

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT



European Bank
for Reconstruction and Development

INTERIM FINANCIAL REPORT

At 30 September 2020

(UNAUDITED)

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Income statement

For the quarter ended 30 September 2020 (unaudited) and 30 September 2019 (unaudited)

	Quarter 3 2020 € million	YTD 2020 € million	Quarter 3 2019 € million	YTD 2019 € million
Interest and similar income				
From Banking loans	266	820	331	934
From fixed-income debt securities and other interest	46	229	113	369
Interest expense and similar charges	(64)	(403)	(245)	(776)
Net interest income on derivatives	(41)	(54)	24	85
Net interest income	207	592	223	612
Fee and commission income	26	78	25	69
Fee and commission expense	(8)	(22)	(6)	(14)
Net fee and commission income	18	56	19	55
Dividend income	28	59	41	209
Net (losses)/gains from share investments	(79)	(649)	123	612
Net (losses)/gains from loans	(3)	(38)	15	29
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	21	105	26	68
Fair value movement on non-qualifying and ineffective hedges	28	(77)	(88)	(281)
Impairment provisions on Banking loan investments	17	(445)	(21)	(18)
Impairment provisions on guarantees	(2)	(1)	(1)	(2)
General administrative expenses	(97)	(292)	(97)	(275)
Depreciation and amortisation	(12)	(38)	(14)	(40)
Net profit/(loss) for the period	126	(727)	226	970
Transfers of net income approved by the Board of Governors	-	-	-	-
Net profit/(loss) after transfers of net income approved by the Board of Governors	126	(727)	-	(117)
Attributable to:				
Equity holders	126	(727)	226	853

Statement of comprehensive income

For the quarter ended 30 September 2020 (unaudited) and 30 September 2019 (unaudited)

	Quarter 3 2020 € million	YTD 2020 € million	Quarter 3 2019 € million	YTD 2019 € million
Net profit/(loss) after transfers of net income approved by the Board of Governors	126	(727)	226	853
Other comprehensive income/(expense)				
1. Items that will not be reclassified subsequently to profit or loss				
– Gains/(losses) on share investments designated as fair value through other comprehensive income	2	(7)	5	11
2. Items that may be reclassified subsequently to profit or loss				
– Gains/(losses) on cash flow hedges	6	(6)	2	(1)
– Gains/(losses) on fair value hedges	74	(33)	25	91
– Gains/(losses) on loans designated as fair value through other comprehensive income	9	(43)	54	98
Total comprehensive income	217	(816)	312	1,052
Attributable to:				
Equity holders	217	(816)	312	1,052

Balance sheet

At 30 September 2020 (unaudited) and 31 December 2019 (audited)

At 31 December 2019	€ million	30 Sep 2020 € million	€ million	31 Dec 2019 € million
Assets				
Placements with and advances to credit institutions	16,733		18,368	
Debt securities				
At fair value through profit or loss	1,311		1,789	
At amortised cost	10,212		11,840	
		28,256		31,997
Other financial assets				
Derivative financial instruments	4,568		4,300	
Other financial assets	709		456	
		5,277		4,756
Loan investments				
Loans at amortised cost	26,129		24,118	
Less: Provisions for impairment	(1,287)		(946)	
Loans at fair value through other comprehensive income	2,340		2,494	
Loans at fair value through profit or loss	346		409	
		27,528		26,075
Share investments				
At fair value through profit or loss	3,914		5,070	
Share investments at fair value through other comprehensive income	106		112	
		4,020		5,182
Intangible assets		77		69
Property, technology and equipment		102		122
Total assets		65,260		68,201
Liabilities				
Borrowings				
Amounts owed to credit institutions and other third parties	1,377		1,669	
Debts evidenced by certificates	43,362		45,821	
		44,739		47,490
Other financial liabilities				
Derivative financial instruments	2,666		1,935	
Other financial liabilities	841		946	
		3,507		2,881
Total liabilities		48,246		50,371
Members' equity attributable to equity holders				
Paid-in capital	6,217		6,217	
Reserves and retained earnings	10,797		11,613	
Total members' equity		17,014		17,830
Total liabilities and members' equity		65,260		68,201
Memorandum items				
Undrawn commitments		14,861		14,254

