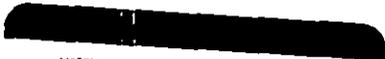


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MEMORANDUM

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FROM: Paul M. Dudek, Chief  
Office of International Corporate Finance  
Division of Corporation Finance

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**EUROPEAN BANK**  
**for Reconstruction and Development**

**Income statement and balance sheet**

**for the year ended**

**31 December 2008**

# Income Statement

For the year ended 31 December 2008

|                                                                                           | Year to<br>31 December<br>2008<br>€ million | Year to<br>31 December<br>2007<br>€ million |
|-------------------------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| Interest and similar income                                                               |                                             |                                             |
| From Banking loans                                                                        | 668                                         | 594                                         |
| From fixed-income debt securities and other interest                                      | 632                                         | 699                                         |
| Interest expense and similar charges                                                      | (633)                                       | (717)                                       |
| <b>Net interest income</b>                                                                | <b>667</b>                                  | <b>576</b>                                  |
| Net fee and commission income                                                             | 6                                           | 14                                          |
| Dividend income                                                                           | 68                                          | 87                                          |
| Net (losses)/gains from share investments at fair value through profit or loss            | (892)                                       | 1,071                                       |
| Net (losses)/gains from available-for-sale share investments                              | (265)                                       | 266                                         |
| Net losses from available-for-sale Treasury assets                                        | (2)                                         | (1)                                         |
| Net losses from dealing activities at fair value through profit or loss                   | (69)                                        | (8)                                         |
| Foreign exchange movement                                                                 | (1)                                         | 1                                           |
| Fair value movement on non-qualifying and ineffective hedges                              | 361                                         | (72)                                        |
| Provisions for impairment of Banking loan investments                                     | (105)                                       | 201                                         |
| Provisions for impairment of Treasury loan investments                                    | (127)                                       | -                                           |
| General administrative expenses                                                           | (227)                                       | (240)                                       |
| Depreciation and amortisation                                                             | (16)                                        | (11)                                        |
| <b>Net (loss)/profit for the year</b>                                                     | <b>(602)</b>                                | <b>1,884</b>                                |
| Transfers of net income approved by the Board of Governors                                | (115)                                       | -                                           |
| <b>Net (loss)/profit after transfers of net income approved by the Board of Governors</b> | <b>(717)</b>                                | <b>1,884</b>                                |

**Balance Sheet**

**At 31 December 2008**

|                                                        | € million     | 31 December<br>2008<br>€ million | € million    | 31 December<br>2007<br>€ million |
|--------------------------------------------------------|---------------|----------------------------------|--------------|----------------------------------|
| <b>Assets</b>                                          |               |                                  |              |                                  |
| Placements with and advances to credit institutions    | 3,344         |                                  | 4,514        |                                  |
| Collateralised placements                              | 1,163         |                                  | 1,818        |                                  |
|                                                        | <u>4,507</u>  |                                  | <u>6,332</u> |                                  |
| Debt securities                                        |               |                                  |              |                                  |
| At fair value through profit or loss                   | 1,213         |                                  | 1,501        |                                  |
| Available-for-sale                                     | 1,263         |                                  | 6,873        |                                  |
| Held-to-maturity                                       | 1,157         |                                  | -            |                                  |
|                                                        | <u>3,633</u>  |                                  | <u>8,374</u> |                                  |
|                                                        |               | <u>8,140</u>                     |              | <u>14,706</u>                    |
| Other financial assets                                 |               |                                  |              |                                  |
| Derivative financial instruments                       | 2,849         |                                  | 1,961        |                                  |
| Other financial assets                                 | 1,139         |                                  | 825          |                                  |
|                                                        |               | <u>3,988</u>                     |              | <u>2,786</u>                     |
| Share investments                                      |               |                                  |              |                                  |
| <i>Banking portfolio:</i>                              |               |                                  |              |                                  |
| Share investments at fair value through profit or loss | 2,310         |                                  | 3,469        |                                  |
| Available-for-sale share investments                   | 2,054         |                                  | 3,124        |                                  |
|                                                        | <u>4,364</u>  |                                  | <u>6,593</u> |                                  |
| <i>Treasury portfolio:</i>                             |               |                                  |              |                                  |
| Available-for-sale share investments                   | 42            |                                  | 47           |                                  |
|                                                        |               | <u>4,406</u>                     |              | <u>6,640</u>                     |
| Loan investments                                       |               |                                  |              |                                  |
| <i>Banking portfolio:</i>                              |               |                                  |              |                                  |
| Loans                                                  | 10,930        |                                  | 8,985        |                                  |
| Less: Provisions for impairment                        | (227)         |                                  | (124)        |                                  |
|                                                        | <u>10,703</u> |                                  | <u>8,861</u> |                                  |
| <i>Treasury portfolio:</i>                             |               |                                  |              |                                  |
| Loans                                                  | 5,811         |                                  | -            |                                  |
| Less: Provisions for impairment                        | (134)         |                                  | -            |                                  |
|                                                        | <u>5,677</u>  |                                  | <u>-</u>     |                                  |
|                                                        |               | <u>16,380</u>                    |              | <u>8,861</u>                     |
| Intangible assets                                      |               | 48                               |              | 39                               |
| Property, technology and office equipment              |               | 41                               |              | 43                               |
| Paid-in capital receivable                             |               | 44                               |              | 100                              |
| <b>Total assets</b>                                    |               | <b>33,047</b>                    |              | <b>33,175</b>                    |
| <b>Liabilities</b>                                     |               |                                  |              |                                  |
| Borrowings                                             |               |                                  |              |                                  |
| Amounts owed to credit institutions                    | 2,141         |                                  | 1,462        |                                  |
| Debts evidenced by certificates                        | 16,295        |                                  | 16,209       |                                  |
|                                                        |               | <u>18,436</u>                    |              | <u>17,671</u>                    |
| Other financial liabilities                            |               |                                  |              |                                  |
| Derivative financial instruments                       | 1,519         |                                  | 631          |                                  |
| Other financial liabilities                            | 1,342         |                                  | 999          |                                  |
|                                                        |               | <u>2,861</u>                     |              | <u>1,630</u>                     |
| <b>Total liabilities</b>                               |               | <b>21,297</b>                    |              | <b>19,301</b>                    |
| Members' equity                                        |               |                                  |              |                                  |
| Subscribed capital                                     | 19,794        |                                  | 19,794       |                                  |
| Callable capital                                       | (14,596)      |                                  | (14,596)     |                                  |
| Paid-in capital                                        |               | 5,198                            |              | 5,198                            |
| Reserves and retained earnings                         |               | 6,552                            |              | 8,676                            |
| <b>Total members' equity</b>                           |               | <b>11,750</b>                    |              | <b>13,874</b>                    |
| <b>Total liabilities and members' equity</b>           |               | <b>33,047</b>                    |              | <b>33,175</b>                    |
| Memorandum items                                       |               |                                  |              |                                  |
| Undrawn commitments                                    |               | 6,469                            |              | 7,117                            |

