

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

INTERIM FINANCIAL REPORT

At 31 March 2017

(UNAUDITED)

Table of contents

European Bank for Reconstruction and Development: Interim Financial Report at 31 March 2017

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
EBRD Shareholder Special Fund: Interim Financial Report at 31 March 2017	15

Income statement

For the quarter ended 31 March 2017 (unaudited) and 31 March 2016 (unaudited)

	Quarter 1 2017 €million	Quarter 1 2016 €million
Interest and similar income		
From Banking loans	278	249
From fixed-income debt securities and other interest	39	20
Interest expense and similar charges	(94)	(52)
Net interest income/(expense) on derivatives	7	(14)
Net interest income	230	203
Fee and commission income	7	5
Fee and commission expense	(2)	-
Net fee and commission income	5	5
Dividend income	59	1
Net gains/(losses) from share investments at fair value through profit or loss	209	(100)
Net gains from loans at fair value through profit or loss	8	1
Net gains from loans at amortised cost	4	-
Net gains from Treasury investments held at amortised cost	2	1
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	19	25
Fair value movement on non-qualifying and ineffective hedges	(1)	61
Impairment provisions on Banking loan investments	3	(22)
General administrative expenses	(90)	(95)
Depreciation and amortisation	(6)	(4)
Net profit for the period	442	76

Statement of comprehensive income

For the quarter ended 31 March 2017 (unaudited) and 31 March 2016 (unaudited)

	Quarter 1 2017 €million	Quarter 1 2016 €million
Net profit	442	76
Other comprehensive income		
Share investment designated as fair value through other comprehensive income	1	(5)
Cash flow hedges	3	(21)
Total comprehensive income	446	50
Attributable to:		
Equity holders	446	50

Balance Sheet**At 31 March 2017 (unaudited) and 31 December 2016 (audited)**

	€million	31 March 2017 €million	€million	31 December 2016 €million
Assets				
Placements with and advances to credit institutions		14,143		14,110
Debt securities				
At fair value through profit or loss	1,087		926	
At amortised cost	10,296		8,981	
		11,383		9,907
		25,526		24,017
Other financial assets				
Derivative financial instruments	4,415		4,319	
Other financial assets	260		214	
		4,675		4,533
Loan investments				
<i>Banking portfolio</i>				
Loans at amortised cost	22,298		22,885	
Less: Provisions for impairment	(1,014)		(1,044)	
Loans at fair value through profit or loss	318		313	
		21,602		22,154
Share investments				
<i>Banking portfolio</i>				
Historic cost	6,008		6,134	
Fair value adjustment	(575)		(869)	
Share investments at fair value through profit or loss		5,433		5,265
<i>Treasury portfolio</i>				
Share investments at fair value through other comprehensive income		76		75
		5,509		5,340
Intangible assets		63		63
Property, technology and office equipment		41		43
Total assets		57,416		56,150
Liabilities				
Borrowings				
Amounts owed to credit institutions	2,893		2,478	
Debts evidenced by certificates	35,880		35,531	
		38,773		38,009
Other financial liabilities				
Derivative financial instruments	2,015		2,170	
Other financial liabilities	750		540	
		2,765		2,710
Total liabilities		41,538		40,719
Members' equity				
Paid-in capital		6,207		6,207
Reserves and retained earnings		9,671		9,224
Total members' equity		15,878		15,431
Total liabilities and members' equity		57,416		56,150
Memorandum items				
Undrawn commitments		10,982		12,075

Statement of changes in equity for the quarter ended 31 March 2017 (unaudited) and 31 March 2016 (unaudited)

	Subscribed capital €million	Callable capital €million	Fair value through other comprehensive income reserve €million	Cash flow reserves €million	Actuarial remeasurements €million	Retained earnings €million	Total equity €million
At 31 December 2015	29,674	(23,472)	7	-	(14)	8,391	14,586
Total comprehensive income for the period	-	-	(4)	(21)	-	76	51
Internal tax for the period	-	-	-	-	-	1	1
At 31 March 2016	29,703	(23,496)	3	(21)	(14)	8,468	14,643
At 31 December 2016	29,703	(23,496)	19	(2)	6	9,201	15,431
Total comprehensive income for the period	-	-	1	3	-	442	446
Internal tax for the period	-	-	-	-	-	1	1
Capital subscriptions	-	-	-	-	-	-	-
At 31 March 2017	29,703	(23,496)	20	1	6	9,644	15,878

Statement of cash flows for the period to 31 March 2017 (unaudited) and 31 March 2016 (unaudited)

