DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

INTERIM FINANCIAL REPORT

At 31 March 2014

(UNAUDITED)

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Income statement

For the quarter ended 31 March 2014 (unaudited) and 31 March 2013 (unaudited)

	Quarter to 31 March 2014 € million	Quarter to 31 March 2013 € million
Interest and similar income		
From Banking loans	**243**	253
From fixed-income debt securities and other interest	**25**	26
Interest expense and similar charges	**(21)**	(24)
Net interest expense on derivatives	**(42)**	(43)
Net interest income	**205**	212
Net fee and commission income	**1**	7
Dividend income	**7**	8
Net (losses)/gains from share investments at fair value through profit or loss	**(122)**	186
Net losses from loans at fair value through profit or loss	**(4)**	(9)
Net gains from loans at amortised cost	**3**	3
Net gains from Treasury investments held at amortised cost	**-**	2
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	**10**	41
Fair value movement on non-qualifying and ineffective hedges	**(25)**	44
Provisions for impairment of Banking loan investments	**(104)**	8
General administrative expenses	**(73)**	(67)
Depreciation and amortisation	**(7)**	(8)
Net (loss)/profit for the period	**(109)**	427
Transfers of net income approved by the Board of Governors	**-**	(25)
Financial accounting net (loss)/profit after transfers of net income approved by the Board of Governors	**(109)**	**402**

Statement of comprehensive income

For the quarter ended 31 March 2014 (unaudited) and 31 March 2013 (unaudited)

	Quarter to 31 March 2014 € million	Quarter to 31 March 2013 € million
Net (loss)/profit	**(109)**	402
Other comprehensive (loss)/income		
Share investment designated as fair value through other comprehensive income	**2**	4
Cash flow hedges	**-**	(9)
Total comprehensive (loss)/income	**(107)**	397
Attributable to:		
Equity holders	**(107)**	397

Balance Sheet

At 31 March 2014 (unaudited) and 31 December 2013 (audited)

	€ million	31 March 2014 € million	€ million	31 December 2013 € million
Assets				
Placements with and advances to credit institutions		**9,505**		7,266
Debt securities				
At fair value through profit or loss	**40**		139	
At amortised cost	**10,779**		12,398	
		10,819		12,537
Collateralised placements		**242**		247
		20,566		20,050
Other financial assets				
Derivative financial instruments	**3,238**		3,094	
Other financial assets	**560**		304	
		3,798		3,398
Loan investments				
Banking portfolio				
Loans at amortised cost	**19,331**		19,458	
Less: Provisions for impairment	**(902)**		(817)	
Loans at fair value through profit or loss	**209**		223	
		18,638		18,864
Share investments				
Banking portfolio				
Historic Cost	**6,340**		6,360	
Fair value adjustment	**(245)**		130	
Share investments at fair value through profit or loss		**6,095**		6,490
Treasury portfolio				
Share investments at fair value through other comprehensive income		**60**		63
		6,155		6,553
Intangible assets		**39**		39
Property, technology and office equipment		**43**		44
Paid-in capital receivable		**10**		10
Total assets		**49,249**		48,958
Liabilities				
Borrowings				
Amounts owed to credit institutions	**1,727**		1,543	
Debts evidenced by certificates	**29,778**		29,659	
		31,505		31,202
Other financial liabilities				
Derivative financial instruments	**2,385**		2,475	
Other financial liabilities	**592**		405	
		2,977		2,880
Total liabilities		**34,482**		34,082
Members' equity				
Paid-in capital		**6,202**		6,202
Reserves and retained earnings		**8,565**		8,674
Total members' equity		**14,767**		14,876
Total liabilities and members' equity		**49,249**		48,958
Memorandum items				
Undrawn commitments		**11,534**		11,434

Statement of changes in equity for three months ended 31 March 2014 (unaudited) and 31 March 2013 (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 2012	29,601	(23,399)	16	7	-	7,785	14,010
Total comprehensive income for the period	-	-	4	(9)	-	402	397
Internal tax for the period	-		-	-	-	1	1
Capital subscriptions	-	-	-	-	-	-	-
At 31 March 2013	29,601	(23,399)	20	(2)	-	8,188	14,080
At 31 December 2013	29,673	(23,471)	15	4	(3)	8,658	14,876
Total comprehensive income for the period	-	-	2	-	-	(109)	(107)
Internal tax for the period	-	-	-	-	-	(2)	(2)
At 31 March 2014	**29,673**	**(23,471)**	**17**	**4**	**(3)**	**8,547**	**14,767**

