



15008301

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

83-0006

QRTLY RPT

Received SEC

SEP 22 2015

Washington, DC 20549

INTERIM FINANCIAL REPORT

At 30 June 2015

(UNAUDITED)

Table of contents

European Bank for Reconstruction and Development: Interim Financial Report at 30 June 2015

Income statement	2
Statement of comprehensive income	3
Balance sheet	4
Statement of changes in equity	5
Statement of cash flows	6
Explanatory notes	7

Income statement

For the quarter ended 30 June 2015 (unaudited) and 30 June 2014 (unaudited)

	Quarter 2 2015 € million	Quarter 1 2015 € million	YTD 2015 € million	Quarter 2 2014 € million	YTD 2014 € million
Interest and similar income					
From Banking loans	292	277	569	261	504
From fixed-income debt securities and other interest	19	21	40	28	53
Interest expense and similar charges	(33)	(28)	(61)	(23)	(44)
Net interest expense on derivatives	(49)	(59)	(108)	(48)	(90)
Net interest income	229	211	440	218	423
Net fee and commission income	5	4	9	3	4
Dividend income	47	4	51	44	51
Net gains from share investments at fair value through profit or loss	130	564	694	144	22
Net (losses)/gains from loans at fair value through profit or loss	(1)	(28)	(29)	12	8
Net gains from loans at amortised cost	-	-	-	1	4
Net gains from Treasury investments held at amortised cost	-	3	3	2	2
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	42	45	87	4	14
Fair value movement on non-qualifying and ineffective hedges	(11)	10	(1)	18	(7)
Provisions for impairment of Banking loan investments	(61)	(45)	(106)	(67)	(171)
General administrative expenses	(93)	(92)	(185)	(81)	(154)
Depreciation and amortisation	(8)	(7)	(15)	(6)	(13)
Net profit for the period	279	669	948	292	183
Transfers of net income approved by the Board of Governors	(360)	-	(360)	(10)	(10)
Financial accounting net (loss)/profit after transfers of net income approved by the Board of Governors	(81)	669	588	282	173

Statement of comprehensive income

For the quarter ended 30 June 2015 (unaudited) and 30 June 2014 (unaudited)

	Quarter 2 2015 € million	Quarter 1 2015 € million	Year to date 2015 € million	Quarter 2 2014 € million	Year to date 2014 € million
Net (loss)/profit	(81)	669	588	282	173
Other comprehensive income/(loss)					
Share investment designated as fair value through other comprehensive income	-	4	4	-	(2)
Cash flow hedges	(6)	13	7	3	3
Total comprehensive (loss)/income	(87)	686	599	285	174
Attributable to:					
Equity holders	(87)	686	599	285	174

Balance Sheet

At 30 June 2015 (unaudited) and 31 December 2014 (audited)

	€ million	30 June 2015 € million	€ million	31 December 2014 € million
Assets				
Placements with and advances to credit institutions		15,023		10,612
Debt securities				
At fair value through profit or loss	732		106	
At amortised cost	10,033		11,688	
		10,765		11,794
Collateralised placements		33		57
		25,821		22,463
Other financial assets				
Derivative financial instruments	4,773		4,978	
Other financial assets	455		345	
		5,228		5,323
Loan investments				
<i>Banking portfolio</i>				
Loans at amortised cost	20,987		20,358	
Less: Provisions for impairment	(1,330)		(1,209)	
Loans at fair value through profit or loss	354		338	
		20,011		19,487
Share investments				
<i>Banking portfolio</i>				
Share investments at fair value through profit or loss	5,277		5,069	
<i>Treasury portfolio</i>				
Share investments at fair value through other comprehensive income	73		62	
		5,350		5,131
Intangible assets		49		43
Property, technology and office equipment		45		40
Total assets		56,504		52,487
Liabilities				
Borrowings				
Amounts owed to credit institutions	2,564		2,534	
Debts evidenced by certificates	35,517		32,922	
		38,081		35,456
Other financial liabilities				
Derivative financial instruments	2,847		2,430	
Other financial liabilities	825		452	
		3,672		2,882
Total liabilities		41,753		38,338
Members' equity				
Paid-in capital	6,202		6,202	
Reserves and retained earnings	8,549		8,549	
Total members' equity		14,751		14,149
Total liabilities and members' equity		56,504		52,487
Memorandum items				
Undrawn commitments		11,498		11,531

Statement of changes in equity for the quarter ended 30 June 2015 (unaudited) and 30 June 2014 (unaudited)

