



European Bank
for Reconstruction and Development

BEOGRADSKA BERZA
a.d. BEOGRAD

PRIMLJENO: 05-06-2018			
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23 May 2018

Belgrade Stock Exchange A.D.
Omladinskih brigada no. 1
Belgrade
Republic of Serbia

Dear Sir or Madam

I have pleasure in enclosing for your records two copies of the unaudited interim financial report of the European Bank for Reconstruction and Development for the quarter to 31 March 2018.

Yours faithfully

Gordon Jones
Director, Financial Control

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

INTERIM FINANCIAL REPORT

At 31 March 2018

(UNAUDITED)

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Income statement

For the quarter ended 31 March 2018 (unaudited) and 31 March 2017 (unaudited)

	Quarter 1 2018 € million	Restated ¹ Quarter 1 2017 € million
Interest and similar income		
From Banking loans	239	270
From fixed-income debt securities and other interest	58	39
Interest expense and similar charges	(148)	(94)
Net interest income on derivatives	20	7
Net interest income	169	222
Fee and commission income	23	18
Fee and commission expense	(4)	(2)
Net fee and commission income	19	16
Dividend income	34	59
Net gains from share investments at fair value through profit or loss	25	209
Net gains from loans at fair value through profit or loss	-	8
Net gains from loans at amortised cost	10	4
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	14	19
Fair value movement on non-qualifying and ineffective hedges	68	(1)
Impairment provisions on Banking loan investments	(27)	3
General administrative expenses	(87)	(90)
Depreciation and amortisation	(7)	(6)
Net profit for the period	219	445

¹ As explained in Note 7 on page 14

Statement of comprehensive income

For the quarter ended 31 March 2018 (unaudited) and 31 March 2017 (unaudited)

	Quarter 1 2018 € million	Restated ² Quarter 1 2017 € million
Net profit after transfers of net income approved by the Board of Governors	219	445
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	1	1
2. Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	1	3
Fair value hedges	(24)	-
Total comprehensive income	197	449
Attributable to:		
Equity holders	197	449

² As explained in Note 7 on page 14

Balance Sheet**At 31 March 2018 (unaudited) and 31 December 2017 (audited)**

	€ million	31 March 2018 € million	€ million	31 December 2017 € million
Assets				
Placements with and advances to credit institutions		15,775		14,605
Debt securities				
At fair value through profit or loss	1,763		916	
At amortised cost	11,085		9,465	
		12,848		10,381
		28,623		24,986
Other financial assets				
Derivative financial instruments	3,646		3,677	
Other financial assets	1,044		352	
		4,690		4,029
Loan investments				
<i>Banking portfolio</i>				
Loans at amortised cost	22,053		22,630	
Less: Provisions for impairment	(915)		(850)	
Loans at fair value through profit or loss	404		372	
		21,542		22,152
Share investments				
<i>Banking portfolio</i>				
Historic cost	5,567		5,506	
Fair value adjustment	(548)		(672)	
Share investments at fair value through profit or loss		5,019		4,834
<i>Treasury portfolio</i>				
Share investments at fair value through other comprehensive income		77		76
		5,096		4,910
Intangible assets		63		62
Property, technology and office equipment		55		54
Total assets		60,069		56,193
Liabilities				
Borrowings				
Amounts owed to credit institutions	2,284		2,650	
Debts evidenced by certificates	38,959		35,116	
		41,243		37,766
Other financial liabilities				
Derivative financial instruments	2,004		1,824	
Other financial liabilities	510		431	
		2,514		2,255
Total liabilities		43,757		40,021
Members' equity				
Paid-in capital		6,211		6,211
Reserves and retained earnings		10,101		9,961
Total members' equity		16,312		16,172
Total liabilities and members' equity		60,069		56,193
Memorandum items				
Undrawn commitments		12,576		12,770

Statement of changes in equity for the quarter ended 31 March 2018 (unaudited) and 31 March 2017 (unaudited)

	Subscribed capital € million	Callable capital € million	Fair value through other comprehensive income reserve € million	Hedging reserves € million	Actuarial remeasurements € 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	3	-	445	449
Internal tax for the period	-	-	-	-	-	1	1
At 31 March 2017	29,703	(23,496)	20	1	6	9,774	16,008
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	-	-	1	(23)	-	219	197
Internal tax for the period	-	-	-	-	-	2	2
At 31 March 2018	29,723	(23,512)	21	(22)	14	10,088	16,312