Statement of cash flows for the three months ended 31 March 2014 (unaudited) and 31 March 2013 (unaudited)

	€ million	**Year to 31 March 2014 € million**	€ million	Year to 31 March 2013 € million
Cash flows from operating activities				
Net (loss)/profit for the year	**(109)**		402	
Adjustments for:				
Unwinding of the discount relating to impaired identified assets	**(3)**		(4)	
Interest income	**(265)**		(275)	
Interest expense and similar charges	**63**		67	
Net deferral of fees and direct costs	**18**		15	
Internal tax	**2**		2	
Realised gains on share investments and equity derivatives	**(241)**		(66)	
Unrealised losses/(gains) on share investments and equity derivatives at fair value through profit or loss	**370**		(120)	
Unrealised losses from loans at fair value through profit or loss	**4**		9	
Realised gains on Banking loans	**(3)**		(3)	
Realised losses/(gains) on Treasury investments	**4**		(18)	
Fair value movement on hedges	**25**		(44)	
Unrealised mark-to-market movement	**28**		330	
Foreign exchange gains	**2**		1	
Depreciation and amortisation	**7**		8	
Profit on disposal of property, technology and office equipment	**-**		(2)	
Provisions for impairment of debt securities at amortised cost	**-**		1	
Gross provisions charge/(release) for Banking loan losses	**104**		(8)	
	6		295	
Interest income received	**236**		267	
Interest expense and similar charges paid	**(40)**		(32)	
Increase in operating assets:				
Prepaid expenses	**(12)**		11	
Proceeds from repayments of Banking loans	**1,737**		1,856	
Funds advanced for Banking loans	**(1,732)**		(1,752)	
Proceeds from sale of Banking share investments and equity derivatives	**471**		170	
Funds advanced for Banking share investments	**(210)**		(51)	
Net placements to credit institutions	**(1,416)**		(844)	
Increase in operating liabilities:				
Accrued expenses	**(22)**		(25)	
Net cash used in operating activities		**(982)**		(105)
Cash flows from investing activities				
Proceeds from debt securities at amortised cost	**4,498**		5,871	
Purchases of debt securities at amortised cost	**(2,977)**		(5,277)	
Proceeds from sale of debt securities held at fair value through profit or loss	**134**		234	
Purchases of debt securities held at fair value through profit or loss	**(46)**		(245)	
Proceeds from sale of property, technology and office equipment	**-**		3	
Purchase of intangible assets, property, technology and office equipment	**(5)**		(6)	
Net cash from/(used in) investing activities		**1,604**		580
Cash flows from financing activities				
Issue of debts evidenced by certificates	**1,730**		2,965	
Redemption of debts evidenced by certificates	**(1,718)**		(2,758)	
Net cash from financing activities		**12**		207
Net increase in cash and cash equivalents		**634**		682
Cash and cash equivalents at beginning of the year		**4,147**		5,897
Cash and cash equivalents at 31 March		**4,781**		6,579

Cash and cash equivalents[1]	**31 March 2014 € million**	31 March 2013 € million
Placements with and advances to credit institutions	**4,781**	6,579
Cash and cash equivalents at 31 March	**4,781**	6,579

[1] Cash and cash equivalents are amounts with less than three months to maturity from the date of the transactions, which are available for use at short notice and are subject to insignificant risk of change in value. Within the 31 March 2014 balance is €14 million restricted for technical assistance to be provided to member countries in the SEMED region.

Explanatory notes

1. Establishment of the Bank

i Agreement Establishing the Bank

The European Bank for Reconstruction and Development ("the Bank"), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 ("the Agreement"). At 31 March 2014 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 2013.

In compliance with IAS 34 Interim Financial Reporting, fair value of financial assets and liabilities notes have been included in section 6 of the explanatory notes. The Bank has adopted condensed interim reporting, and as such comparatives are not required.

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 2014.

3. Banking loan investments at amortised cost

	2014 Sovereign loans € million	**2014 Non-sovereign loans € million**	**2014 Total loans € million**	2013 Sovereign loans € million	2013 Non-sovereign loans € million	2013 Total loans € million
Operating assets						
At 1 January	**2,801**	**16,657**	**19,458**	2,690	16,643	19,333
Movement in fair value revaluation[1]	**-**	**3**	**3**	-	(16)	(16)
Disbursements	**79**	**1,627**	**1,706**	59	1,670	1,729
Repayments and prepayments	**(107)**	**(1,600)**	**(1,707)**	(70)	(1,755)	(1,825)
Foreign exchange movements	**(1)**	**(143)**	**(144)**	20	171	191
Movement in net deferral of front end fees and related direct costs	**2**	**13**	**15**	2	10	12
At 31 March	**2,774**	**16,557**	**19,331**	2,701	16,723	19,424
Portfolio provisions for the unidentified impairment of loan investments	**(18)**	**(508)**	**(526)**	(17)	(446)	(463)
Specific provisions for the identified impairment of loan investments	**-**	**(376)**	**(376)**	-	(273)	(273)
Total operating assets net of provisions for impairment at 31 March	**2,756**	**15,673**	**18,429**	2,684	16,004	18,688