**FOR IMMEDIATE RELEASE**

Date: 25 February 2009

Contact: Anthony Williams  
Tel: +44 20 7338 6997  
Email: [Williama@ebrd.com](mailto:Williama@ebrd.com)**EBRD to boost investments in response to crisis**  
*Equity market decline causes 2008 loss*

The EBRD plans a substantial increase in investments in 2009 as a direct response to the impact of the global financial crisis on the economies of eastern Europe, after making a net loss in 2008 of €602 million.

The 2008 shortfall, which compares with a net profit of €1.9 billion in 2007, was largely a result of unrealized losses in the EBRD's holding of equity stakes which have fallen in value in line with the decline of stock markets worldwide.

The loss will not affect the Bank's investment plans as the EBRD remains very strongly capitalised. The Bank is planning to invest around €7 billion across its countries of operations this year, compared with €5.1 billion in 2008.

The EBRD's response to the crisis, which is now impacting all the countries where it invests, has focused on the immediate needs of the financial sector, in order to help strengthen sound institutions and maintain flows of credit to small and medium-sized enterprises, whose sources of funding have dried up.

Recent investments have included financing packages for Bank of Georgia, for Ukraine's Raiffeisen Bank Aval and for Banca Transilvania, one of Romania's leading SME banks.

The EBRD has also provided financial support to three regional banks in Russia with the aim of strengthening their capital base and to help make sure they can continue to support the economy, particularly small and medium-sized enterprises.

These investments have included a combination of loans to provide liquidity as well as subordinated debt and equity in order to help strengthen the banks' capital base and balance sheets.

The EBRD's crisis response also includes support for working capital and critical investments in the corporate sector, as well as plans for a doubling to €1.5 billion of the EBRD's guarantees and liquidity for regional trade, seen as crucial to sustaining the economies in eastern Europe.

The Bank expects to invest around €3 billion in the financial sector in 2009, around €1.5 billion in the corporate sector and around €2.5 billion in the infrastructure and energy sectors.

The severity of the economic crisis in eastern Europe is threatening to throw nearly two decades of economic reform into reverse. In seeking solutions to the region's problems, the EBRD is working closely and successfully together with other international financial institutions and organisations.

"The region's problems are deeply interwoven with those of the rest of Europe and the solution lies in a co-ordinated response from public authorities and international financial institutions," said EBRD President Thomas Mirow.

The EBRD's investments of €5.1 billion in 2008 compared with €5.6 billion in 2007, with the decline mainly due to the impact of the financial crisis on the timing of project signings in the fourth quarter of 2008.

During the year, the Bank continued to place a high priority on investments in the Western Balkans and the less advanced economies of the Caucasus and Central Asia, the Early Transition Countries\*. A strong emphasis on investments in sustainable energy projects also continued.

