

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

INTERIM FINANCIAL REPORT

At 30 September 2016

(UNAUDITED)

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European Bank for Reconstruction and Development: Interim Financial Report at 30 September 2016

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Income statement

For the quarter ended 30 September 2016 (unaudited) and 30 September 2015 (unaudited)

	Quarter 3 2016 €million	Quarter 2 2016 €million	YTD 2016 €million	Quarter 3 2015 €million	YTD 2015 €million
Interest and similar income					
From Banking loans	253	259	761	284	853
From fixed-income debt securities and other interest	25	24	69	21	61
Interest expense and similar charges	(61)	(46)	(159)	(31)	(92)
Net interest expense on derivatives	(13)	(26)	(53)	(44)	(152)
Net interest income	204	211	618	230	670
Net fee and commission income	7	8	20	5	14
Dividend income	26	60	87	20	71
Net gains/(losses) from share investments at fair value through profit or loss	158	(194)	(136)	(223)	471
Net (losses)/gains from loans at fair value through profit or loss	(11)	5	(5)	(1)	(30)
Net (losses)/gains from loans at amortised cost	(8)	16	8	-	-
Net gains from Treasury investments held at amortised cost	1	3	5	1	4
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	19	26	70	8	95
Fair value movement on non-qualifying and ineffective hedges	3	6	70	(43)	(44)
Impairment provisions on Banking loan investments	(11)	(47)	(80)	(31)	(137)
Impairment provisions on guarantees	(8)	-	(8)	-	-
General administrative expenses	(108)	(106)	(309)	(97)	(282)
Depreciation and amortisation	(6)	(5)	(15)	(7)	(22)
Net profit/(loss) for the period	266	(17)	325	(138)	810
Transfers of net income approved by the Board of Governors	-	(181)	(181)	-	(360)
Financial accounting net profit/(loss) after transfers of net income approved by the Board of Governors	266	(198)	144	(138)	450

Statement of comprehensive income

For the quarter ended 30 September 2016 (unaudited) and 30 September 2015 (unaudited)

	Quarter 3 2016 €million	Quarter 2 2016 €million	Year to date 2016 €million	Quarter 3 2015 €million	Year to date 2015 €million
Net profit/(loss)	266	(198)	144	(138)	450
Other comprehensive income/(loss)					
Share investment designated as fair value through other comprehensive income	3	7	5	(7)	(3)
Cash flow hedges	6	(2)	(17)	(9)	(2)
Total comprehensive income/(loss)	275	(193)	132	(154)	445
Attributable to:					
Equity holders	275	(193)	132	(154)	445

Balance Sheet
At 30 September 2016 (unaudited) and 31 December 2015 (audited)

	30 September 2016		31 December 2015
	€million	€million	€million
Assets			
Placements with and advances to credit institutions		13,902	11,724
Debt securities			
At fair value through profit or loss	866		747
At amortised cost	9,288		11,329
		10,154	12,076
Collateralised placements		-	13
		24,056	23,813
Other financial assets			
Derivative financial instruments	3,974		4,596
Other financial assets	486		335
		4,460	4,931
Loan investments			
<i>Banking portfolio</i>			
Loans at amortised cost	22,040		21,817
Less: Provisions for impairment	(1,057)		(1,083)
Loans at fair value through profit or loss	406		339
		21,389	21,073
Share investments			
<i>Banking portfolio</i>			
Share investments at fair value through profit or loss	5,255		5,033
<i>Treasury portfolio</i>			
Share investments at fair value through other comprehensive income	68		63
		5,323	5,096
Intangible assets		67	63
Property, technology and office equipment		46	50
Total assets		55,341	55,026
Liabilities			
Borrowings			
Amounts owed to credit institutions	2,522		2,590
Debts evidenced by certificates	34,861		34,280
		37,383	36,870
Other financial liabilities			
Derivative financial instruments	2,136		2,993
Other financial liabilities	1,094		577
		3,230	3,570
Total liabilities		40,613	40,440
Members' equity			
Paid-in capital	6,207		6,202
Reserves and retained earnings	8,521		8,384
Total members' equity		14,728	14,586
Total liabilities and members' equity		55,341	55,026
Memorandum items			
Undrawn commitments		11,985	12,959

Statement of changes in equity for the quarter ended 30 September 2016 (unaudited) and 30 September 2015 (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 2014	29,674	(23,472)	14	-	(8)	7,941	14,149
Total comprehensive income for the period	-	-	(3)	(2)	-	450	445
Internal tax for the period	-	-	-	-	-	6	6
At 30 September 2015	29,674	(23,472)	11	(2)	(8)	8,397	14,600
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

Statement of cash flows for the period to 30 September 2016 (unaudited) and 30 September 2015 (unaudited)