	Year to 31 March 2017 €million	Year to 31 March 2016 €million
Cash flows from operating activities		
Net profit for the period	442	76
Adjustments for:		
Unwinding of the discount relating to impaired identified assets	(6)	(7)
Interest income	(311)	(262)
Interest expense and similar charges	87	66
Net deferral of fees and direct costs	21	18
Dividend income	(59)	(1)
Internal tax	2	2
Realised gains on share investments and equity derivatives	(17)	(21)
Unrealised (gains)/losses on share investments and equity derivatives at fair value through profit or loss	(192)	118
Unrealised (gains) from loans at fair value through profit or loss	(8)	(1)
Realised gains on Banking loans	(2)	-
Realised gains on Treasury investments	(4)	(1)
Fair value movement on hedges	1	(61)
Unrealised fair value movement	(31)	(172)
Foreign exchange gains	(1)	(1)
Depreciation and amortisation	6	4
Gross provisions (release)/charge for Banking loan losses and guarantees	(3)	22
	<u>(75)</u>	<u>(222)</u>
Interest income received	283	251
Interest expense and similar charges paid	(53)	(96)
Dividend income received	59	3
Increase in operating assets:		
Prepaid expenses	107	46
Proceeds from repayments of Banking loans	2,232	1,964
Funds advanced for Banking loans	(1,641)	(1,937)
Proceeds from sale of Banking share investments and equity derivatives	338	172
Funds advanced for Banking share investments	(195)	(112)
Net placements from credit institutions	969	993
Net proceeds from settlement of derivatives	(163)	325
Increase in operating liabilities:		
Accrued expenses	(24)	(54)
Net cash from operating activities	<u>1,837</u>	<u>1,333</u>
Cash flows (used in)/from investing activities		
Proceeds from debt securities at amortised cost	2,951	4,727
Purchases of debt securities at amortised cost	(4,113)	(3,378)
Proceeds from sale of debt securities held at fair value through profit or loss	1,092	169
Purchases of debt securities held at fair value through profit or loss	(1,202)	(358)
Proceeds from sale of property, technology and office equipment	6	-
Purchase of intangible assets, property, technology and office equipment	(4)	(6)
Net cash (used in)/from investing activities	<u>(1,270)</u>	<u>1,154</u>
Cash flows from/(used in) financing activities		
Capital received	1	
Issue of debts evidenced by certificates	6,624	3,117
Redemption of debts evidenced by certificates	(6,606)	(5,602)
Net cash (used in)/from financing activities	<u>19</u>	<u>(2,480)</u>
Net increase in cash and cash equivalents	<u>587</u>	<u>7</u>
Cash and cash equivalents at beginning of the year	<u>8,517</u>	<u>7,533</u>
Cash and cash equivalents at 31 March¹	<u>9,105</u>	<u>7,540</u>

¹ Cash and cash equivalents are amounts with less than three months to maturity from the date of the transactions, which are available for use at short notice and are subject to insignificant risk of change in value. Within the 31 March 2017 balance is €9 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 2017 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 2016.

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

3. Banking loan investments at amortised cost

	31 March 2017	31 March 2017	31 March 2017	31 December 2016	31 December 2016	31 December 2016
	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	3,998	18,887	22,885	3,033	18,784	21,817
Movement in fair value revaluation ¹	-	-	-	-	21	21
Disbursements	307	1,330	1,637	2,185	7,561	9,746
Repayments and prepayments	(378)	(1,847)	(2,225)	(1,230)	(7,646)	(8,876)
Remeasurement of previously impaired loans	-	25	25	-	-	-
Reclassification	-	-	-	-	(7)	(7)
Foreign exchange movements	(7)	(1)	(8)	23	262	285
Movement in net deferral of front end fees and related direct costs	-	-	-	(13)	(9)	(22)
Written off	-	(16)	(16)	-	(79)	(79)
Total	3,920	18,378	22,298	3,998	18,887	22,885
Portfolio provisions for the unidentified impairment of loan investments	(27)	(245)	(272)	(29)	(250)	(279)
Specific provisions for the identified impairment of loan investments	-	(742)	(742)	-	(765)	(765)
Net Book Value	3,893	17,391	21,284	3,969	17,872	21,841

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

At 31 March 2017 the Bank categorised 98 amortised cost loans as non-performing, with operating assets totalling €1.0 billion (31 December 2016: 101 loans totalling €1.2 billion). Specific provisions on these assets amounted to €742 million (31 December 2016: €765 million).

Banking loan investments at fair value through profit or loss

Non-sovereign loans	31 March 2017 €million	31 December 2016 €million
At 1 January	313	339
Movement in fair value revaluation	8	13
Disbursements	4	108
Repayments and prepayments	(5)	(233)
Foreign exchange movements	(2)	35
Reclassification	-	51
Fair value	318	313

At 31 March 2017 the Bank categorised nine fair value through profit or loss loans as non-performing, with operating assets totalling €73 million (31 December 2016: Eight loans totalling €75 million). Net fair value losses on these assets amounted to €67 million (31 December 2016: €69 million).

