

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT



European Bank
for Reconstruction and Development

INTERIM FINANCIAL REPORT

At 30 June 2018

(UNAUDITED)

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Income statement

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

	Quarter 2 2018 € million	Quarter 1 2018 € million	YTD 2018 € million	Restated ¹ Quarter 2 2017 € million	Restated ¹ YTD 2017 € million
Interest and similar income					
From Banking loans	272	239	511	232	502
From fixed-income debt securities and other interest	78	58	136	42	81
Interest expense and similar charges	(208)	(148)	(356)	(107)	(201)
Net interest income on derivatives	52	20	72	12	19
Net interest income	194	169	363	179	401
Fee and commission income	31	23	54	15	33
Fee and commission expense	(1)	(4)	(5)	(1)	(3)
Net fee and commission income	30	19	49	14	30
Dividend income	81	34	115	82	141
Net gains/(losses) from share investments at fair value through profit or loss	123	25	148	(8)	201
Net gains from loans at fair value through profit or loss	5	-	5	6	14
Net gains from loans at amortised cost	-	10	10	2	6
Net gains from Treasury investments held at amortised cost	-	1	1	-	2
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	7	14	21	12	31
Fair value movement on non-qualifying and ineffective hedges	(5)	68	63	(43)	(44)
Impairment provisions on Banking loan investments	(36)	(27)	(63)	(3)	-
General administrative expenses	(94)	(87)	(181)	(101)	(191)
Depreciation and amortisation	(6)	(7)	(13)	(7)	(13)
Net profit for the period	299	219	518	133	578
Transfers of net income approved by the Board of Governors	(130)	-	(130)	(180)	(180)
Financial accounting net profit/(loss) after transfers of net income approved by the Board of Governors	169	219	388	(47)	398

¹ As explained in Note 7 on page 14

Statement of comprehensive income

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

	Quarter 2 2018 € million	Quarter 1 2018 € million	YTD 2018 € million	Restated ² Quarter 2 2017 € million	Restated ² YTD 2017 € million
Net profit/(loss) after transfers of net income approved by the Board of Governors	169	219	388	(47)	398
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	3	1	4	-	1
2. Items that may be reclassified subsequently to profit or loss					
Cash flow hedges	(3)	1	(2)	(5)	(2)
Fair value hedges	(62)	(24)	(86)	-	-
Total comprehensive income/(loss)	107	197	304	(52)	397
Attributable to:					
Equity holders	107	197	304	(52)	397

² As explained in Note 7 on page 14

Balance sheet

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

	€ million	30 June 2018 € million	€ million	31 December 2017 € million
Assets				
Placements with and advances to credit institutions		17,494		14,605
Debt securities				
At fair value through profit or loss	1,409		916	
At amortised cost	11,668		9,465	
		13,077		10,381
		30,571		24,986
Other financial assets				
Derivative financial instruments	4,125		3,677	
Other financial assets	377		352	
		4,502		4,029
Loan investments				
<i>Banking portfolio</i>				
Loans at amortised cost	22,931		22,630	
Less: Provisions for impairment	(964)		(850)	
Loans at fair value through profit or loss	405		372	
		22,372		22,152
Share investments				
<i>Banking portfolio</i>				
Historic cost	5,480		5,506	
Fair value adjustment	(456)		(672)	
Share investments at fair value through profit or loss		5,024		4,834
<i>Treasury portfolio</i>				
Share investments at fair value through other comprehensive income		80		76
		5,104		4,910
Intangible assets		62		62
Property, technology and office equipment		55		54
Total assets		62,666		56,193
Liabilities				
Borrowings				
Amounts owed to credit institutions	2,353		2,650	
Debts evidenced by certificates	40,888		35,116	
		43,241		37,766
Other financial liabilities				
Derivative financial instruments	2,417		1,824	
Other financial liabilities	588		431	
		3,005		2,255
Total liabilities		46,246		40,021
Members' equity				
Paid-in capital		6,211		6,211
Reserves and retained earnings		10,209		9,961
Total members' equity		16,420		16,172
Total liabilities and members' equity		62,666		56,193
Memorandum items				
Undrawn commitments		12,408		12,770

Statement of changes in equity

For the quarter ended 30 June 2018 (unaudited) and 30 June 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	(2)	-	398	397
Internal tax for the period	-	-	-	-	-	3	3
Capital Subscriptions	10	(8)	-	-	-	-	2
At 30 June 2017	29,713	(23,504)	20	(4)	6	9,729	15,960
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	-	-	4	(88)	-	388	304
Internal tax for the period	-	-	-	-	-	3	3
At 30 June 2018	29,723	(23,512)	24	(87)	14	10,258	16,420

