	5	(16)
Reclassification	-	(18)
At 31 December	1,803	1,737

At 31 March 2019, the Bank categorised no fair value through other comprehensive income loans as non-performing.

6. Share investments

	31 Mar 2019 Fair value Unlisted € million	31 Mar 2019 Fair value Listed € million	31 Mar 2019 Fair value Total € million	31 Dec 2018 Fair value Unlisted € million	31 Dec 2018 Fair value Listed € million	31 Dec 2018 Fair value Total € million
Outstanding disbursements						
At 1 January	3,568	1,959	5,527	3,826	1,680	5,506
Disbursements	43	24	67	319	412	731
Disposals	(110)	(45)	(155)	(577)	(124)	(701)
Written off	-	-	-	-	(9)	(9)
At Period end	3,501	1,938	5,439	3,568	1,959	5,527
Fair value adjustment						
At 1 January	(596)	(186)	(782)	(761)	89	(672)
Movement in fair value revaluation	93	171	264	165	(275)	(110)
At Period end	(503)	(15)	(518)	(596)	(186)	(782)
Fair value at 31 December	2,998	1,923	4,921	2,972	1,773	4,745
Equity Derivatives	250	85	335	300	100	400

7. 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

	Banking 31 Mar 2019 € million	Treasury 31 Mar 2019 € million	Aggregated 31 Mar 2019 € million	Banking 31 Dec 2018 € million	Treasury 31 Dec 2018 € million	Aggregated 31 Dec 2018 € million
Interest income	296	123	419	1,064	348	1,412
Other income	276	17	293	146	34	180
Total segment revenue	572	140	712	1,210	382	1,592
Interest expense and similar charges	(120)	(143)	(263)	(396)	(435)	(831)
Net interest income on derivatives	-	34	34	-	170	170
General administrative expenses	(80)	(5)	(85)	(371)	(20)	(391)
Depreciation and amortisation	(12)	(1)	(13)	(28)	(1)	(29)
Segment result before provisions and hedges	360	25	385	415	96	511
Fair value movement on non-qualifying and ineffective hedges	-	(35)	(35)	-	21	21
Provisions for impairment of loan investments and guarantees	21	-	21	(192)	-	(192)
Net profit for the year	381	(10)	371	223	117	340
Transfers of net income approved by the Board of Governors			-			(130)
Net profit after transfers approved by the Board of Governors			371			210
Segment assets	29,646	36,135	65,781	29,266	32,585	61,851
Segment liabilities	528	48,578	49,106	436	45,132	45,568

8. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

	Carrying amount € million	Fair value € million
Financial assets at 31 March 2019		
Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:		
Debt securities	1,919	1,919
Derivative financial instruments	4,129	4,129
Share investments (Banking portfolio)	4,921	4,921
Banking loans	2,262	2,262
Share investments (Treasury portfolio)	80	80
	13,311	13,311
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	19,007	19,007
Debt securities	10,823	10,836
Other financial assets	940	940
Banking loan investments at amortised cost	21,510	22,011
	52,280	52,794
Total	65,591	66,105
Financial liabilities at 31 March 2019		
Financial liabilities measured at fair value through profit or loss or fair value through other comprehensive income:		
Amounts owed to credit institutions	(2,238)	(2,238)
Debts evidenced by certificates	(43,985)	(43,897)
Derivative financial instruments	(2,024)	(2,024)
Equity Participation Fund	(109)	(109)
Other financial liabilities	(750)	(750)
	(49,106)	(49,018)
Total	(49,106)	(49,018)

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 31 March 2019 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 31 March 2019			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	1,919	-	1,919
Derivative financial instruments	-	3,673	456	4,129
Banking loans	1,803	-	459	2,262
Share investments (Banking portfolio)	1,668	45	3,209	4,921
Share investments (Treasury portfolio)	-	80	-	80
Total financial assets at fair value	1,668	5,716	4,124	13,311
Derivative financial instruments	-	(1,903)	(121)	(2,024)
Other liabilities	-	-	(109)	(109)
Total financial liabilities at fair value	-	(1,903)	(230)	(2,133)

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 31 March 2019.

	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total assets € million	Other liabilities € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2018	499	460	3,174	4,133	(111)	(99)	(210)
Total (losses)/gains for the quarter ended 31 March 2019 in:							
Net (loss)/gains	(25)	9	141	125	-	(25)	(25)
Deferred loss	-	-	-	-	(5)	-	(5)
Purchases/issues	-	-	44	44	7	-	10
Sales/settlements	(18)	(10)	(151)	(171)	-	3	-
Write offs	-	-	-	-	-	-	-
Transfers into Level 3	-	-	1	1	-	-	-
Balance at 31 March 2019	456	459	3,209	4,124	(109)	(121)	(230)
Unrealised fair value changes on assets and liabilities held at 31 March 2019 included in net profit/(loss) above	(25)	4	134	113	-	(25)	(25)

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 31 March 2019, the main valuation models/techniques⁴ 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 Quarter 1 2019		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
Main valuation models/techniques				
Banking loans	DCF and option pricing models	459	7	(7)
Banking share investments, EPF and associated derivatives	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models ⁵	3,435	616	(609)
At 31 March		3,894	623	(616)

⁵ NAV = net asset value; EBITDA = earnings before interest, tax, depreciation and amortisation.