Investments in the Early Transition Countries rose 14 percent to €586 million, while business volume in the Western Balkans rose 16 percent to €534 million. Investments in sustainable energy projects reached close to €1 billion, or 20 percent of total volume.

Russia took a 36 percent share of total investments last year while the share of investments in the countries that joined the EU in 2004 remained at six percent.

Since its creation in 1991, the EBRD has invested a total €41.7 billion. Together with third parties and via co-financing, the Bank has invested €134.8 billion over the last 17 years.

Despite the impact of the financial crisis, the Bank has maintained its strong capital position, with members' equity and callable capital totalling €26.3 billion at the end of 2008, against banking loan and equity assets of €15.1 billion.

The EBRD also continues to maintain high levels of liquidity and has effective access to international capital markets where it benefits from its Triple A status.

\*The Early Transition Countries are: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan

*The EBRD, owned by 61 countries and two intergovernmental institutions, is supporting the development of market economies and democracies in countries from central Europe to central Asia. [www.ebrd.com](http://www.ebrd.com)*

**INTERIM FINANCIAL REPORT**

**At 30 September 2008**

**(UNAUDITED)**

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## Income statement

For the nine months ended 30 September 2008 (unaudited) and 30 September 2007 (unaudited)

|                                                                                    | Quarter to<br>30 September<br>2008<br>€ million | Year to date<br>30 September<br>2008<br>€ million | Quarter to<br>30 September<br>2007<br>€ million | Year to date<br>30 September<br>2007<br>€ million |
|------------------------------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------|-------------------------------------------------|---------------------------------------------------|
| Interest and similar income                                                        |                                                 |                                                   |                                                 |                                                   |
| From loans                                                                         | 161                                             | 473                                               | 152                                             | 438                                               |
| From fixed-income debt securities and other interest                               | 156                                             | 481                                               | 178                                             | 509                                               |
| Interest expense and similar charges                                               | (151)                                           | (475)                                             | (181)                                           | (526)                                             |
| <b>Net interest income</b>                                                         | <b>166</b>                                      | <b>479</b>                                        | <b>149</b>                                      | <b>421</b>                                        |
| Net fee and commission income                                                      | 2                                               | 5                                                 | 2                                               | 9                                                 |
| Dividend income                                                                    | 29                                              | 61                                                | 12                                              | 74                                                |
| Net (losses)/gains from share investments at fair value through profit or loss     | (46)                                            | (156)                                             | 44                                              | 1,040                                             |
| Net gains from available-for-sale share investments                                | 83                                              | 224                                               | 174                                             | 240                                               |
| Net (losses)/gains from available-for-sale Treasury assets                         | (91)                                            | (94)                                              | (1)                                             | 3                                                 |
| Net gains from dealing activities                                                  | 9                                               | 9                                                 | 6                                               | 6                                                 |
| Fair value movement on non-qualifying and ineffective hedges                       | 168                                             | 144                                               | (2)                                             | (40)                                              |
| <b>Operating income</b>                                                            | <b>320</b>                                      | <b>672</b>                                        | <b>384</b>                                      | <b>1,753</b>                                      |
| General administrative expenses                                                    | (52)                                            | (164)                                             | (61)                                            | (175)                                             |
| Depreciation and amortisation                                                      | (4)                                             | (11)                                              | (3)                                             | (8)                                               |
| <b>Operating profit before provisions</b>                                          | <b>264</b>                                      | <b>497</b>                                        | <b>320</b>                                      | <b>1,570</b>                                      |
| Provisions for impairment of loan investments                                      | (18)                                            | (28)                                              | 244                                             | 223                                               |
| <b>Net profit for the period</b>                                                   | <b>246</b>                                      | <b>469</b>                                        | <b>564</b>                                      | <b>1,793</b>                                      |
| Transfers of net income approved by the Board of Governors                         | -                                               | (115)                                             | -                                               | -                                                 |
| <b>Net profit after transfers of net income approved by the Board of Governors</b> | <b>246</b>                                      | <b>354</b>                                        | <b>564</b>                                      | <b>1,793</b>                                      |

# Balance sheet

At 30 September 2008 (unaudited) and 31 December 2007 (audited)