Statement of changes in equity

For the quarter ended 30 September 2020 (unaudited) and 30 September 2019 (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 2018	29,743	(23,528)	18	(44)	4	10,090	16,283
Total comprehensive income for the year	-	-	109	90	-	853	1,052
Internal tax for the year	-	-	-	-	-	5	5
Capital subscriptions	11	(9)	-	-	-	-	2
At 30 September 2019	29,745	(23,537)	127	46	4	10,948	17,342
At 31 December 2019	29,755	(23,538)	145	41	22	11,405	17,830
Total comprehensive income for the year	-	-	(50)	(39)	-	(727)	(816)
At 30 September 2020	29,755	(23,538)	95	2	22	10,678	17,014

Statement of cash flows

For the period to 30 September 2020 (unaudited) and 30 September 2019 (unaudited)

	€ million	Year to 30 Sep 2020 € million	€ million	Year to 30 Sep 2019 € million
Cash flows from operating activities				
Net profit for the year	(727)		853	
Adjustments to reconcile net profit to net cash flows:				
<i>Non-cash items in the income statement</i>				
Depreciation and amortisation	38		21	
Gross provisions charge for Banking loan losses and guarantees	446		20	
Fair value movement on share investments	649		(612)	
Fair value movement on loans held at fair value through profit or loss	36		(29)	
Fair value movement on Treasury investments	(104)		(68)	
Other unrealised fair value movements	77		281	
Cash flows from the sale and purchase of operating assets				
Proceeds from repayments of Banking loans	4,203		4,622	
Funds advanced for Banking loans	(7,045)		(5,743)	
Proceeds from sale of Banking share investments	627		642	
Funds advanced for Banking share investments	(191)		(253)	
Net cash flows from Treasury derivative settlements	(76)		51	
Net placements to credit institutions	(703)		(737)	
Working capital adjustment:				
Movement in interest income	6		(242)	
Movement in interest expense	(29)		-	
Movement in net fee and commission income	3		(4)	
Movement in net income allocations payable	-		115	
Movement in accrued expenses	(1)		8	
Net cash used in operating activities		(2,788)		(1,099)
Cash flows from investing activities				
Proceeds from debt securities at amortised cost	4,788		6,324	
Purchases of debt securities at amortised cost	(3,589)		(6,397)	
Funds advanced for Treasury share investments	-		(27)	
Proceeds from sale of debt securities at fair value through profit or loss	1,991		1,424	
Purchases of debt securities at fair value through profit or loss	(1,481)		(1,939)	
Purchase of intangible assets, property, technology and equipment	(23)		(16)	
Cash flows from/(used in) investing activities		1,686		(604)
Cash flows from financing activities				
Capital received	-		4	
Lease liability payments	(26)		-	
Issue of debts evidenced by certificates	19,408		16,173	
Redemption of debts evidenced by certificates	(19,454)		(14,198)	
Net cash from financing activities		(72)		1,979
Net (decrease)/increase in cash and cash equivalents		(1,174)		276
Cash and cash equivalents at beginning of the year		5,108		5,544
Cash and cash equivalents at 30 September²		3,934		5,820

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 30 September 2020 balance is €5 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 September 2020 the Bank's shareholders comprised 69 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 with the Bank 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 2019.

The financial statements have been prepared on a going concern basis. 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, and the significant assumptions used in making accounting estimates are reasonable. The estimates made in these interim financial statements consider all known relevant and material information available at the time of their issuance as required by IFRS, and any contingent assets and liabilities have been disclosed in accordance with IFRS requirements. Management are not aware of any material deficiencies in either the design or operation of internal controls over financial reporting.