	Subscribed capital € million	Callable capital € million	Fair value through other comprehensive income reserve € million	Cash flow reserves € million	Actuarial remeasurements € million	Retained earnings € million	Total equity € million
At 31 December 2013	29,673	(23,471)	15	4	(3)	8,658	14,876
Total comprehensive income for the period	-	-	(2)	3	-	173	174
Internal tax for the period	-	-	-	-	-	3	3
At 30 June 2014	29,673	(23,471)	13	7	(3)	8,834	15,053
At 31 December 2014	29,674	(23,472)	14	-	(8)	7,941	14,149
Total comprehensive income for the period	-	-	4	7	-	588	599
Internal tax for the period	-	-	-	-	-	3	3
At 30 June 2015	29,674	(23,472)	18	7	(8)	8,532	14,751

Statement of cash flows for the period to 30 June 2015 (unaudited) and 30 June 2014 (unaudited)

	€ million	Six months to 30 June 2015 € million	€ million	Six months to 30 June 2014 € million
Cash flows from operating activities				
Net profit for the year	588		173	
Adjustments for:				
Unwinding of the discount relating to impaired identified assets	(15)		(7)	
Interest income	(594)		(550)	
Interest expense and similar charges	169		134	
Net deferral of fees and direct costs	46		41	
Dividend Income	(51)		(51)	
Internal tax	3		2	
Realised gains/(losses) on share investments and equity derivatives	9		(160)	
Unrealised (gains)/losses on share investments and equity derivatives at fair value through profit or loss	(517)		137	
Unrealised losses/(gains) from loans at fair value through profit or loss	27		(8)	
Realised losses/(gains) on Banking loans	3		(4)	
Realised (gains)/losses on Treasury investments	(3)		2	
Fair value movement on hedges	1		7	
Unrealised mark-to-market movement	30		(66)	
Foreign exchange gains	(2)		2	
Depreciation and amortisation	15		13	
Profit on disposal of property, technology and office equipment	-		-	
Provisions for impairment of debt securities at amortised cost	-		-	
Gross provisions charge for Banking loan losses	106		171	
	(185)		(164)	
Interest income received	548		491	
Interest expense and similar charges paid	(116)		(102)	
Dividend income received	51		51	
Increase in operating assets:				
Prepaid expenses	23		(26)	
Proceeds from repayments of Banking loans	3,375		3,792	
Funds advanced for Banking loans	(3,326)		(3,673)	
Proceeds from sale of Banking share investments and equity derivatives	749		990	
Funds advanced for Banking share investments	(347)		(590)	
Net placements from credit institutions	(475)		2,917	
Net proceeds from settlement of derivatives	569		117	
Increase in operating liabilities:				
Accrued expenses	87		(14)	
Net cash from operating activities		1,053		3,789
Cash flows from investing activities				
Proceeds from debt securities at amortised cost	7,500		7,616	
Purchases of debt securities at amortised cost	(5,864)		(6,512)	
Proceeds from sale of debt securities held at fair value through profit or loss	886		146	
Purchases of debt securities held at fair value through profit or loss	(607)		(136)	
Proceeds from sale of property, technology and office equipment	-		-	
Purchase of intangible assets, property, technology and office equipment	25		(8)	
Net cash from investing activities		1,890		1,106
Cash flows from financing activities				
Capital received	-		-	
Issue of debts evidenced by certificates	7,612		5,265	
Redemption of debts evidenced by certificates	(7,098)		(4,209)	
Net cash from financing activities		514		1,056
Net increase in cash and cash equivalents		3,457		5,951
Cash and cash equivalents at beginning of the year		6,435		4,147
Cash and cash equivalents at 30 June		9,892		10,098

¹ Cash and cash equivalents are amounts with less than three months to maturity from the date of the transactions, which are available for use at short notice and are subject to insignificant risk of change in value. Within the 30 June 2015 balance is €655 million restricted for signed projects and operational costs for the SEMED Investment Special Fund (ISF), and €13 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 June 2015 the Bank's shareholders comprised 64 countries, together with the European Union and the European Investment Bank.

ii Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected therewith in the United Kingdom are defined in the Agreement and in the Headquarters Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Bank ("Headquarters Agreement"). The Headquarters Agreement was signed in London upon the commencement of the Bank's operations on 15 April 1991.

2. *A summary of significant accounting policies*

i Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. In addition, financial assets and liabilities subject to amortised cost measurement which form part of a qualifying hedge relationship have been accounted for in accordance with hedge accounting rules.

ii Financial statements presentation

The financial statements are presented in a manner consistent with the Bank's audited financial statements for the year ended 31 December 2014.

In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the period have been made. The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending 31 December 2015.