|                                                        | 30 September<br>2008 |               | Restated<br>31 December<br>2007 |               |
|--------------------------------------------------------|----------------------|---------------|---------------------------------|---------------|
|                                                        | € million            | € million     | € million                       | € million     |
| <b>Assets</b>                                          |                      |               |                                 |               |
| Placements with and advances to credit institutions    | 4,416                |               | 4,514                           |               |
| Collateralised placements                              | 1,151                |               | 1,818                           |               |
|                                                        | <u>5,567</u>         |               | <u>6,332</u>                    |               |
| Debt securities                                        |                      |               |                                 |               |
| Trading                                                | 1,368                |               | 1,501                           |               |
|                                                        |                      | 6,935         |                                 | 7,833         |
| Other assets                                           |                      |               |                                 |               |
| Derivative financial instruments                       | 2,214                |               | 1,961                           |               |
| Other                                                  | 956                  |               | 825                             |               |
|                                                        | <u>3,170</u>         |               | <u>2,786</u>                    |               |
| Share investments                                      |                      |               |                                 |               |
| <i>Treasury portfolio</i>                              |                      |               |                                 |               |
| Available-for-sale share investments                   | 50                   |               | 47                              |               |
| <i>Banking portfolio</i>                               |                      |               |                                 |               |
| Share investments at fair value through profit or loss | 2,771                |               | 3,469                           |               |
| Available-for-sale share investments                   | 2,711                |               | 3,124                           |               |
|                                                        | <u>5,482</u>         |               | <u>6,593</u>                    |               |
|                                                        |                      | 5,532         |                                 | 6,640         |
| Loan investments                                       |                      |               |                                 |               |
| <i>Treasury portfolio</i>                              |                      |               |                                 |               |
| Debt securities                                        | 7,527                |               | 6,873                           |               |
| <i>Banking portfolio</i>                               |                      |               |                                 |               |
| Loans                                                  | 10,510               |               | 8,985                           |               |
| Less: Provisions for impairment                        | (158)                |               | (124)                           |               |
|                                                        | <u>10,352</u>        |               | <u>8,861</u>                    |               |
|                                                        |                      | 17,879        |                                 | 15,734        |
| Property, technology and office equipment              |                      | 41            |                                 | 43            |
| Intangible assets                                      |                      | 47            |                                 | 39            |
| Paid-in capital receivable                             |                      | 44            |                                 | 100           |
| <b>Total assets</b>                                    |                      | <b>33,648</b> |                                 | <b>33,175</b> |
| <b>Liabilities</b>                                     |                      |               |                                 |               |
| <b>Borrowings</b>                                      |                      |               |                                 |               |
| Amounts owed to credit institutions                    | 1,683                |               | 1,462                           |               |
| Debts evidenced by certificates                        | 16,458               |               | 16,209                          |               |
|                                                        |                      | 18,141        |                                 | 17,671        |
| Other liabilities                                      |                      |               |                                 |               |
| Derivative financial instruments                       | 949                  |               | 631                             |               |
| Other                                                  | 1,455                |               | 999                             |               |
|                                                        | <u>2,404</u>         |               | <u>1,630</u>                    |               |
| <b>Total liabilities</b>                               |                      | <b>20,545</b> |                                 | <b>19,301</b> |
| <b>Members' equity</b>                                 |                      |               |                                 |               |
| Subscribed capital                                     | 19,794               |               | 19,794                          |               |
| Callable capital                                       | (14,596)             |               | (14,596)                        |               |
| Paid-in capital                                        |                      | 5,198         |                                 | 5,198         |
| Reserves and retained earnings                         |                      | 7,905         |                                 | 8,676         |
| <b>Total members' equity</b>                           |                      | <b>13,103</b> |                                 | <b>13,874</b> |
| <b>Total liabilities and members' equity</b>           |                      | <b>33,648</b> |                                 | <b>33,175</b> |
| <b>Memorandum items</b>                                |                      |               |                                 |               |
| Undrawn commitments                                    |                      | 6,415         |                                 | 7,117         |

## Statement of changes in members' equity for the period ended 30 September 2008 (unaudited) and 30 September 2007 (unaudited)