The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending 31 December 2020.

3. Banking loan investments at amortised cost

	30 Sep 2020 Sovereign loans € million	30 Sep 2020 Non-sovereign loans € million	30 Sep 2020 Total loans € million	31 Dec 2019 Sovereign loans € million	31 Dec 2019 Non-sovereign loans € million	31 Dec 2019 Total loans € million
At 1 January	4,770	19,348	24,118	4,376	18,037	22,413
Disbursements	622	6,390	7,012	925	6,638	7,563
Repayments and prepayments	(429)	(3,634)	(4,063)	(567)	(5,458)	(6,025)
Remeasurement of previously impaired loans	-	-	-	-	6	6
Foreign exchange movements	(60)	(822)	(882)	26	137	163
Movement in net deferred fee, direct costs and effective interest rate adjustments	(21)	(26)	(47)	10	2	12
Written off	-	(9)	(9)	-	(14)	(14)
At period end	4,882	21,247	26,129	4,770	19,348	24,118
Portfolio impairment provisions on stage 1 and 2 loans	(34)	(433)	(467)	(17)	(277)	(294)
Impairment provisions on stage 3 loans	-	(820)	(820)	-	(652)	(652)
Total net of impairment at period end	4,848	19,994	24,842	4,753	18,419	23,172

At 30 September 2020 the Bank categorised 111 amortised cost loans as non-performing, with operating assets total €1,658 million (31 December 2019: 82 loans totalling €1,138 million). Specific provisions on these assets amounted to €820 million (31 December 2019: €652 million).

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

	30 Sep 2020 € million	31 Dec 2019 € million
Non-sovereign loans		
At 1 January	409	460
Movement in fair value revaluation	(33)	(28)
Disbursements	36	26
Repayments and prepayments	(55)	(55)
Foreign exchange movements	(11)	6
At period end	346	409

At 30 September 2020, the Bank categorised six fair value through profit or loss loans as non-performing, with operating assets total €64 million (31 December 2019: Six loans totalling €71 million). Net fair value losses on these assets amounted to €61 million (31 December 2019: €61 million).

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

	30 Sep 2020 € million	31 Dec 2019 € million
Non-sovereign loans		
At 1 January	2,494	1,737
Movement in fair value revaluation	(37)	117
Movement in expected credit loss	(13)	(11)
Disbursements	-	823
Repayments and sales	(61)	(175)
Movement in net deferred fee, direct costs and effective interest rate adjustments	2	-
Foreign exchange movements	(45)	3
At period end	2,340	2,494

At 30 September 2020, the Bank categorised no fair value through other comprehensive income loans as non-performing.

6. Share investments

	30 Sep 2020 Fair value Unlisted € million	30 Sep 2020 Fair value Listed € million	30 Sep 2020 Fair value Total € million	31 Dec 2019 Fair value Unlisted € million	31 Dec 2019 Fair value Listed € million	31 Dec 2019 Fair value Total € million
Outstanding disbursements						
At 1 January	3,274	1,544	4,818	3,568	1,959	5,527
Disbursements	161	35	196	292	108	400
Disposals	(280)	(126)	(406)	(570)	(523)	(1,093)
Written off	-	-	-	(16)	-	(16)
At period end	3,155	1,453	4,608	3,274	1,544	4,818
Fair value adjustment						
At 1 January	9	243	252	(596)	(186)	(782)
Movement in fair value revaluation	(608)	(338)	(946)	605	429	1,034
At period end	(599)	(95)	(694)	9	243	252
Fair value at period end	2,556	1,358	3,914	3,283	1,787	5,070
Equity Derivatives	154	(28)	126	38	21	59