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 June 2018 (unaudited) and 30 June 2017 (unaudited)

	€ million	Year to 30 June 2018 € million	Restated ⁵ Year to 30 June 2017 € million
Cash flows from operating activities			
Net profit for the period	388		398
Adjustments to reconcile net profit to net cash flows:			
Non-cash items in the income statement			
Depreciation and amortisation	13		13
Gross provisions charge for Banking loan losses and guarantees	63		-
Fair value movement on share investments	176		(201)
Fair value movement on loans held at fair value through profit or loss	(10)		(20)
Fair value movement on Treasury investments	(88)		(12)
Other unrealised fair value movements	16		14
Cash flows from the sale and purchase of operating assets			
Proceeds from repayments of Banking loans	3,633		4,476
Funds advanced for Banking loans	(3,834)		(4,055)
Proceeds from sale of Banking share investments	313		667
Funds advanced for Banking share investments	(330)		(310)
Net proceeds/(funds advanced) from Treasury derivative settlements	61		(19)
Net placements to credit institutions	(3,885)		(2,975)
Working capital adjustment:			
Movement in interest income	(27)		8
Movement in interest expense	84		10
Movement in net fee and commission income	(2)		25
Movement in net income allocations payable	-		180
Movement in accrued expenses	(2)		153
Movement in dividend income receivable	-		-
Net cash used in operating activities		(3,431)	(1,648)
Cash flows used in investing activities			
Proceeds from sale of debt securities at amortised cost	5,577		6,125
Purchases of debt securities at amortised cost	(7,673)		(7,172)
Proceeds from sale of debt securities at fair value through profit or loss	1,651		1,888
Purchases of debt securities at fair value through profit or loss	(2,037)		(2,123)
Proceeds from sale of PPE and office equipment	-		12
Purchase of intangible assets, property, technology and office equipment	(13)		(7)
Cash flows used in investing activities		(2,495)	(1,277)
Cash flows from financing activities			
Capital received	3		4
Issue of debts evidenced by certificates	15,914		11,794
Redemption of debts evidenced by certificates	(10,550)		(10,528)
Net cash from financing activities		5,367	1,270
Net decrease in cash and cash equivalents		(559)	(1,655)
Net foreign exchange differences		(54)	(13)
Cash and cash equivalents at beginning of the year		6,271	8,517
Cash and cash equivalents at 30 June⁶		5,658	6,849

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 June 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 June 2018 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 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 June 2018	30 June 2018	30 June 2018	31 December 2017	31 December 2017	31 December 2017
	Sovereign loans	Non-sovereign loans	Total loans	Sovereign loans	Non-sovereign loans	Total loans
	€ million	€ million	€ million	€ million	€ million	€ million
Book Value						
At 1 January	4,071	18,559	22,630	4,019	18,993	23,012
Movement in fair value revaluation ¹	-	(3)	(3)	-	(3)	(3)
Disbursements	660	3,110	3,770	1,477	7,027	8,504
Repayments and prepayments	(515)	(3,089)	(3,604)	(1,327)	(6,210)	(7,537)
Re-measurement of previously impaired loans	-	-	-	-	30	30
Reclassification	-	-	-	-	(32)	(32)
Foreign exchange movements	35	90	125	(96)	(1,123)	(1,219)
Movement in net deferral of front end fees and related direct costs	2	13	15	(2)	(8)	(10)
Written off	-	(2)	(2)	-	(115)	(115)
Total	4,253	18,678	22,931	4,071	18,559	22,630
Portfolio provisions for the unidentified impairment of loan investments	(18)	(224)	(242)	(18)	(230)	(248)
Specific provisions for the identified impairment of loan investments	-	(722)	(722)	-	(602)	(602)
Net Book Value	4,235	17,732	21,967	4,053	17,727	21,780

¹The 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 June 2018 the Bank categorised 87 amortised cost loans as non-performing, with operating assets totalling €1,139 million (31 December 2017: 86 loans totalling €848 million). Specific provisions on these assets amounted to €722 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 June 2018				
Portfolio Provisions	(248)	(59)	(307)	(59)

Banking loan investments at fair value through profit or loss

Non-sovereign loans	30 June 2018 € million	31 December 2017 € million
At 1 January	372	313
Movement in fair value revaluation	(7)	21
Disbursements	64	106
Repayments and prepayments	(34)	(56)
Foreign exchange movements	10	(23)
Reclassification	-	32
Written off	-	(21)
Fair value	405	372

At 30 June 2018 the Bank categorised four fair value through profit or loss loans as non-performing, with operating assets totalling €48 million (31 December 2017: Five loans totalling €49 million). Net fair value losses on these assets amounted to €48 million (31 December 2017: €44 million).