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

At 31 March 2014 the Bank categorised 70 loans as impaired, with operating assets totalling €689 million (31 March 2013: 71 loans totalling €588 million). Specific provisions on these assets amounted to €376 million (31 March 2013: €273 million).

Banking loan investments at fair value through profit or loss

	2014 Non-sovereign loans € million	2013 Non-sovereign Loans € million
Operating assets		
At 1 January	**223**	247
Disbursements	**26**	23
Repayments and prepayments	**(25)**	(27)
Movement in fair value revaluation	**(15)**	(9)
Foreign exchange movements	**-**	5
At 31 March	**209**	239

4. Share investments

	2014 Fair value Unlisted € million	**2014 Fair value Listed € million**	**2014 Fair value Total € million**	2013 Fair value Unlisted € million	2013 Fair value Listed € million	2013 Fair Value Total € million
Outstanding disbursements						
At 1 January	**4,411**	**1,949**	**6,360**	4,871	1,696	6,567
Transfer between unlisted and listed	**(218)**	**218**	**-**	(202)	202	-
Disbursements	**210**	**-**	**210**	47	4	51
Disposals	**(166)**	**(63)**	**(229)**	(68)	(36)	(104)
At 31 March	**4,237**	**2,104**	**6,341**	4,648	1,866	6,514
Fair value adjustment						
At 1 January	**227**	**(97)**	**130**	145	(63)	82
Transfer between unlisted and listed	**(387)**	**387**	**-**	5	(5)	-
Movement in fair value revaluation	**(213)**	**(163)**	**(376)**	117	2	119
At 31 March	**(373)**	**127**	**(246)**	267	(66)	201
Fair value at 31 March	**3,864**	**2,231**	**6,095**	4,915	1,800	6,715
Equity derivatives at 31 March	**141**	**83**	**224**	283	70	353

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

	31 March 2014			31 March 2013		
	Banking	**Treasury**	**Aggregated**	Banking	Treasury	Aggregated
	€ million	**€ million**	**€ million**	€ million	€ million	€ million
Interest income	**243**	**25**	**268**	253	26	279
Other (losses)/income	**(115)**[1]	**10**	**(105)**	195	43	238
Total segment revenue	**128**	**35**	**163**	448	69	517
Less interest expense and similar charges	**(68)**	**40**	**(28)**	(75)	45	(30)
Net interest expense on derivatives	**-**	**(42)**	**(42)**	-	(43)	(43)
Allocation of the return on capital	**6**	**1**	**7**	5	1	6
Less general administrative expenses	**(70)**	**(3)**	**(73)**	(63)	(4)	(67)
Less depreciation and amortisation	**(7)**	**-**	**(7)**	(7)	(1)	(8)
Segment result before provisions and hedges	**(11)**	**31**	**20**	308	67	375
Fair value movement on non-qualifying and ineffective hedges	**-**	**(25)**	**(25)**	-	44	44
Provision for impairment of loan investments	**(104)**	**-**	**(104)**	8	-	8
Net (loss)/profit for the period	**(115)**	**6**	**(109)**	316	111	427
Segment assets	**25,330**	**23,919**	**49,249**	26,381	25,574	51,955
Segment liabilities	**232**	**34,250**	**34,482**	195	37,352	37,547

[1] Banking figures includes both realised and unrealised changes on the equity and loans portfolio.

Interest expense and similar charges, net of the allocation of the return on capital, is €21 million (Q1 2013: €24 million). This is the Bank's "interest expense and similar charges" as reported in the income statement.

For the first quarter of 2014 Banking operations, before impairment charges on its loan portfolio, recorded a loss of €11 million. This compares to a gain of €308 million for the same period in 2013 which has been caused by a decline in the fair value of the Bank's equity portfolio, reflecting the geopolitical tensions stemming from the Russia – Ukraine situation. This climate has also contributed to increased general provisions on the Bank's loan portfolio, resulting in impairment charges of €104 million compared to a release of €8 million in the first quarter of 2013. Banking operations therefore incurred an overall loss of €115 million compared to a profit of €316 million for the same period in 2013.