3. Banking loan investments at amortised cost

	30 June 2015	30 June 2015	30 June 2015	31 December 2014	31 December 2014	31 December 2014
	Sovereign Loans	Non-sovereign loans	Total loans	Sovereign loans	Non-sovereign loans	Total Loans
	€ million	€ million	€ million	€ million	€ million	€ million
Operating assets						
At 1 January	2,920	17,438	20,358	2,801	16,657	19,458
Movement in fair value revaluation ¹	-	(17)	(17)	-	17	17
Disbursements	189	3,018	3,207	485	7,517	8,002
Repayments and prepayments	(238)	(3,129)	(3,367)	(455)	(6,879)	(7,334)
Foreign exchange movements	52	757	809	83	165	248
Movement in net deferral of front end fees and related direct costs	5	28	33	6	34	40
Written off	-	(36)	(36)	-	(73)	(73)
Total	2,928	18,059	20,987	2,920	17,438	20,358
Portfolio provisions for the unidentified impairment of loan investments	(39)	(577)	(616)	(40)	(538)	(578)
Specific provisions for the identified impairment of loan investments	-	(714)	(714)	-	(631)	(631)
Net book value	2,889	16,768	19,657	2,880	16,269	19,149

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

At 30 June 2015 the Bank categorised 80 amortised cost loans as non-performing, with operating assets totalling €1.2 billion (31 December 2014: 86 loans totalling €1.2 billion). Specific provisions on these assets amounted to €714 million (31 December 2014: €631 million).

Banking loan investments at fair value through profit or loss

	30 June 2015	31 December 2014
	€ million	€ million
Non-sovereign loans		
At 1 January	338	223
Movement in fair value revaluation	(29)	9
Disbursements	19	248
Repayments and prepayments	(8)	(72)
Foreign exchange movements	34	(67)
Written off	-	(3)
Fair value	354	338

At 30 June 2015 the Bank categorised six fair value through profit or loss loans as non-performing, with operating assets totalling €69 million (31 December 2014: 3 loans totalling €14 million). Fair value adjustments on these assets amounted to a €24 million loss (31 December 2014: €11 million loss).

4. Share investments

	30 June 2015 Fair value Unlisted € million	30 June 2015 Fair value Listed € million	30 June 2015 Fair value Total € million	31 December 2014 Fair value Unlisted € million	31 December 2014 Fair value Listed € million	31 December 2014 Fair Value Total € million
Outstanding disbursements						
At 1 January	4,120	2,065	6,185	4,410	1,949	6,359
Transfer between unlisted and listed	-	-	-	(296)	296	-
Disbursements	275	72	347	615	437	1,052
Disposals	(189)	(532)	(721)	(605)	(617)	(1,222)
Written off	(37)	-	(37)	(4)	-	(4)
Total	4,169	1,605	5,774	4,120	2,065	6,185
Fair value adjustment						
At 1 January	(1,165)	49	(1,116)	228	(97)	131
Transfer between unlisted and listed	-	-	-	(431)	431	-
Movement in fair value revaluation	494	125	619	(962)	(285)	(1,247)
Total	(671)	174	(497)	(1,165)	49	(1,116)
Fair value	3,498	1,779	5,277	2,955	2,114	5,069
Equity derivatives	315	44	359	389	36	425

5. Primary segment analysis**Business segments**

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

Primary reporting format - business segment

	At 30 June 2015			At 30 June 2014		
	Banking € million	Treasury € million	Aggregated € million	Banking € million	Treasury € million	Aggregated € million
Interest income	569	40	609	504	53	557
Other income	725	90	815	89	16	105
Total segment revenue	1,294	130	1,424	593	69	662
Less interest expense and similar charges	(166)	104	(62)	(144)	82	(62)
Net interest expense on derivatives	-	(108)	(108)	-	(90)	(90)
Allocation of the return on capital	1	-	1	16	2	18
Less general administrative expenses	(174)	(11)	(185)	(145)	(9)	(154)
Less depreciation and amortisation	(14)	(1)	(15)	(12)	(1)	(13)
Segment result before provisions and hedges	941	114	1,056	308	53	361
Fair value movement on non-qualifying and ineffective hedges	-	(1)	(1)	-	(7)	(7)
Provision for impairment of loan investments	(106)	-	(106)	(171)	-	(171)
Net profit for the year	835	113	948	137	46	183
Segment assets	26,086	30,418	56,504	25,282	25,973	51,255
Segment liabilities	443	41,309	41,752	267	35,935	36,202

Interest expense and similar charges, net of the allocation of the return on capital, is €61 million (Q2 2014: €44 million). This is the Bank's "interest expense and similar charges" as reported in the income statement.

6. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial assets at 30 June 2015	Carrying amount € million	Fair value € million
Financial assets measured at fair value through profit or loss:		
Debt securities	732	732
Derivative financial instruments	4,773	4,773
Banking share investments	5,277	5,277
Treasury share investments	73	73
Banking loan investments	354	354
	11,209	11,209
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	15,023	15,023
Collateralised placements	33	33
Debt securities	10,033	10,030
Other financial assets	455	455
Banking loan investments	19,657	20,680
	45,201	46,221
Total	56,410	57,430

Financial Liabilities at 30 June 2015	Carrying amount € million	Fair value € million
Amounts owed to credit institutions	(2,564)	(2,564)
Debts evidenced by certificates	(35,517)	(35,393)
Derivative financial instruments	(2,847)	(2,847)
Other financial liabilities	(825)	(825)
Total financial liabilities	(41,753)	(41,629)

Fair Value Estimation Techniques

The Bank's balance sheet approximates to fair value in all financial asset and liability categories, with the exception of loan investments at amortised cost.

The amortised cost instruments held within placements with and advances to credit institutions, other financial assets, amounts owed to credit institutions, and other financial liabilities are all deemed to have amortised cost values approximating their fair value, being primarily simple, short-term instruments. They are classified as having Level 2 inputs as the Bank's assessment of their fair value is based on the observable market valuation of similar assets and liabilities.

Amortised cost debt securities are valued using Level 2 inputs. The basis of their fair value is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are quotes from brokerage services.

The Bank's collateralised placements are valued using discounted cash flows and are therefore based on Level 3 inputs.

Banking loan investments whereby the objective of the Bank's business model is to hold these investments to collect the contractual cash flow, and the contractual terms give rise on specified dates

to cash flows that are solely payments of principal and interest, are recognised at amortised cost. The fair value of these loans was calculated using Level 3 inputs by discounting the cash flows at a year-end interest rate applicable to each loan and further discounting the value by an internal measure of credit risk.

Debts evidenced by certificates represents the Bank's borrowing activities executed through the issuance of commercial paper and bonds. The fair value of the Bank's issued bonds is determined using discounted cash flow models and therefore relies on Level 3 inputs. Due to the short-tenor nature of commercial paper, amortised cost approximates fair value. The fair value of the Bank's issued commercial paper is determined based on the observable market valuation of similar assets and liabilities and therefore relies on Level 2 inputs.

Fair value hierarchy

IFRS 13 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

- **Level 1** - Quoted prices in active markets for identical assets or liabilities. This level includes listed share investments on stock exchanges.
- **Level 2** - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes debt securities and most derivative products. The sources of inputs include prices available from screen-based services such as Reuters and Bloomberg, broker quotes and observable market data such as interest rates and foreign exchange rates which are used in deriving the valuations of derivative products.
- **Level 3** - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes share investments and debt securities or derivative products for which not all market data is observable.

The table below provides information at 30 June 2015 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 June 2015			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	732	-	732
Derivative financial instruments	-	4,243	530	4,773
Banking loans	-	-	354	354
Share investments (Banking portfolio)	1,661	-	3,616	5,277
Share investments (Treasury portfolio)	-	73	-	73
Total financial assets at fair value	1,661	5,048	4,500	11,209
Derivative financial instruments	-	(2,682)	(165)	(2,847)
Total financial liabilities at fair value	-	(2,682)	(165)	(2,847)

There have been no transfers between level 1 and level 2 during the year.

The table below provides a reconciliation of the fair values of the Bank's level 3 financial assets and financial liabilities for the period ended 30 June 2015.

	Level 3 financial assets and financial liabilities					
	Period ended 30 June 2015					
	Derivative financial instruments € million	Banking loans € million	Banking share investments € million	Total level 3 assets € million	Derivative financial instruments € million	Total liabilities € million
Balance as at 31 March 2015	515	338	3,387	4,240	(82)	(82)
Total gains/(losses) for the quarter ended 30 June 2015 in:						
Net profit/(loss)	108	5	487	600	(83)	(83)
Purchases/issues	-	19	289	308	-	-
Sales/settlements	(93)	(8)	(544)	(645)	-	-
Net transfers in/(out) of Level 3	-	-	(3)	(3)	-	-
Balance as at 30 June 2015	530	354	3,616	4,500	(165)	(165)
Unrealised fair value changes on assets and liabilities held at 30 June 2015 included in net profit/(loss) above	79	5	454	538	13	13

The transfers out of level 3 for Banking share investments relates to listed investments for which an active market has developed in the period.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 30 June 2015, the main valuation models/techniques¹ used in the valuation of these financial instruments and the estimated increases or decreases in fair value based on reasonably possible alternative assumptions:

		Impact on net profit in 2015		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
	Main valuation models/techniques			
Treasury derivative financial instruments	Discounted cash flow models	6	-	-
Banking loans	Discount cash flow and option pricing models	354	23	(24)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	3,975	444	(465)
At 30 June 2015		4,335	467	(489)

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