4. Share investments

	30 June 2018 Fair value Unlisted € million	30 June 2018 Fair value Listed € million	30 June 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	153	212	365	379	140	519
Disposals	(343)	(48)	(391)	(715)	(432)	(1,147)
Total	3,636	1,844	5,480	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	174	42	216	291	(94)	197
Total	(587)	131	(456)	(761)	89	(672)
Fair value	3,049	1,975	5,024	3,065	1,769	4,834
Equity derivatives	309	80	389	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 June 2018			Restated ⁷ At 30 June 2017		
	Banking € million	Treasury € million	Aggregated € million	Banking € million	Treasury € million	Aggregated € million
Interest income	511	136	647	502	81	583
Other income	327	22	349	392	33	425
Total segment revenue	838	158	996	894	114	1,008
Less interest expense and similar charges	(182)	(174)	(356)	(135)	(66)	(201)
Net interest income on derivatives	-	72	72	-	19	19
Less general administrative expenses	(170)	(11)	(181)	(180)	(11)	(191)
Less depreciation and amortisation	(12)	(1)	(13)	(12)	(1)	(13)
Segment result before provisions and hedges	474	44	518	567	55	622
Fair value movement on non-qualifying and ineffective hedges	-	63	63	-	(44)	(44)
Provision for impairment of loan investments	(63)	-	(63)	-	-	-
Net profit for the year	411	107	518	567	11	578
Transfers of net income approved by the Board of Governors			(130)			(180)
Net profit after transfers approved by the Board of Governors			388			398
Segment assets	28,253	34,413	62,666	27,182	29,516	56,698
Segment liabilities	363	45,883	46,246	648	40,090	40,738

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 June 2018	Carrying amount € million	Fair value € million
Financial assets measured at fair value:		
Debt securities	1,409	1,409
Derivative financial instruments	4,125	4,125
Banking share investments	5,024	5,024
Treasury share investments	80	80
Banking loan investments	405	405
	11,043	11,043
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	17,494	17,494
Debt securities	11,668	11,696
Other financial assets	377	377
Banking loan investments	21,967	22,404
	51,506	51,971
Total financial assets	62,549	63,014
Financial liabilities at 30 June 2018		
	Carrying amount € million	Fair value € million
Amounts owed to credit institutions	(2,353)	(2,353)
Debts evidenced by certificates	(40,888)	(40,952)
Derivative financial instruments	(2,417)	(2,417)
Other liabilities	(588)	(588)
Total financial liabilities	(46,246)	(46,246)

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 June 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 June 2018			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	1,409	-	1,409
Derivative financial instruments	-	4,125	480	4,125
Banking loans	-	-	405	405
Share investments (Banking portfolio)	1,644	-	3,380	5,024
Share investments (Treasury portfolio)	-	80	-	80
Total financial assets at fair value	1,644	5,614	4,265	11,043
Derivative financial instruments	-	(2,417)	(91)	(2,508)
Total financial liabilities at fair value	-	(2,417)	(91)	(2,508)

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 June 2018.

	Level 3 financial assets and financial liabilities Period ended 30 June 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 June 2018 in:						
Net profit/(loss)	50	3	142	195	(14)	(14)
Purchases/issues	-	64	239	303	-	-
Sales/settlements	(25)	(34)	(296)	(355)	-	-
Net transfers in/(out) of Level 3	(7)	-	9	2	-	-
Balance as at 30 June 2018	480	405	3,380	4,265	(91)	(91)
Unrealised fair value changes on assets and liabilities held at 30 June 2018 included in net profit/(loss) above	71	(2)	145	214	(85)	(85)

Transfers in to level 3 for Banking share investments relate to listed investments that were not actively traded during the period. 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.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 30 June 2018, 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 2018		
		Carrying amount	Favourable change	Unfavourable change
		€ million	€ million	€ million
	Main valuation models/techniques			
Banking loans	Discount cash flow and option pricing models	405	22	(30)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models ⁴	3,769	534	(517)
At 30 June 2018		4,174	556	(547)

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 €6 million, with fee and commission income increasing by €23 million and interest income from Banking loans reducing by €17 million.

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