Treasury operations for the first quarter, before hedge accounting adjustments, recorded a gain of €31 million. This compares to a gain of €67 million for the same period in 2013 when market conditions afforded more opportunities for Treasury to manage the currency composition of its balance sheet to achieve lower funding costs and to buy back its issued debt at favourable levels. Hedge accounting adjustments resulted in a loss of €25 million (2013: gain of €44 million) to bring Treasury's overall result for the period to €6 million profit (2013: €111 million profit). Hedge accounting adjustments represent the net fair value movement on hedging relationships undertaken by Treasury that either do not qualify for hedge accounting or do not fully offset when measured in accordance with IFRS. This unrealised adjustment does not reflect economic substance, inasmuch as it would not be realised in cash were the hedging relationships to be terminated and it will reverse over time as the underlying deals approach their maturities.

6. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial Assets at 31 March 2014	**Carrying amount € million**	**Fair value € million**
Financial assets measured at fair value through profit or loss:		
Debt securities	40	40
Derivative financial instruments	3,238	3,238
Banking share investments	6,095	6,095
Treasury share investments	60	60
Banking loan investments	209	209
	9,642	9,642
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	9,505	9,505
Collateralised placements	242	243
Debt securities	10,779	10,786
Other financial assets	560	560
Banking loan investments	18,429	19,467
Paid in capital	10	10
	39,525	40,571
Total	**49,167**	**50,213**

Financial Liabilities at 31 March 2014	**Carrying amount € million**	**Fair value € million**
Amounts owed to credit institutions	(1,727)	(1,727)
Debts evidenced by certificates	(29,778)	(29,638)
Derivative financial instruments	(2,385)	(2,385)
Other financial liabilities	(592)	(592)
Total financial liabilities	**(34,482)**	**(34,342)**

The basis of fair value for debt securities listed in an active market is the quoted bid market price on the balance sheet date.

The basis of fair value for debt securities that are unlisted or listed in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are quotes from brokerage services and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

The fair value of banking loan investments at amortised cost was calculated by discounting the cash flows at prevailing interest rates at the quarter end interest 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. Fair value is estimated based on the Bank's historical experience of the price at which it has been able to re-purchase its debt.

Fair value hierarchy

IFRS 7 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy:

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

The table below provides information at 31 March 2014 about the Bank's financial assets and financial liabilities measured at fair value. Financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement.

	At 31 March 2014			
	Level 1 € million	**Level 2 € million**	**Level 3 € million**	**Total € million**
Debt securities	-	40	-	40
Derivative financial instruments	-	2,914	325	3,239
Banking loans	-	-	209	209
Share investments (Banking portfolio)	1,718	-	4,377	6,095
Share investments (Treasury portfolio)	-	60	-	60
Total financial assets at fair value	**1,718**	**3,014**	**4,911**	**9,643**
Derivative financial instruments	-	(2,289)	(96)	(2,385)
Total financial liabilities at fair value	**-**	**(2,289)**	**(96)**	**(2,385)**

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 quarter ended 31 March 2014.

	Level 3 financial assets and financial liabilities Quarter ended 31 March 2014						
	Debt securities € million	**Derivative financial instruments € million**	**Banking loans € million**	**Banking share investments € million**	**Total assets € million**	**Derivative financial instruments € million**	**Total liabilities € million**
Balance as at 31 December 2013	-	320	223	5,182	5,725	(97)	(97)
Total gains/(losses) for the quarter ended 31 March 2014 in:							
Net (loss)/profit	-	-	(15)	(244)	(259)	1	1
Purchases/issues	-	-	26	304	330	-	-
Sales/settlements	-	-	(25)	(259)	(284)	-	-
Transfers in/(out) of Level 3		-	-	(606)	(606)	-	-
Balance as at 31 March 2014	**-**	**320**	**209**	**4,377**	**4,906**	**(96)**	**(96)**
Unrealised fair value changes on assets and liabilities held at 31 March 2014 included in net profit/(loss) above	-	56	(3)	158	211	(1)	(1)

The transfers into and out of level 3 for Banking share investments relates to the listing of a previously unlisted investment.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 31 March 2014, the main valuation models/techniques[1] 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 2014		
	Main valuation models/techniques	**Carrying amount € million**	**Favourable change € million**	**Unfavourable change € million**
Treasury derivative financial instruments	Discounted cash flow models	5	-	-
Banking loans	Discount cash flow and option pricing models	209	5	(11)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	4,602	690	(690)
At 31 March 2014		**4,816**	**695**	**(701)**

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