³ As explained in Note 7 on page 14⁴ As explained in Note 3 on page 8

Statement of cash flows for the period to 31 March 2018 (unaudited) and 31 March 2017 (unaudited)

	Year to 31 March 2018	Year to 31 March 2017	Restated ⁵ Year to 31 March 2017
	€ million	€ million	€ million
Cash flows from operating activities			
Net profit for the period	219		445
Adjustments to reconcile net profit to net cash flows:			
Non-cash items in the income statement			
Depreciation and amortisation	7		6
Gross provisions charge for Banking loan losses and guarantees	28		(3)
Fair value movement on share investments	49		(209)
Fair value movement on loans held at fair value through profit or loss	81		(10)
Fair value movement on Treasury investments	-		(34)
Other unrealised fair value movements	(76)		(1)
Cash flows from the sale and purchase of operating assets			
Proceeds from repayments of Banking loans	2,209		2,232
Funds advanced for Banking loans	(1,908)		(1,641)
Proceeds from sale of Banking share investments	93		338
Funds advanced for Banking share investments	(155)		(195)
Net proceeds/(funds advanced) from Treasury derivative settlements	77		(163)
Net placements (to)/from credit institutions	(3,285)		969
Working capital adjustment:			
Movement in interest income	(19)		(45)
Movement in interest expense	55		34
Movement in net fee and commission income	(5)		29
Movement in net income allocations payable	-		-
Movement in accrued expenses	(29)		85
Movement in dividend income receivable	-		-
Net cash used in operating activities		(2,659)	1,837
Cash flows used in investing activities			
Proceeds from sale of debt securities at amortised cost	2,409		2,951
Purchases of debt securities at amortised cost	(4,144)		(4,113)
Proceeds from sale of debt securities at fair value through profit or loss	248		1,092
Purchases of debt securities at fair value through profit or loss	(1,070)		(1,202)
Proceeds from sale of PPE and office equipment	-		6
Purchase of intangible assets, property, technology and office equipment	(8)		(4)
Cash flows used in investing activities		(2,565)	(1,270)
Cash flows from financing activities			
Capital received	-		1
Issue of debts evidenced by certificates	7,905		6,624
Redemption of debts evidenced by certificates	(3,780)		(6,606)
Net cash from financing activities		4,125	19
Net (decrease)/increase in cash and cash equivalents		(1,099)	586
Cash and cash equivalents at beginning of the year		6,271	8,517
Cash and cash equivalents at 31 March⁶		5,172	9,103

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 31 March 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 31 March 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

	31 March 2018 Sovereign loans € million	31 March 2018 Non- sovereign loans € million	31 March 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	-	(1)	(1)	-	(3)	(3)
Disbursements	373	1,389	1,762	1,477	7,027	8,504
Repayments and prepayments	(343)	(1,744)	(2,087)	(1,327)	(6,210)	(7,537)
Remeasurement of previously impaired loans	-	-	-	-	30	30
Reclassification	-	-	-	-	(32)	(32)
Foreign exchange movements	(25)	(226)	(251)	(96)	(1,123)	(1,219)
Movement in net deferral of front end fees and related direct costs	(1)	2	1	(2)	(8)	(10)
Written off	-	(1)	(1)	-	(115)	(115)
Total	4,075	17,978	22,053	4,071	18,559	22,630
Portfolio provisions for the unidentified impairment of loan investments	(18)	(266)	(284)	(18)	(230)	(248)
Specific provisions for the identified impairment of loan investments	-	(631)	(631)	-	(602)	(602)
Net Book Value	4,057	17,081	21,138	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 31 March 2018 the Bank categorised 88 amortised cost loans as non-performing, with operating assets totalling €899 million (31 December 2017: 86 loans totalling €848 million). Specific provisions on these assets amounted to €631 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 €59million 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 31 March 2018				
Portfolio Provisions	(248)	(59)	(307)	(59)

Banking loan investments at fair value through profit or loss

Non-sovereign loans	31 March 2018 € million	31 December 2017 € million
At 1 January	372	313
Movement in fair value revaluation	1	21
Disbursements	59	106
Repayments and prepayments	(22)	(56)
Foreign exchange movements	(6)	(23)
Reclassification	-	32
Written off	-	(21)
Fair value	404	372

At 31 March 2018 the Bank categorised five fair value through profit or loss loans as non-performing, with operating assets totalling €51 million (31 December 2017: Five loans totalling €49 million). Net fair value losses on these assets amounted to €46 million (31 December 2017: €44 million).