4. Share investments

	31 March 2017 Fair value Unlisted €million	31 March 2017 Fair value Listed €million	31 March 2017 Fair value Total €million	31 December 2016 Fair value Unlisted €million	31 December 2016 Fair value Listed €million	31 December 2016 Fair value Total €million
Outstanding disbursements						
At 1 January	4,238	1,896	6,134	4,162	1,966	6,128
Transfer between unlisted and listed	-	-	-	(179)	179	-
Disbursements	136	59	195	709	65	774
Disposals	(214)	(107)	(321)	(421)	(314)	(735)
Reclassification	-	-	-	(25)	-	(25)
Written off	-	-	-	(8)	-	(8)
Total	4,160	1,848	6,008	4,238	1,896	6,134
Fair value adjustment						
At 1 January	(1,080)	211	(869)	(1,068)	(27)	(1,095)
Transfer between unlisted and listed	-	-	-	63	(63)	-
Movement in fair value revaluation	260	34	294	(75)	301	226
Total	(820)	245	(575)	(1,080)	211	(869)
Fair value	3,340	2,093	5,433	3,158	2,107	5,265
Equity derivatives	351	64	415	454	63	517

5. Primary segment analysis

Business segments

For management purposes the business of the Bank is comprised primarily of Banking and Treasury operations. Banking activities represent investment in projects which, in accordance with the Agreement, are made for the purpose of assisting the Bank's countries of operations in their transition to a market economy, while applying sound banking principles. The main investment products are loans, share investments and guarantees. Treasury activities include raising debt finance, investing surplus liquidity, managing the Bank's foreign exchange and interest rate risks, and assisting clients in asset and liability management matters.

Primary reporting format - business segment

	At 31 March 2017			At 31 March 2016		
	Banking	Treasury	Aggregated	Banking	Treasury	Aggregated
	€million	€million	€million	€million	€million	€million
Interest income	278	39	317	249	20	269
Other income	285	21	306	(93)	26	(67)
Total segment revenue	563	60	623	156	46	202
Less interest expense and similar charges	(65)	(29)	(94)	(63)	11	(52)
Net interest income / (expense) on derivatives	-	7	7	-	(14)	(14)
Less general administrative expenses	(84)	(6)	(90)	(89)	(6)	(95)
Less depreciation and amortisation	(6)	-	(6)	(4)	-	(4)
Segment result before provisions and hedges	408	32	440	-	37	37
Fair value movement on non-qualifying and ineffective hedges	-	(1)	(1)	-	61	61
Provision for impairment of loan investments	3	-	3	(22)	-	(22)
Net(loss)/profit for the year	411	31	442	(22)	98	76
Segment assets	27,745	29,671	57,416	26,276	25,366	51,642
Segment liabilities	410	41,128	41,538	315	36,684	36,999

6. 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 2017		
Financial assets measured at fair value:		
Debt securities	1,087	1,087
Derivative financial instruments	4,415	4,415
Banking share investments	5,433	5,433
Treasury share investments	76	76
Banking loan investments	318	318
	11,329	11,329
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	14,143	14,143
Collateralised placements	-	-
Debt securities	10,296	10,326
Other financial assets	260	260
Banking loan investments	21,284	21,977
	45,983	46,706
Total financial assets	57,312	58,035

	Carrying amount €million	Fair value €million
Financial liabilities at 31 March 2017		
Amounts owed to credit institutions	(2,893)	(2,893)
Debts evidenced by certificates	(35,880)	(35,810)
Derivative financial instruments	(2,015)	(2,015)
Other liabilities	(750)	(750)
Total financial liabilities	(41,538)	(41,468)

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

	At 31 March 2017			
	Level 1 €million	Level 2 €million	Level 3 €million	Total €million
Debt securities	-	1,087	-	1,087
Derivative financial instruments	-	3,940	475	4,415
Banking loans	-	-	318	318
Share investments (Banking portfolio)	1,754	-	3,679	5,433
Share investments (Treasury portfolio)	-	76	-	76
Total financial assets at fair value	1,754	5,103	4,472	11,329
Derivative financial instruments	-	(1,963)	(52)	(2,015)
Total financial liabilities at fair value	-	(1,963)	(52)	(2,015)

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 31 March 2017.

	Level 3 financial assets and financial liabilities Period ended 31 March 2017					
	Derivative financial instruments €million	Banking loans €million	Banking share investments €million	Total level 3 assets €million	Derivative financial instruments €million	Total liabilities €million
Balance as at 31 December 2016	577	313	3,455	4,345	(51)	(51)
Total (losses)/gains for the quarter ended 31 March 2017 in:						
Net (loss)/profit	(57)	6	243	192	(1)	(1)
Purchases/issues	-	4	171	175	-	-
Sales/settlements	(38)	(5)	(190)	(233)	-	-
Day 1 deferral	(7)	-	-	(7)	-	-
Balance as at 31 March 2017	475	318	3,679	4,472	(52)	(52)
Unrealised fair value changes on assets and liabilities held at 31 March 2017 included in net (loss)/profit above	(51)	9	225	183	(1)	(1)

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

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 31 March 2017, 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 2017		
		Carrying amount €million	Favourable change €million	Unfavourable change €million
	Main valuation models/techniques			
Treasury derivative financial instruments	Discounted cash flow models	8	-	-
Banking loans	Discount cash flow and option pricing models	318	11	(20)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	4,094	510	(396)
At 31 March 2017		4,420	521	(415)

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