	Nine months to 30 September 2016		Nine months to 30 September 2015	
	€million	€million	€million	€million
Cash (used in)/flows from operating activities				
Net profit for the period	144		450	
Adjustments for:				
Unwinding of the discount relating to impaired identified assets	(23)		(23)	
Interest income	(807)		(891)	
Interest expense and similar charges	212		244	
Net deferral of fees and direct costs	80		72	
Dividend Income	(87)		(71)	
Internal tax	5		6	
Realised losses on share investments and equity derivatives	61		(117)	
Unrealised losses/(gains) on share investments and equity derivatives at fair value through profit or loss	80		(354)	
Unrealised losses from loans at fair value through profit or loss	5		27	
Realised (gains)/losses on Banking loans	(8)		3	
Realised gains on Treasury investments at amortised cost	(5)		(4)	
Fair value movement on hedges	(70)		44	
Unrealised mark-to-market movement	15		(43)	
Foreign exchange gains	(4)		(2)	
Depreciation and amortisation	15		22	
Gross provisions charge for Banking loan losses and guarantees	88		83	
Movement in net income allocations payable	105		115	
	(194)		(439)	
Interest income received	775		812	
Interest expense and similar charges paid	(284)		(186)	
Dividend income received	89		71	
Increase in operating assets:				
Prepaid expenses	42		67	
Proceeds from repayments of Banking loans	6,413		4,831	
Funds advanced for Banking loans	(6,940)		(5,333)	
Proceeds from sale of Banking share investments and equity derivatives	480		1,008	
Funds advanced for Banking share investments	(644)		(403)	
Net movement in placements with credit institutions	(1,424)		242	
Net proceeds from settlement of derivatives	78		825	
Increase in operating liabilities:				
Accrued expenses	77		73	
Net cash (used in)/from operating activities		(1,532)		1,568
Cash flows from investing activities				
Proceeds from debt securities at amortised cost	10,724		10,043	
Purchases of debt securities at amortised cost	(8,292)		(8,053)	
Proceeds from sale of debt securities held at fair value through profit or loss	642		1,127	
Purchases of debt securities held at fair value through profit or loss	(715)		(747)	
Proceeds from sale of property, technology and office equipment	(2)		-	
Purchase of intangible assets, property, technology and office equipment	(13)		(41)	
Net cash from investing activities		2,344		2,329
Cash flows used in financing activities				
Capital received	5			
Issue of debts evidenced by certificates	10,634		10,429	
Redemption of debts evidenced by certificates	(10,643)		(12,206)	
Net cash used in financing activities		(4)		(1,777)
Net increase in cash and cash equivalents		808		2,120
Cash and cash equivalents at beginning of the year		7,533		6,435
Cash and cash equivalents at 30 September¹		8,341		8,555

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.

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 2016 the Bank's shareholders comprised 65 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 2015.

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 2016.

3. Banking loan investments at amortised cost

	30 September 2016 Sovereign Loans €million	30 September 2016 Non-sovereign loans €million	30 September 2016 Total loans €million	31 December 2015 Sovereign loans €million	31 December 2015 Non-sovereign loans €million	31 December 2015 Total Loans €million
Operating assets						
At 1 January	3,033	18,784	21,817	2,920	17,438	20,358
Movement in fair value revaluation ¹	-	34	34	-	(14)	(14)
Disbursements	1,075	5,789	6,864	519	7,163	7,682
Repayments and prepayments	(781)	(5,578)	(6,359)	(485)	(6,289)	(6,774)
Foreign exchange movements	(26)	(215)	(241)	71	496	567
Movement in net deferral of front end fees and related direct costs	-	(11)	(11)	8	49	57
Written off	-	(64)	(64)	-	(59)	(59)
Total	3,301	18,739	22,040	3,033	18,784	21,817
Portfolio provisions for the unidentified impairment of loan investments	(33)	(255)	(288)	(32)	(252)	(284)
Specific provisions for the identified impairment of loan investments	-	(769)	(769)	-	(799)	(799)
Net book value	3,268	17,715	20,983	3,001	17,733	20,734

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 2016 the Bank categorised 99 amortised cost loans as non-performing, with operating assets totalling €1.2 billion (31 December 2015: 85 loans totalling €1.2 billion). Specific provisions on these amounted to €769 million (31 December 2015: €799 million).

Banking loan investments at fair value through profit or loss

	30 September 2016 €million	31 December 2015 €million
Non-sovereign loans		
At 1 January	339	338
Movement in fair value revaluation	(1)	(44)
Disbursements	76	61
Repayments and prepayments	(46)	(44)
Foreign exchange movements	13	-
Reclassification from Equity to FVTPL	25	28
Fair value	406	339

At 30 September 2016 the Bank categorised nine loans at fair value through profit or loss as non-performing, with operating assets totalling €85 million (31 December 2015: 7 loans totalling €69 million). Net fair value losses on these assets amounted to €71 million (31 December 2015: €53 million).