|                                                                             | Subscribed capital<br>€ million | Callable capital<br>€ million | Strategic reserve<br>€ million | Special reserve<br>€ million | Loan loss reserve<br>€ million | General reserve             |                                | Total reserves and retained earnings |                                | Total members' equity<br>€ million |
|-----------------------------------------------------------------------------|---------------------------------|-------------------------------|--------------------------------|------------------------------|--------------------------------|-----------------------------|--------------------------------|--------------------------------------|--------------------------------|------------------------------------|
|                                                                             |                                 |                               |                                |                              |                                | Other reserves<br>€ million | Retained earnings<br>€ million | Other reserves<br>€ million          | Retained earnings<br>€ million |                                    |
| <b>For the period ended 30 September 2008</b>                               |                                 |                               |                                |                              |                                |                             |                                |                                      |                                |                                    |
| At 31 December 2006                                                         | 19,794                          | (14,596)                      | -                              | 215                          | 293                            | 2,204                       | 4,262                          | 6,974                                | 12,172                         |                                    |
| Internal tax for the period                                                 | -                               | -                             | -                              | -                            | -                              | 4                           | -                              | 4                                    | 4                              |                                    |
| Qualifying fees and commissions                                             | -                               | -                             | -                              | 9                            | -                              | -                           | (9)                            | -                                    | -                              |                                    |
| Net fair value movement of available-for-sale assets for the period         | -                               | -                             | -                              | -                            | -                              | (234)                       | -                              | (234)                                | (234)                          |                                    |
| Reserves transfer                                                           | -                               | -                             | -                              | -                            | (13)                           | -                           | 13                             | -                                    | -                              |                                    |
| Net profit for the period                                                   | -                               | -                             | -                              | -                            | -                              | -                           | 1,793                          | 1,793                                | 1,793                          |                                    |
| <b>At 30 September 2007</b>                                                 | <b>19,794</b>                   | <b>(14,596)</b>               | <b>-</b>                       | <b>224</b>                   | <b>280</b>                     | <b>1,974</b>                | <b>6,059</b>                   | <b>8,537</b>                         | <b>13,735</b>                  |                                    |
| <b>At 31 December 2007</b>                                                  | <b>19,794</b>                   | <b>(14,596)</b>               | <b>-</b>                       | <b>232</b>                   | <b>304</b>                     | <b>2,027</b>                | <b>6,113</b>                   | <b>8,676</b>                         | <b>13,874</b>                  |                                    |
| Internal tax for the period                                                 | -                               | -                             | -                              | -                            | -                              | 3                           | -                              | 3                                    | 3                              |                                    |
| Qualifying fees and commissions                                             | -                               | -                             | -                              | 13                           | -                              | -                           | (13)                           | -                                    | -                              |                                    |
| Net fair value movement of available-for-sale assets for the period         | -                               | -                             | -                              | -                            | -                              | (1,128)                     | -                              | (1,128)                              | (1,128)                        |                                    |
| Reserves transfer                                                           | -                               | -                             | 830                            | -                            | 66                             | 2                           | (898)                          | -                                    | -                              |                                    |
| Net profit after transfers of net income approved by the Board of Governors | -                               | -                             | -                              | -                            | -                              | -                           | 354                            | 354                                  | 354                            |                                    |
| <b>At 30 September 2008</b>                                                 | <b>19,794</b>                   | <b>(14,596)</b>               | <b>830</b>                     | <b>245</b>                   | <b>370</b>                     | <b>904</b>                  | <b>5,556</b>                   | <b>7,905</b>                         | <b>13,103</b>                  |                                    |

Reserves decreased from €8.7 billion at the end of 2007 to €7.9 billion at 30 September 2008, primarily as a result of the decrease in fair value of available-for-sale assets for the year. Of the Bank's total reserves at 30 September 2008, €2.7 billion represented unrealised gains from share investments, equity derivatives and the Treasury portfolio, €370 million related to the loan loss reserve, €245 million represented the special reserve, €830 million represented the strategic reserve and €135 million relating to the Nuclear Fund allocation, leaving €3.6 billion unrestricted reserves.

**Statement of cash flows for the nine months ended 30 September 2008 (unaudited)  
and 30 September 2007 (unaudited)**

| For the nine months ended 30 September 2008 (unaudited)                                                    | Period to<br>30 September<br>2008 | Period to<br>30 September<br>2007 |
|------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| € million                                                                                                  | € million                         | € million                         |
| <b>Cash flows from operating activities</b>                                                                |                                   |                                   |
| Net profit for the period after transfers of net income approved by the Board of Governors <sup>1</sup>    | 354                               | 1,793                             |
| Adjustments for:                                                                                           |                                   |                                   |
| Interest income                                                                                            | (954)                             | (947)                             |
| Interest expense and similar charges                                                                       | 475                               | 526                               |
| Net deferral of fees and direct costs                                                                      | 31                                | 16                                |
| Internal taxation                                                                                          | 3                                 | 4                                 |
| Realised gains on share investments                                                                        | (404)                             | (489)                             |
| Unrealised losses/(gains) on share investments and equity derivatives at fair value through profit or loss | 338                               | (780)                             |
| Impairment recoveries on available-for-sale share investments                                              | (2)                               | (11)                              |
| Realised gains on available-for-sale debt securities                                                       | (1)                               | (1)                               |
| Impairment charge/(recoveries) on available-for-sale debt securities                                       | 95                                | (2)                               |
| Unrealised gains on dealing securities                                                                     | (4)                               | (3)                               |
| Fair value movement on non-qualifying and ineffective hedges                                               | (144)                             | (4)                               |
| Depreciation and amortisation                                                                              | 11                                | 8                                 |
| Gross provisions charge/(release) for loan losses                                                          | 32                                | (223)                             |
|                                                                                                            | <u>(170)</u>                      | <u>(113)</u>                      |
| Interest income received                                                                                   | 942                               | 670                               |
| Interest expense and similar charges paid                                                                  | (415)                             | (487)                             |
| (Increase)/decrease in operating assets:                                                                   |                                   |                                   |
| Prepaid expenses                                                                                           | (23)                              | 14                                |
| Fair value movement on net Treasury assets                                                                 | (926)                             | (407)                             |
| Proceeds from repayments of loans                                                                          | 2,389                             | 1,747                             |
| Proceeds from prepayments of loans                                                                         | 129                               | 423                               |
| Funds advanced for loans                                                                                   | (3,849)                           | (2,777)                           |
| Proceeds from sale of share investments                                                                    | 741                               | 815                               |
| Funds advanced for share investments                                                                       | (917)                             | (648)                             |
| Net placements to credit institutions                                                                      | (86)                              | (1,248)                           |
| Decrease in operating liabilities:                                                                         |                                   |                                   |
| Accrued expenses                                                                                           | (74)                              | (4)                               |
| <b>Net cash used in operating activities</b>                                                               | <u>(2,259)</u>                    | <u>(2,015)</u>                    |
| <b>Cash flows used in investing activities</b>                                                             |                                   |                                   |
| Proceeds from sale of available-for-sale debt securities                                                   | 1,211                             | 2,374                             |
| Purchases of available-for-sale debt securities                                                            | (1,746)                           | (2,846)                           |
| Purchase of property, technology and office equipment                                                      | (18)                              | (31)                              |
| <b>Net cash used in investing activities</b>                                                               | <u>(553)</u>                      | <u>(503)</u>                      |
| <b>Cash flows from financing activities</b>                                                                |                                   |                                   |
| Capital received                                                                                           | 56                                | 81                                |
| Issue of debts evidenced by certificates                                                                   | 11,790                            | 7,305                             |
| Redemption of debts evidenced by certificates                                                              | (10,105)                          | (6,088)                           |
| <b>Net cash from financing activities</b>                                                                  | <u>1,741</u>                      | <u>1,298</u>                      |
| <b>Net decrease in cash and cash equivalents</b>                                                           | <u>(1,071)</u>                    | <u>(1,220)</u>                    |
| <b>Cash and cash equivalents at beginning of the period</b>                                                | <u>3,018</u>                      | <u>3,338</u>                      |
| <b>Cash and cash equivalents at 30 September</b>                                                           | <u>1,947</u>                      | <u>2,118</u>                      |
| <b>Cash and cash equivalents comprise the following amounts maturing within three months</b>               |                                   |                                   |
|                                                                                                            | 2008                              | 2007                              |
|                                                                                                            | € million                         | € million                         |
| Placements with and advances to credit institutions                                                        | 3,229                             | 3,065                             |
| Amounts owed to credit institutions                                                                        | (1,283)                           | (947)                             |
| <b>Cash and cash equivalents at 30 September</b>                                                           | <u>1,947</u>                      | <u>2,118</u>                      |