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 30 Sep 2020 € million	Treasury 30 Sep 2020 € million	Aggregated 30 Sep 2020 € million	Banking 30 Sep 2019 € million	Treasury 30 Sep 2019 € million	Aggregated 30 Sep 2019 € million
Interest income	820	229	1,049	934	369	1,303
Other (expense)/income	(572)	106	(466)	905	69	974
Total segment revenue	248	335	583	1,839	438	2,277
Interest expense and similar charges	(287)	(116)	(403)	(375)	(401)	(776)
Net interest income on derivatives	-	(54)	(54)	-	85	85
General administrative expenses	(274)	(18)	(292)	(258)	(17)	(275)
Depreciation and amortisation	(36)	(2)	(38)	(38)	(2)	(40)
Segment result before provisions and hedges	(349)	145	(204)	1,168	103	1,271
Fair value movement on non-qualifying and ineffective hedges	-	(77)	(77)	-	(281)	(281)
Provisions for impairment of loan investments and guarantees	(446)	-	(446)	(20)	-	(20)
Net (loss)/profit for the period	(795)	68	(727)	1,148	(178)	970
Transfers of net income approved by the Board of Governors			-			(117)
Net (loss)/profit after transfers approved by the Board of Governors			(727)			853
Segment assets	32,163	33,097	65,260	31,370	36,336	67,706
Segment liabilities	618	47,628	48,279	687	49,677	50,364

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 30 September 2020		
Financial assets measured at fair value through profit or loss or fair value through other comprehensive income:		
Debt securities	1,311	1,311
Derivative financial instruments	4,568	4,568
Share investments (Banking portfolio)	3,914	3,914
Banking loans	2,686	2,686
Share investments (Treasury portfolio)	106	106
	12,585	12,585
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	16,733	16,733
Debt securities	10,212	10,261
Other financial assets	709	709
Banking loan investments at amortised cost	24,842	25,767
	52,496	53,470
Total	65,081	66,055
Financial liabilities at 30 September 2020		
Financial liabilities measured at fair value through profit or loss or fair value through other comprehensive income:		
Amounts owed to credit institutions	(1,377)	(1,377)
Debts evidenced by certificates	(43,362)	(43,311)
Derivative financial instruments	(2,666)	(2,666)
Equity Participation Fund	(122)	(122)
Other financial liabilities	(719)	(719)
Total	(48,246)	(48,195)

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 2020 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 2020			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	1,311	-	1,311
Derivative financial instruments	-	4,329	239	4,568
Banking loans	2,137	203	346	2,686
Share investments (Banking portfolio)	1,224	117	2,573	3,914
Share investments (Treasury portfolio)	-	106	-	106
Total financial assets at fair value	3,361	6,066	3,158	12,585
Derivative financial instruments	-	(2,666)	(113)	(2,779)
Equity Participation Fund	-	-	(122)	(122)
Total financial liabilities at fair value	-	(2,666)	(235)	(2,901)

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 2020.

	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 2019	202	409	3,485	4,096	(138)	(143)	(281)
Total gains/(losses) for the quarter ended 30 September 2020 in:							
Net fair value gains/(losses)	76	(40)	(491)	(455)	18	(4)	14
Deferred loss	2	-	-	2	-	-	-
Purchases/issues	-	36	161	197	(6)	-	(6)
Sales/settlements	(41)	(59)	(540)	(640)	4	34	38
Transfers out of level 3	-	-	(42)	(42)	-	-	-
Balance at 30 September 2020	239	346	2,573	3,361	(122)	(113)	(235)
Unrealised fair value changes on assets and liabilities held at 30 September 2020 included in net (loss)/profit above	73	(40)	(608)	(575)	18	(63)	(45)

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 30 September 2020, the main valuation models/techniques used in the valuation of these financial instruments and the estimated increases or decreases in fair value based on reasonably possible alternative assumptions:

	Main valuation models/techniques	Impact on net profit in Quarter 3 2020		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
Banking loans	DCF and option pricing models	346	24	(6)
Banking share investments, EPF and associated derivatives	NAV and EBITDA multiples, DCF models, compounded interest and option pricing models*	2,577	803	(902)
At period end		2,923	827	(908)

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