4. Share investments

	30 September 2016 Fair value Unlisted €million	30 September 2016 Fair value Listed €million	30 September 2016 Fair value Total €million	31 December 2015 Fair value Unlisted €million	31 December 2015 Fair value Listed €million	31 December 2015 Fair Value Total €million
Outstanding disbursements						
At 1 January	4,162	1,966	6,128	4,120	2,065	6,185
Transfer between unlisted and listed	(170)	170	-	(77)	77	-
Disbursements	575	69	644	665	417	1,082
Disposals	(253)	(285)	(538)	(466)	(593)	(1,059)
Reclassification	(25)	-	(25)	(28)	-	(28)
Written off	(3)	-	(3)	(52)	-	(52)
Total	4,286	1,920	6,206	4,162	1,966	6,128
Fair value adjustment						
At 1 January	(1,068)	(27)	(1,095)	(1,165)	49	(1,116)
Transfer between unlisted and listed	66	(66)	-	39	(39)	-
Movement in fair value revaluation	(27)	171	144	58	(37)	21
Total	(1,029)	78	(951)	(1,068)	(27)	(1,095)
Fair value	3,257	1,998	5,255	3,094	1,939	5,033
Equity derivatives	161	48	209	408	4	412

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 2016			At 30 September 2015		
	Banking €million	Treasury €million	Aggregated €million	Banking €million	Treasury €million	Aggregated €million
Interest income	761	69	830	853	61	914
Other (loss)/income	(26)	75	49	526	99	625
Total segment revenue	735	144	879	1,379	160	1,539
Less interest expense and similar charges	(194)	35	(159)	(236)	143	(93)
Net interest expense on derivatives	-	(53)	(53)	-	(152)	(152)
Allocation of the return on capital	-	-	-	1	-	1
Less general administrative expenses	(290)	(19)	(309)	(265)	(17)	(282)
Less depreciation and amortisation	(14)	(1)	(15)	(21)	(1)	(22)
Segment result before provisions and hedges	237	106	343	858	133	991
Fair value movement on non-qualifying and ineffective hedges	-	70	70	-	(44)	(44)
Provision for impairment of loan investments	(88)	-	(88)	(137)	-	(137)
Net(loss)/profit for the first six months	149	176	325	721	89	810
Segment assets	27,164	28,177	55,341	26,049	28,109	54,158
Segment liabilities	439	40,174	40,613	396	39,162	39,558

6. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial Assets at 30 September 2016	Carrying amount €million	Fair value €million
Financial assets measured at fair value through profit or loss:		
Debt securities	866	866
Derivative financial instruments	3,974	3,974
Banking share investments	5,255	5,255
Treasury share investments	68	68
Banking loan investments	406	406
	10,569	10,569
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	13,902	13,902
Debt securities	9,288	9,304
Other financial assets	486	486
Banking loan investments	20,983	21,671
	44,659	45,363
Total	55,228	55,932

Financial Liabilities at 30 September 2016	Carrying amount €million	Fair value €million
Amounts owed to credit institutions	(2,522)	(2,522)
Debts evidenced by certificates	(34,861)	(34,782)
Derivative financial instruments	(2,136)	(2,136)
Other financial liabilities	(1,094)	(1,094)
Total financial liabilities	(40,613)	(40,534)

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.

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 2016 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 2016			
	Level 1 €million	Level 2 €million	Level 3 €million	Total €million
Debt securities	-	866	-	866
Derivative financial instruments	-	3,685	289	3,974
Banking loans	-	-	406	406
Share investments (Banking portfolio)	1,840	-	3,415	5,255
Share investments (Treasury portfolio)	-	68	-	68
Total financial assets at fair value	1,840	4,619	4,110	10,569
Derivative financial instruments	-	(2,066)	(70)	(2,136)
Total financial liabilities at fair value	-	(2,066)	(70)	(2,136)

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 2016.

Level 3 financial assets and financial liabilities						
Period ended 30 September 2016						
	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 2015	498	339	3,214	4,051	(78)	(78)
Net (loss)/profit	(74)	12	(257)	(319)	8	8
Purchases/issues	-	76	621	697	-	-
Sales/settlements	(135)	(46)	(131)	(312)	-	-
Reclassification from equity to loan	-	25	(25)	-	-	-
Write offs	-	-	(3)	(3)	-	-
Net transfers out of Level 3	-	-	(4)	(4)	-	-
Balance as at 30 September 2016	289	406	3,415	4,110	(70)	(70)
Total (losses)/gains for the period included in net profit from assets and liabilities held at 30 September 2016	(100)	(5)	(179)	(284)	(4)	(4)

The transfers into and out of Level 3 for Banking share investments relate to listed investments that switch from/(to) an actively traded market. Transfers into and out of Level 3 for derivatives financial instruments relate to whether a model used to value a derivative is based on unobservable market inputs or otherwise.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 30 September 2016, the main valuation models/techniques¹ 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 2016		
		Carrying amount €million	Favourable change €million	Unfavourable change €million
	Main valuation models/techniques			
Treasury derivative financial instruments	Discounted cash flow models	10	-	(1)
Banking loans	Discount cash flow and option pricing models	406	11	(21)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	3,624	381	(390)
At 30 September 2016		4,040	392	(412)

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