<sup>1</sup> Net profit after transfers of net income approved by the Board of Governors includes dividends of €61 million received for the period to 30 September 2008 (2007: €74 million).

## **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 2008 the Bank's shareholders comprised 61 countries, together with the European Community 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 Accounting convention**

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of AFS financial assets, 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, where they 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 as of and for the year ended 31 December 2007 except for Treasury's available-for-sale debt securities. Following an amendment to IAS 39 issued in October 2008, permitting reclassification of financial assets in certain restricted circumstances, the Bank has decided to re-classify the Treasury available-for-sale debt securities portfolio to loans and receivables. This amendment has been applied retrospectively to commence on 1 July 2008. The reclassification results in the cessation of fair value accounting for those assets previously designated as available-for-sale. The fair values of the assets at the date of reclassification becomes their new amortised cost and those assets will subsequently be accounted for on that measurement basis. Any previous gains or losses on those assets that had been recognised directly in reserves shall be amortised to profit or loss over the remaining life. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the interim periods have been made. For further information please refer to the Bank's audited financial statements as at 31 December 2007. The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending 31 December 2008.

### 3. Loan investments

|                                                                                | 2008         | 2008          | 2008          | 2007         | 2007          | 2007         |
|--------------------------------------------------------------------------------|--------------|---------------|---------------|--------------|---------------|--------------|
|                                                                                | Sovereign    | Non-sovereign | Total         | Sovereign    | Non-sovereign | Total        |
|                                                                                | loans        | loans         | loans         | loans        | loans         | loans        |
|                                                                                | € million    | € million     | € million     | € million    | € million     | € million    |
| <b>Operating assets</b>                                                        |              |               |               |              |               |              |
| At 1 January                                                                   | 1,928        | 7,057         | 8,985         | 1,977        | 6,334         | 8,311        |
| Movement in fair value revaluation                                             | -            | 3             | 3             | -            | -             | -            |
| Disbursements                                                                  | 286          | 3,563         | 3,849         | 267          | 2,510         | 2,777        |
| Repayments and prepayments                                                     | (264)        | (2,254)       | (2,518)       | (248)        | (1,922)       | (2,170)      |
| Foreign exchange movements                                                     | 47           | 161           | 208           | (83)         | (207)         | (290)        |
| Movement in net deferral of front end fees and related direct costs            | (3)          | (12)          | (15)          | (4)          | (12)          | (16)         |
| Written off                                                                    | -            | (2)           | (2)           | -            | (2)           | (2)          |
| <b>At 30 September</b>                                                         | <b>1,994</b> | <b>8,516</b>  | <b>10,510</b> | <b>1,909</b> | <b>6,701</b>  | <b>8,610</b> |
| Portfolio provisions for the unidentified impairment of loan investments       | (5)          | (120)         | (125)         | (5)          | (77)          | (82)         |
| Specific provisions for the identified impairment of loan investments          | -            | (33)          | (33)          | -            | (19)          | (19)         |
| <b>Total operating assets net of provisions for impairment at 30 September</b> | <b>1,989</b> | <b>8,363</b>  | <b>10,352</b> | <b>1,904</b> | <b>6,605</b>  | <b>8,509</b> |

At 30 September 2008 the Bank categorised 9 loans as impaired, totalling €37 million (31 December 2007: 12 loans totalling €37 million; 30 September 2007: 10 loans totalling €23 million). Specific provisions on these assets amounted to €33 million (31 December 2007: €33 million; 30 September 2007: €19 million).