4. Share investments

	31 March 2018 Fair value Unlisted € million	31 March 2018 Fair value Listed € million	31 March 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	74	100	174	379	140	519
Disposals	(110)	(3)	(113)	(715)	(432)	(1,147)
Total	3,790	1,777	5,567	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	63	61	124	291	(94)	197
Total	(698)	150	(548)	(761)	89	(672)
Fair value	3,092	1,927	5,019	3,065	1,769	4,834
Equity derivatives	226	82	308	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 31 March 2018			Restated ⁷ At 31 March 2017		
	Banking	Treasury	Aggregated	Banking	Treasury	Aggregated
	€ million	€ million	€ million	€ million	€ million	€ million
Interest income	239	58	297	270	39	309
Other income	88	15	103	296	21	317
Total segment revenue	327	73	400	566	60	626
Less interest expense and similar charges	(85)	(63)	(148)	(65)	(29)	(94)
Net interest income on derivatives	-	20	20	-	7	7
Less general administrative expenses	(82)	(5)	(87)	(84)	(6)	(90)
Less depreciation and amortisation	(6)	(1)	(7)	(6)	-	(6)
Segment result before provisions and hedges	154	24	178	411	32	443
Fair value movement on non-qualifying and ineffective hedges	-	68	68	-	(1)	(1)
Provision for impairment of loan investments	(27)	-	(27)	3	-	3
Net profit for the year	127	92	219	414	31	445
Segment assets	27,428	32,641	60,069	27,875	29,671	57,416
Segment liabilities	412	43,345	43,757	410	41,128	41,538

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 31 March 2018	Carrying amount € million	Fair value € million
Financial assets measured at fair value:		
Debt securities	1,763	1,763
Derivative financial instruments	3,646	3,646
Banking share investments	5,019	5,019
Treasury share investments	77	77
Banking loan investments	404	404
	10,909	10,909
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	15,775	15,775
Debt securities	11,085	11,114
Other financial assets	1,044	1,044
Banking loan investments	21,138	21,646
	49,042	49,579
Total financial assets	59,951	60,488

Financial liabilities at 31 March 2018	Carrying amount € million	Fair value € million
Amounts owed to credit institutions	(2,284)	(2,284)
Debts evidenced by certificates	(38,959)	(39,013)
Derivative financial instruments	(2,004)	(2,004)
Other liabilities	(510)	(510)
Total financial liabilities	(43,757)	(43,811)

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 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 31 March 2018			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	1,763	-	1,763
Derivative financial instruments	-	3,175	471	3,646
Banking loans	-	-	404	404
Share investments (Banking portfolio)	1,687	-	3,332	5,019
Share investments (Treasury portfolio)	-	77	-	77
Total financial assets at fair value	1,687	5,015	4,207	10,909
Derivative financial instruments	-	(1,848)	(156)	(2,004)
Total financial liabilities at fair value	-	(1,848)	(156)	(2,004)

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 2018.

	Level 3 financial assets and financial liabilities Period ended 31 March 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 31 March 2018 in:						
Net profit/(loss)	13	(5)	47	55	(79)	(79)
Purchases/issues	-	59	82	161	-	-
Sales/settlements	-	(22)	(83)	(87)	-	-
Day 1 deferral	(3)	-	-	(3)	-	-
Balance as at 31 March 2018	471	404	3,332	4,207	(156)	(156)
Unrealised fair value changes on assets and liabilities held at 31 March 2018 included in net profit/(loss) above	18	(3)	52	67	(85)	(85)

There have been no transfers into or out of level 3 during the year.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 31 March 2018, 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 2018		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
	Main valuation models/techniques			
Treasury derivative financial instruments	Discounted cash flow models	7	-	(1)
Banking loans	Discount cash flow and option pricing models	404	16	(19)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models ⁴	3,640	593	(575)
At 31 March 2018		4,051	609	(595)

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 the quarter 1 income statement in 2017 was a net increase in profit of €3 million, with fee and commission income increasing by €11 million and interest income from Banking loans reducing by €8 million.

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