#### 4. Share investments

|                                                       | Fair value<br>through<br>profit or loss<br>unlisted<br>share<br>investments<br>€ million | Fair value<br>through<br>profit or loss<br>listed share<br>investments<br>€ million | Fair value<br>through profit<br>or loss total<br>share<br>investments<br>€ million | Available-for-<br>sale unlisted<br>share<br>investments<br>€ million | Available-for-<br>sale listed<br>share<br>investments<br>€ million | Available-for-<br>sale total share<br>investments<br>€ million | Total share<br>investments<br>€ million |
|-------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------|
| <b>Outstanding disbursements</b>                      |                                                                                          |                                                                                     |                                                                                    |                                                                      |                                                                    |                                                                |                                         |
| At 31 December 2006                                   | 1,035                                                                                    | 240                                                                                 | 1,275                                                                              | 659                                                                  | 489                                                                | 1,148                                                          | 2,423                                   |
| Transfer between classes                              | (14)                                                                                     | 19                                                                                  | 5                                                                                  | (68)                                                                 | 63                                                                 | (5)                                                            | -                                       |
| Disbursements                                         | 297                                                                                      | -                                                                                   | 297                                                                                | 334                                                                  | 17                                                                 | 351                                                            | 648                                     |
| Disposals                                             | (162)                                                                                    | -                                                                                   | (162)                                                                              | (94)                                                                 | (65)                                                               | (159)                                                          | (321)                                   |
| Written off                                           | (2)                                                                                      | -                                                                                   | (2)                                                                                | (2)                                                                  | (1)                                                                | (3)                                                            | (5)                                     |
| <b>At 30 September 2007</b>                           | <b>1,154</b>                                                                             | <b>259</b>                                                                          | <b>1,413</b>                                                                       | <b>829</b>                                                           | <b>503</b>                                                         | <b>1,332</b>                                                   | <b>2,745</b>                            |
| At 31 December 2007                                   | 1,220                                                                                    | 260                                                                                 | 1,480                                                                              | 969                                                                  | 636                                                                | 1,605                                                          | 3,085                                   |
| Disbursements                                         | 195                                                                                      | 8                                                                                   | 203                                                                                | 416                                                                  | 298                                                                | 714                                                            | 917                                     |
| Disposals                                             | (141)                                                                                    | -                                                                                   | (141)                                                                              | (150)                                                                | (37)                                                               | (187)                                                          | (328)                                   |
| Written off                                           | (8)                                                                                      | -                                                                                   | (8)                                                                                | (1)                                                                  | -                                                                  | (1)                                                            | (9)                                     |
| <b>At 30 September 2008</b>                           | <b>1,266</b>                                                                             | <b>268</b>                                                                          | <b>1,534</b>                                                                       | <b>1,234</b>                                                         | <b>897</b>                                                         | <b>2,131</b>                                                   | <b>3,665</b>                            |
| <b>Fair value adjustment</b>                          |                                                                                          |                                                                                     |                                                                                    |                                                                      |                                                                    |                                                                |                                         |
| At 31 December 2006                                   | 558                                                                                      | 567                                                                                 | 1,125                                                                              | 103                                                                  | 1,402                                                              | 1,505                                                          | 2,630                                   |
| Transfer between classes                              | (46)                                                                                     | 36                                                                                  | (10)                                                                               | 47                                                                   | (37)                                                               | 10                                                             | -                                       |
| Movement in fair value revaluation                    | 193                                                                                      | 571                                                                                 | 764                                                                                | (76)                                                                 | (65)                                                               | (141)                                                          | 623                                     |
| Impairment of available-for-sale share<br>investments | -                                                                                        | -                                                                                   | -                                                                                  | 3                                                                    | 8                                                                  | 11                                                             | 11                                      |
| <b>At 30 September 2007</b>                           | <b>705</b>                                                                               | <b>1,174</b>                                                                        | <b>1,879</b>                                                                       | <b>77</b>                                                            | <b>1,308</b>                                                       | <b>1,385</b>                                                   | <b>3,264</b>                            |
| At 31 December 2007                                   | 990                                                                                      | 999                                                                                 | 1,989                                                                              | 257                                                                  | 1,262                                                              | 1,519                                                          | 3,508                                   |
| Movement in fair value revaluation                    | (43)                                                                                     | (709)                                                                               | (752)                                                                              | 103                                                                  | (1,040)                                                            | (937)                                                          | (1,689)                                 |
| Impairment of available-for-sale share<br>investments | -                                                                                        | -                                                                                   | -                                                                                  | (2)                                                                  | -                                                                  | (2)                                                            | (2)                                     |
| <b>At 30 September 2008</b>                           | <b>947</b>                                                                               | <b>290</b>                                                                          | <b>1,237</b>                                                                       | <b>358</b>                                                           | <b>222</b>                                                         | <b>580</b>                                                     | <b>1,817</b>                            |
| <b>Fair value at 30 September 2008</b>                | <b>2,213</b>                                                                             | <b>558</b>                                                                          | <b>2,771</b>                                                                       | <b>1,592</b>                                                         | <b>1,119</b>                                                       | <b>2,711</b>                                                   | <b>5,482</b>                            |
| <b>Fair value at 30 September 2007</b>                | <b>1,859</b>                                                                             | <b>1,433</b>                                                                        | <b>3,292</b>                                                                       | <b>906</b>                                                           | <b>1,811</b>                                                       | <b>2,717</b>                                                   | <b>6,009</b>                            |

## 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 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

|                                                                                        | 30 September 2008    |                       |                         | 30 September 2007    |                       |                         |
|----------------------------------------------------------------------------------------|----------------------|-----------------------|-------------------------|----------------------|-----------------------|-------------------------|
|                                                                                        | Banking<br>€ million | Treasury<br>€ million | Aggregated<br>€ million | Banking<br>€ million | Treasury<br>€ million | Aggregated<br>€ million |
| Interest income                                                                        | 473                  | 479                   | 952                     | 438                  | 505                   | 943                     |
| Other income                                                                           | 134                  | (85)                  | 49                      | 1,363                | 9                     | 1,372                   |
| Fair value movement on paid-in capital<br>receivable and associated hedges             | 2                    | -                     | 2                       | 4                    | -                     | 4                       |
| <b>Total segment revenue</b>                                                           | <b>609</b>           | <b>394</b>            | <b>1,003</b>            | <b>1,805</b>         | <b>514</b>            | <b>2,319</b>            |
| Less interest expense and similar charges                                              | (422)                | (434)                 | (856)                   | (357)                | (467)                 | (824)                   |
| Allocation of the return on capital                                                    | 344                  | 37                    | 381                     | 268                  | 30                    | 298                     |
| Fair value movement on non-qualifying hedges                                           | -                    | 144                   | 144                     | -                    | (40)                  | (40)                    |
| Less general administrative expenses                                                   | (151)                | (13)                  | (164)                   | (160)                | (15)                  | (175)                   |
| Less depreciation and amortisation                                                     | (10)                 | (1)                   | (11)                    | (8)                  | -                     | (8)                     |
| <b>Segment result before provisions</b>                                                | <b>370</b>           | <b>127</b>            | <b>497</b>              | <b>1,548</b>         | <b>22</b>             | <b>1,570</b>            |
| Provision for impairment of loan investments                                           | (28)                 | -                     | (28)                    | 223                  | -                     | 223                     |
| <b>Net profit for the period</b>                                                       | <b>342</b>           | <b>127</b>            | <b>469</b>              | <b>1,771</b>         | <b>22</b>             | <b>1,793</b>            |
| Transfers of net income approved by the Board<br>of Governors                          |                      |                       | (115)                   |                      |                       | -                       |
| <b>Net profit after transfers of net income<br/>approved by the Board of Governors</b> |                      |                       | <b>354</b>              |                      |                       | <b>1,793</b>            |
| <b>Segment assets</b>                                                                  | <b>16,568</b>        | <b>17,036</b>         | <b>33,604</b>           | <b>14,870</b>        | <b>17,930</b>         | <b>32,800</b>           |
| Paid-in capital receivable                                                             |                      |                       | 44                      |                      |                       | 115                     |
| <b>Total assets</b>                                                                    |                      |                       | <b>33,648</b>           |                      |                       | <b>32,915</b>           |
| <b>Segment liabilities</b>                                                             |                      |                       |                         |                      |                       |                         |
| <b>Total liabilities</b>                                                               | <b>136</b>           | <b>20,409</b>         | <b>20,545</b>           | <b>130</b>           | <b>19,050</b>         | <b>19,180</b>           |
| Capital expenditure                                                                    | 17                   | 1                     | 18                      | 29                   | 2                     | 31                      |

For the first nine months of 2008, the fair value movement on paid-in capital receivable and associated hedges amounted to €2 million (2007: €4 million) and the allocation of the return on capital amounted to €381 million (2007: €298 million). Together, these total €383 million (2007: €302 million), which is included in the Bank's return on net paid-in capital used in segmental results.

Interest expenses and similar charges and the allocation of the return on capital total €475 million (2007: €526 million). This is the Bank's "interest expenses and similar charges" as reported in the income statement.